

**Notice of Meeting  
UNIVERSITY OF HAWAI'I**

**BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT**

Members: Regents McEnerney (Chair), Higaki (Vice-Chair), Moore, Westerman, and Wilson

**Date:** Thursday, June 4, 2020

**Time:** 10:00 a.m.

**Place:** Virtual Meeting

*In light of the evolving COVID-19 situation, protecting the health and welfare of the community is of utmost concern. As such, this will be a virtual meeting and written testimony and oral testimony will be accepted in lieu of in-person testimony. Meetings may be monitored remotely via the livestream pilot project by clicking [here](#). See the Board of Regents website for additional information on accessing the livestream: [www.hawaii.edu/bor](http://www.hawaii.edu/bor). Mahalo for your consideration.*

**AGENDA**

- I. Call Meeting to Order
- II. Approval of Minutes of the February 6, 2020 Meeting
- III. Public Comment Period for Agenda Items:

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 the board's website, US mail, email at [bor.testimony@hawaii.edu](mailto:bor.testimony@hawaii.edu), or facsimile at 956-5156. All written testimony submitted are public documents. Therefore, any testimony that is submitted for use in the public meeting process is public information and will be posted on the board's website.

Those wishing to provide oral testimony for the virtual meeting may register [here](#). Given constraints with the online format of our meetings, **individuals wishing to orally testify must register no later than 8:00 a.m. on the day of the meeting** in order to be accommodated. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier. Individuals that are registered to testify may stay connected to the meeting for viewing purposes or may tune in to the livestream.

- IV. Agenda Items
  - A. Approval of Annual Review of Committee Charter
  - B. Approval of Proposed Internal Audit Work Plan for 2020-2021

- C. Review and Acceptance of Draft Committee on Independent Audit Annual Report to the Board
- D. Review and Acceptance of Certain Kamehameha Schools Funded Programs Pursuant to Senate Resolution 120 (2019)
- E. Review and Acceptance of the Office of Internal Audit (OIA) Report on the Status of Corrective Action Related to the Cash Receipts Process
- F. Review and Acceptance of the OIA Report on the Status of Corrective Action Related to Student Fees for Professional Programs
- G. Review and Acceptance of the OIA Report on the Status of Corrective Action for Outreach College
- H. Review of Office of Internal Audit Emergency Response Plan
- I. Enterprise Risk Management Update
- J. Committee Annual Review

**V. Adjournment**

**DISCLAIMER – THE FOLLOWING ARE DRAFT MINUTES AND ARE SUBJECT TO FURTHER REVIEW AND CHANGE UPON APPROVAL BY THE COMMITTEE**

**MINUTES**

**BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING**

**FEBRUARY 6, 2020**

**I. CALL TO ORDER**

Chair Michael McEnerney called the meeting to order at 9:05 a.m. on Thursday, February 6, 2020, at the University of Hawai'i at Mānoa Information Technology Building, 1<sup>st</sup> 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; and Regent Ernest Wilson Jr.

Committee members excused: Regent Robert Westerman.

Others in attendance: Board Chair Ben Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; 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 Provost Michael Bruno; UH-Hilo Chancellor Bonnie Irwin; UH-West O'ahu 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 DECEMBER 5, 2019 MEETING**

Regent Moore moved to approve the minutes of the December 5, 2019, meeting, seconded by Regent Wilson, and, noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

**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. University of Hawai'i Supplemental Information for University of Hawai'i at Mānoa (UHM), University of Hawai'i at Hilo (UHH), University of Hawai'i – West 'Oahu (UHWO), University of Hawai'i Maui College (UHMC), and the Community College System (UHCC)**

Ms. Jamie Asato, with Accuity LLP, noted that Accuity conducted an audit of the consolidated financial statements and compliance reports of UH for the years ended June 30, 2019, and 2018, and that a report on this audit was provided to the committee at its December 2019 meeting. Ms. Asato stated that the supplemental information for UHM, UHH, UHWO, UHMC, and UHCC, also known as 4-year campus schedules, was also audited by Accuity. She noted that Accuity found that the supplemental information was fairly stated in all material respects in relation to the consolidated financial statements as a whole and that detailed information was contained in the materials provided to the committee.

Regent Moore asked what was included under scholarship allowances noting that, under the operating revenues of UHM, allowances for scholarships were higher than he would have expected. Ms. Asato replied that scholarship allowances included tuition waivers, federal financial aid, and any other type of aid used to pay for tuition. Regent Moore questioned whether Pell Grants were included in the scholarship allowance figures as it was his understanding that these monies were given directly to a student. Ms. Asato responded that Pell Grant funds are given to UH and applied to a student's tuition and that these funds are not paid directly to a student.

Regent Moore moved to accept Accuity's report on UH's supplemental information to the financial and compliance reports as of June 30, 2019, and 2018, seconded by Regent Wilson, and, noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

## **B. Review and Acceptance of Internal Control and Business Issues Report**

Ms. Asato provided a brief overview of the report on internal control and business issues noting that this report consisted mainly of comments and observations from Accuity that were noted in the course of conducting the audit of the consolidated financial statements and compliance reports of UH. She stated that this year there were five comments regarding issues involving either UH or Board Regents policies but that these issues were not very significant. She noted that six comments were made during last year's audit with three of those issues being resolved and three remaining unresolved.

Noting a remark made by Accuity that its report was not commenting on the effectiveness of the internal controls of UH, Regent Moore inquired as to whether Accuity would report on an ineffective internal control if this were discovered in the course of conducting the audit. Ms. Asato responded in the affirmative.

Regent Acoba questioned a comment that noted that individuals who were not authorized to do so had signed contracts. Ms. Asato responded that there was an instance where an individual who was not authorized to sign contracts did so but that this may have been a case where there was a personnel change and the individual may not have realized that they did not have signing authority. Regent Acoba noted that the comment made by Accuity also mentioned that the contracts contained terms and conditions that were not allowed under university policy and asked whether these issues had been corrected. Ms. Asato replied that the administration has corrected this issue

by speaking with the respective individual as well as notifying all campus personnel on this issue and that this was noted in the administration's corrective action response.

Regent Wilson asked whether the issue was that the authority for the individual to sign contracts had expired and if so, how did UH kept track of contracting officers and their ability to sign contracts to ensure that this requisite authority is retained. Ms. Asato replied that this would be something that could possibly be addressed by the fiscal administrator or fiscal office. VP Gouveia clarified the issue that this comment was referring to noting that a librarian who was not authorized to sign contracts did so in a situation involving the acceptance of library materials. VP Gouveia pointed out that in this instance, the internal controls in place worked in detecting the issue and the situation was remedied. She further stated that at no time was there an unauthorized expenditure of funds. The procurement office met with the librarian and the fiscal officer overseeing the libraries, informed them of university policy, and remedied the situation with the contract vendor by issuing the correct contract.

Chair McEnerney stated that he had concerns regarding the untimely requests for travel reimbursements and questioned why the university was honoring travel reimbursement requests submitted after the 21-day submittal deadline had passed. VP Young responded that the financial management office has implemented increasingly punitive measures over the last year and a half to try to address the untimely submittal of travel reimbursement requests. He stated that, although policies denying travel reimbursements have not yet been implemented, punitive measures currently in place include denial of future travel requests until corrective action has been taken. The administration has also increased the number of times communication is made with individual employees regarding timely submittal of travel reimbursement requests. He stated that these efforts appear to be having an effect as the administration has noticed a decrease in late submittals of travel reimbursement requests.

Regent Acoba inquired as to what encompassed the violation of Board of Regents investment policies as noted by Accuity and whether this was referring to the issue with investments made with UBS who had hired a third party to manage investments. VP Young responded that the UBS issue was a part of this violation but noted that this comment highlighted a broader issue with the board's investment policy of portfolio limitations of 15 percent on the amount of equities that can be invested in any particular sector, e.g., information technology or financial services. This limitation can be problematic because of recent trends in the investment market that have seen large investment increases in a few sectors. He remarked that the administration will be reviewing the investment policy with the investment manager to determine what changes will need to be made to adequately align the policy with current investment strategies which will achieve the desired fiscal outcomes of the university. Regent Acoba asked if this meant that the administration would be requesting future action by the board to revise regent policies. VP Young replied that the administration was anticipating submitting revisions to the board's investment policy at the next meeting of the Committee on Budget and Finance.

Regent Moore moved to accept the Internal Control and Business Issues Report, seconded by Vice-Chair Higaki, and noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

**C. Corrective Action Responses for the Internal Control and Business Issues Report**

Ms. Asato reported that the corrective action response for the internal control and business issues report was simply UH's response to comments made in the report discussed under agenda item B.

**D. Review and Acceptance of UHM Intercollegiate Athletics Report on Agreed-Upon Procedures – 2019 Football Season**

Ms. Asato summarized the agreed-upon procedures report which documents actual attendance figures for home games played by a university football program. She stated that the National Collegiate Athletic Association (NCAA) requires athletic departments of Division 1 member institutions to submit this annual report to confirm that a university's football program is in compliance with the NCAA's minimum home attendance requirements to maintain Division 1 status. Ms. Asato remarked that Accuity did not find any issues in its review of UH's report noting that UHM's football program averaged just over 18,000 fans per home game over a two-year cycle which is above the NCAA's minimum attendance requirement of 15,000 fans per home game. She noted that upon acceptance, the report would be submitted to the NCAA.

Regent McEnerney inquired as to whether average attendance figures included attendance at bowl games. Ms. Asato replied that only attendance at home games during a regular season were counted to determine compliance with NCAA requirements.

Regent Moore moved to accept the UHM Intercollegiate Athletics Report on Agreed-Upon Procedures for the 2019 Football Season, seconded by Regent Higaki, and noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

**E. Amendment to Internal Audit Work Plan for 2019-2020**

Chair McEnerney noted that an amendment to the Internal Audit Work Plan for 2019-2020 (Work Plan) was necessary in light of discussions held at the last committee meeting regarding Senate Resolution 120 (SR120) of the Legislature's 2019 regular session and a subsequent request made by the committee for the Internal Auditor to perform additional work on issues contained in SR120.

Glenn Shizumura, Director of the UH Office of Internal Audit (Office), summarized the amendments to the Work Plan stating that SR120 requested an audit of eight programs at UHWO that received extramural funding, six of which were Title III Program grants. He noted that while the Title III Program grants were subject to an audit already performed by Accuity, the results of which were already reported to the committee at its December meeting, SR 120 requested a review of two grants from Kamehameha

Schools that were not related to the Title III Program. Internal Auditor Shizumura stated that the amendments made to the Work Plan were to address the directive from the committee that the Office review the two non-Title III Program grants contained within SR 120 and noted that this review would begin immediately upon approval of the amendments to the Work Plan.

Regent Moore asked whether there was an anticipated completion date for the review. Internal Auditor Shizumura responded that planning for this review had already begun and that he has contacted the financial officers of UHWO notifying them of the anticipated review. He remarked that if all materials are received in a timely fashion the review will be completed by the end of February or the beginning of March and that a report could be presented to the committee at its next meeting.

Regent Moore moved to approve the amendment to the Work Plan, seconded by Regent Wilson, and noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

**F. Review and Acceptance of Office of Internal Audit Review of University Housing Program (Program)**

Internal Auditor Shizumura provided a summary of the review of the Program conducted by the Office. He remarked that the Program, which offers rental housing to UH personnel during their initial years of employment, was previously audited in December 2010 and February 2013, and that several significant issues with the Program, including matters relating to federal income tax considerations and non-compliance with university policy, were discovered during the course of these audits. Internal Auditor Shizumura stated that Executive Policies, Regent Policies, and the Program's processes and procedures have all undergone revisions to address these issues. While these actions have resulted in significant improvement to the Program's processes and procedures, the Office recommended additional steps to further enhance these processes and procedures. These steps included adding procedures to the Program's Standard Operating Procedures Manual to document the processes and procedures for performing an annual federal income tax analysis and obtaining University Tax Manager approval of the Program's annual federal income tax analysis.

Regent Moore questioned why the property management fees for the Program nearly doubled in 2019. Internal Auditor Shizumura responded that the property management fees nearly doubled primarily because the Program had entered into a contract with a new property management company. He stated that it was the Office's understanding that this new property management company was subject to a different fee schedule than the prior property management company, which was paid a flat fee for services, and that the new property management company also performed additional services for the Program. Andy Lachman, UHM Housing Manager, clarified that property management fees increased due to several factors including the addition of an escalator clause in the new contract for services that included Consumer Price Index adjustments to the fees charged and an increase in the scope of services provided under the new contract.

Regent Moore inquired as to whether garbage collection and landscaping services were covered under the property management fee. Mr. Lachman replied that garbage collection and landscaping services were covered under the property management fee. Regent Moore further questioned whether this fee was a pass through as it appeared that these services would be more akin to operational fees than management fees. Mr. Lachman responded that the fees for these services were included in the property management fees paid directly to the property management company and not a pass through noting that this allowed the Program to have a more consistent budget.

Noting that the Program has a fairly substantial reserve of approximately \$8.5 million, Regent Moore asked if the Program conducts an analysis on the adequacy of the reserve to address major repair and replacement issues should they arise. Mr. Lachman replied that the Program maintains a repair and replacement schedule which was reviewed by the Office. Internal Auditor Shizumura responded that the reserve appears to be sufficient at this time.

Questions were raised regarding the rent charged for units within the Program. It was noted that, in cases where rent charged for a unit was less than 5 percent of the appraised value of that unit, the Internal Revenue Service considered any difference between those amounts to be taxable income for the renter, which could adversely impact a renter's income tax liability. Discussions occurred on the different approaches used to determine rents and appraisal values for rental units in general, as well as the specific methodology used by the Program to determine rents and appraised values for units within the Program.

Regent Acoba asked whether the amount of excess revenues experienced by the Program of \$500,000 to \$1,000,000 per year over the past three years were contained in a fund that was separate from the reserve fund. Internal Auditor Shizumura replied that there was a separate fund for excess revenues but that a portion of the excess revenues was placed in the reserve fund. Regent Acoba then questioned whether the Program followed standard guidelines or practices to ensure the establishment of reasonable, per unit rental charges that were adequate to cover current expenses and maintain a sufficient balance in the reserve fund. Internal Auditor Shizumura responded that the Program is managing revenues in accordance with accepted practices that ensure that sufficient cash reserves are available to address large or unexpected facility improvement expenses. Mr. Lachman and VP Gouveia added that the Program is currently in the process of initiating several large and costly renovation projects to its properties and the Program wants to ensure that there are adequate revenues to cover these project costs while maintaining adequate reserves. They stated that once these projects are completed, there should be a normalization of excess revenues over expenses.

Chair Kudo asked whether money in the reserve fund would be used for the NOAA graduate housing project since this would add housing inventory to the Program. VP Gouveia responded that reserve funds would not be used for the NOAA graduate housing project noting that there are statutory restrictions in place regarding the use of revenues contained in the Program's revolving fund. She also clarified that housing units created by the NOAA graduate housing project would not add to the housing



inventory of the Program as these units would be completely operated and maintained by a third party developer.

Questions were raised on the types of services provided by the current property management company in relation to the services provided by the previous property management company. Discussion also occurred on the methods used to pay for the services of both the current and previous providers, including whether common area maintenance charges were used or anticipated to be used by the Program.

Regent McEnerney queried whether the interest line item contained in the statement of cash receipts and disbursements included interest returns from the revenues contained in the reserve fund. Internal Auditor Shizumura replied in the affirmative. Regent McEnerney then asked where the interest revenues were deposited. Internal Auditor Shizumura responded that the revenues were placed into a general account that was allocated for use by the broader university.

Vice-Chair Higaki moved to accept the review of the Program conducted by the Office, seconded by Regent Wilson, and noting the excused absence of Regent Westerman, the motion carried, with all members present voting in the affirmative.

#### **G. Fiscal Year (FY) 2019 Whistleblower Hotline Annual Report**

Regent Acopan arrived at 9:54 a.m.

Regent Bal arrived at 9:56 a.m.

Prior to the provision of her report, VP Gouveia introduced Aedward Los Banos, the new Associate VP for Administration, to the committee. Mr. Los Banos provided a brief overview of his employment background stating that he was looking forward to serving the university.

VP Gouveia briefly reviewed the whistleblower hotline assignment and workflow process and summarized the data reviewed and collected over the past three years including the number reports received per month, the number of reports made per campus, the types of cases being reported, and case processing time. Although whistleblower hotline complaints increased slightly in FY 2019 when compared to the average number of reports made during FY 2017 and FY 2018 (134 versus 122), VP Gouveia noted that some of this increase can be attributed to multiple reports being made regarding the same issue. She mentioned that, to date, no concerning case trends or patterns have been realized and indicated that it appeared that the whistleblower hotline was working as intended.

Vice-Chair Higaki remarked that one of the categories of complaints was noted as "other" and asked what types of complaints were contained in this category. Darren Suzuki, Interim Director of the Office of Risk Management, responded that this category contained a wide range of cases that could not otherwise be categorized, such as complaints about individuals smoking on campus which could not be verified with the information provided.

Regent Acoba questioned whether complaints regarding employment and human resources issues would be more appropriately dealt with through a collective bargaining process rather than addressed by the whistleblower hotline. Interim Director Suzuki replied that the whistleblower hotline was in place to allow any individual the opportunity to submit any type of grievance or complaint and that it was often used as a sounding board for complaints. Internal Auditor Shizumura added that if a complaint received is a human resources complaint, it is directed to the appropriate human resources individual at the appropriate campus to address. VP Gouveia further added that it was not uncommon for grievances to come in via a variety of methods, including the whistleblower hotline, that may overlap.

#### **H. Enterprise Risk Management (ERM) Update**

VP Gouveia provided the annual ERM update and explained that the university managed the broader definition of risks on UH System campuses through focused discussions encompassing five general risk categories and eight key risks. VP Gouveia briefly spoke on the eight key risks and specific risk categories that were established as a result of these discussions. While the majority of specific risk categories remained the same as last year, she noted that the category formerly known as “governance/procedures” was renamed “governance/compliance” and redefined to better address the increased complexity of laws and regulations and ensure compliance in light of the heightened scrutiny of regulatory agencies being experienced by universities across the nation. VP Gouveia reviewed the top risk categories identified by the administration (enrollment management and IT), as well as those being closely monitored, and described the slight shifts in focus on risk categories that have occurred over the last year.

#### **I. Discussion on the Future of the Independent Audit Committee**

Chair McEnerney noted that the Independent Audit Committee is the only statutorily required committee under the board and therefore the committee must be maintained, but opened discussions to allow committee members to express their thoughts, concerns, or reservations regarding this requirement. No comments, concerns, or reservations were noted.

### **V. ADJOURNMENT**

There being no further business, Regent Wilson moved to adjourn, Regent Moore seconded the motion, and noting the excused absence of Regent Westerman, and with all members present voting in the affirmative, the meeting was adjourned at 10:13 a.m.

Respectfully Submitted,

Kendra Oishi  
Executive Administrator and Secretary  
of the Board of Regents

**Item IV.A.  
Approval of Annual  
Review of  
Committee Charter**

**ITEM TO BE  
DISCUSSED AT  
MEETING**

UNIVERSITY OF HAWAII  
Mānoa • Hilo • West O'ahu • Community Colleges

OFFICE OF INTERNAL AUDIT

Audit Plan

*For the Fiscal Year Ended June 30, 2021*

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For the Committee on Independent Audit of the Board of Regents

*May 2020*



## Overview

The University of Hawai'i (University) Office of Internal Audit (Internal Audit) has developed this audit plan for the fiscal year ended June 30, 2021 (Audit Plan) as required by the Charter of the Office of Internal Audit of the University of Hawai'i (Charter). The primary purpose of the Audit Plan is to document Internal Audit's role, objectives, and goals underlying its intent to make a contribution to the University's continued success.

Pursuant to the Bylaws of the BOR (Article II, Section D, 2.) and Hawaii Revised Statutes §304A-321, the University's Board of Regents (BOR) Committee on Independent Audit (Audit Committee) is responsible to review and approve the Audit Plan and significant changes to the Audit Plan. The Audit Committee is also responsible to evaluate the extent to which the Audit Plan addresses high risk areas.

As set forth in its Charter, Internal Audit's mission is to assist the BOR and University Management (President, Senior Management Team, Chancellors and Vice Chancellors) in fulfilling their oversight, management, and operating responsibilities. This is accomplished through providing independent and objective assurance and consulting services conducted in a systematic and disciplined approach to evaluate, add value, and improve the University's operations while simultaneously mitigating the University's risk. Internal Audit services are described below:

### **Assurance Services**

Assurance services may vary depending on the nature of the engagement, its objectives and type of assurance desired. Assurance services include the following:

- Financial audits and reviews – determine the fairness, accuracy, and reliability of financial information presented in accordance with established or stated criteria.
- Attestation engagements – examination, review, or agreed-upon procedures on a subject matter, or an assertion about a subject matter (including financial information).
- Operational reviews – evaluate an area, department, or functional operation for the purpose of evaluating efficiency and effectiveness.
- Compliance reviews – address adherence to laws, regulations, policies and procedures, and terms and conditions of contracts/agreements.
- Follow-up reviews – evaluate the status of corrective actions on internal or external audit findings reported in a previously completed audit report.

### **Consultation and Investigation Services**

Consultations are similar to operational reviews. The nature and scope of consultation services are to add value and improve the auditee's governance, risk management, and control processes without Internal Audit assuming management responsibility. Investigations may relate to fraud, waste and/or abuse complaints reported to the BOR office, University management or the whistleblower hotline.

Internal Audit has also been consulted on generally accepted accounting principles and its application, accounting and operational process analyses and related internal control matters. Internal Audit also provides guidance and consults with auditees in connection with their implementation of Internal Audit recommendations. Throughout the year, Internal Audit seeks opportunities to become involved in planning committees, policy and guidance development, and other University strategic efforts in order to promote internal controls, quality processes, and the alignment of resources in the planning and implementation stages.



### **Audit Plan Development and Objectives**

As in prior years, the Audit Plan was developed using a risk-based approach and considered Internal Audit's available resources. Executive Policy (EP) 8.204, *University Audits* states that the University's Vice President for Budget and Finance/Chief Financial Officer (CFO) shall serve as the President's designee to work with Internal Audit in the planning and coordination of internal audits. Accordingly and consistent with prior years, the Director of Internal Audit consulted and obtained feedback from the University's President and CFO with respect to potential audit projects to be included in the fiscal 2021 Audit Plan. Criteria used in selecting audit projects included providing coverage of higher risk departments/units/functions and areas of concern to the BOR and University management. The following were also considered in preparing Internal Audit's Audit Plan:

- Matters discussed at periodic Committee on Independent Audit (Audit Committee) meetings.
- Observations and findings contained in historical reports issued by Internal Audit. Certain University departments and/or functions may be reviewed as a result of:
  - audit issues identified in connection with fiscal 2020 audit projects that warrant further analysis
  - audit issues noted in departments and/or functions with similar operations and/or
  - unremediated audit findings.
- Review of the various Internal Control and Business Issues Reports issued by the University's external auditors.
- Meetings and discussions with Accuity LLP (Accuity) with respect to sensitive audit areas.
- Regulatory compliance.

Internal Audit designs audit procedures for projects listed in the Audit Plan to assess the following:

- Risks are appropriately identified and managed.
- Information is accurate, reliable and timely.
- Employee actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Operations are efficient and effective.
- Resources are acquired economically, used efficiently and adequately protected.
- Accountability systems are in place to ensure organizational and program missions, goals, plans and objectives are achieved.

### **COVID-19**

Additionally, Internal Audit considered the impact of COVID-19 on University operations in developing this Audit Plan. Due to the impact of COVID-19 on auditees, a number of in process fiscal year 2020 audit projects will be completed during fiscal 2021. Furthermore, various fiscal year 2020 audit projects completed during fiscal year 2020 were deferred for presentation to fiscal 2021 due to a decrease in the number of fiscal 2020 Audit Committee meetings as well as limitations on the number of agenda items during the final Audit Committee meeting of the fiscal year resulting from COVID-19 social distancing requirements. These audit projects are as follows:

- Revenue Bond Covenant and Policy Compliance
- Government Accounting Standards Board No. 87, Leases
- Associated Students of the University of Hawaii'i (ASUH) at Mānoa- Recognition Awards for Service and Graduate Test Preparation Awards
- ASUH – Status of Corrective Action



Accordingly, these audit reports will be presented for Audit Committee approval and acceptance during fiscal year 2021. Deferral of these reports for presentation during fiscal year 2021 does not create any additional risks to the University as issues noted in these reports have either already been remediated or are in the process of remediation.

This Audit Plan is a living document, requiring continual monitoring and revision as conditions warrant. The continued impact of COVID-19 on University operations could be a condition that may warrant revisions to this Audit Plan. Flexibility is an inherently accepted part of the Audit Plan to accommodate management requests and other unanticipated priorities that arise throughout the year. Accordingly, an Audit Plan approved by the Audit Committee may be supplemented with additional projects due to the sensitivity, high risk and/or media exposure associated with the additional project similar to the Audit Plan Supplement of the University of Hawai'i West O'ahu – Certain Kamehameha Schools Funded Programs audit approved by the Audit Committee in February 2020. These additional projects may be the result of University President and Senior Management consultation with the BOR (including the Audit Committee). In addition, projects may be deferred as a result of a project's initially identified risk being resolved and/or mitigated prior to the commencement of work. All revisions to the approved Audit Plan require Audit Committee concurrence.

The ongoing support of the BOR, University Management, and other constituents in developing this Audit Plan and maximizing Internal Audit's effectiveness is greatly appreciated.



## Proposed Audit Engagements July 1, 2020 to June 30, 2021

### External Audits

#### Overview:

During April 2018, Accuity was re-engaged to provide external audit services to the University for the three year period ended June 30, 2021. The University has an option to extend the contract for an additional year. Accuity is scheduled to perform the following audits for the fiscal year ended June 30, 2020:

- Single Audit – University of Hawai‘i
  - Consolidated Financial Statements
  - Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- Intercollegiate Athletics – University of Hawai‘i at Mānoa (UHM Athletics)
  - NCAA Agreed-Upon Procedures
- Intercollegiate Athletics – University of Hawai‘i at Hilo (UHH Athletics)
  - NCAA Agreed-Upon Procedures

The University consistently issues its consolidated financial statements prior to the due date established by the State of Hawai‘i Comptroller for inclusion in the State of Hawai‘i’s Comprehensive Annual Financial Report.

Internal Audit will provide up to 1,000 hours of external audit assistance to Accuity to decrease external audit hours and the related audit fees. In addition to the 1,000 hours of external audit assistance, Internal Audit will perform the following in connection with the above noted audits:

- Upon request, assist in the preparation of the financial statements and related notes based on financial information provided by University personnel.
- Participate in meetings (planning, status, financial statement review, etc.) impacting the audits.
- Review and comment on draft reports.
- Additional procedures as requested by Accuity.

#### 1. Single Audit (Uniform Guidance) – University of Hawai‘i

Federal regulations require that organizations (state/local governments and non-profits) expending federal awards in excess of \$750,000 are subject to the Single Audit requirements of OMB Uniform Guidance. The University’s Schedule of Expenditures of Federal Awards for the year ended June 30, 2019 noted approximately \$504 million in federal expenditures.

A Single Audit requires an examination by an independent certified public accountant of the financial records, financial statements, federal award transactions and expenditures, and internal control systems of the auditee. The Single Audit consists of financial statement and compliance audit components. The Single Audit reports are required to be submitted to the federal government within 9 months after the organization’s year-end (March 31 for the University).

The University is responsible for preparing the Management Discussion and Analysis, consolidated financial statements and related notes, supplementary information accompanying the consolidated





financial statements, and the Schedule of Expenditures of Federal Awards (SEFA) and related notes. The University's independent auditor, Accuity, is required to audit the University's consolidated financial statements and SEFA in accordance with *Government Auditing Standards* (Yellow Book) and the federal audit requirements of OMB Uniform Guidance.

Type:	Financial, Compliance
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	August 2020 – December 2020

2. Intercollegiate Athletics – University of Hawai'i at Mānoa

University of Hawai'i at Mānoa (UHM) Athletics is subject to an annual agreed-upon procedures review pursuant to NCAA requirements. The NCAA manual requires that Division I institutions submit financial data detailing operating revenues, expenses and capital expenditures related to its intercollegiate athletics program on an annual basis. The financial data shall be subject to annual agreed-upon verification procedures conducted by a qualified independent accountant who is not a staff member of the institution and who is selected by the institution's chancellor or president or by an institutional administrator from outside the athletics department designated by the chancellor or president.

Type:	Attestation (agreed-upon procedures)
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	July 2020 – December 2020

3. Intercollegiate Athletics – University of Hawai'i at Hilo

An agreed-upon procedures review pursuant to NCAA requirements is also required of Division II institutions such as the University of Hawai'i at Hilo (UHH). However, the frequency of the review is every three years rather than annually. The Division II agreed-upon procedures requirements are similar to the Division I requirements as described in the UHM Athletics section above. The last UHH Athletics agreed-upon procedures report was for the year ended June 30, 2017. Accordingly, an agreed-upon procedures review pursuant to NCAA requirements for UHH Athletics must be performed for the year ended June 30, 2020.

Type:	Attestation (agreed-upon procedures)
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	July 2020 – December 2020



## **Audit Committee Assistance**

### 1. Whistleblower Hotline

The University whistleblower hotline and associated website was launched on June 15, 2016. The hotline/website is accessible globally 24 hours/day, 365 days/year and is available to University employees and the general public for the reporting of violations of law, rules or regulations in a confidential and anonymous manner.

Internal Audit and the Office of Risk Management have administrative roles with respect to the hotline and consult with campus personnel overseeing the investigation of claims received through the hotline. The Director of Internal Audit prepares and presents whistleblower reports at Audit Committee meetings.

### 2. Audit Committee Reports

Internal Audit will continue to assist the Audit Committee prepare the following reports required by Hawai'i Revised Statutes §304A- 321:

- a. Annual report to the BOR and the Hawai'i State Legislature (Legislature), no later than twenty days prior to the convening of each regular session of the Legislature on matters that include the following:
  - All instances of material weakness in internal control, including the responses of University management (to these instances); and
  - All instances of fraud, including the responses of University management (to these instances).

Historical reports submitted to the Legislature included documents prepared by Accuity noting that Accuity did not identify any matters that they considered to be material weaknesses in internal control over financial reporting and that they noted no instances of fraud or illegal acts.

- b. Annual report to the BOR to evaluate the effectiveness of the Audit Committee.

## **Internal Audits**

### 3. UHM Warrior Recreation Center

Construction of the 66,000 square foot UHM Warrior Recreation Center (WRC) was completed in 2014 at a cost of approximately \$34 million. WRC features include a fitness center, basketball court, indoor track and locker rooms. Complimentary fitness classes are available on a first-come, first-served basis. Additional paid services offered include locker rentals, towel service and laundry services. Current UHM students receive automatic WRC membership as a result of a \$175 fee assessed per semester for campus center operations and recreation. Additional types of membership include:

- Summer Session- returning UHM fee-paying students receive summer membership for \$20
- Non-Fee Paying Students (includes University Community College students)- \$125 for fall/spring semesters (monthly, weekly and daily rates also available)
- University Faculty/Staff- \$240 annually (semi-annual, monthly, weekly and daily rates also available)



- Other UHM Affiliate (includes alumni)- \$300 annually (semi-annual, monthly, weekly and daily rates also available)

The WRC is the responsibility of Student Recreation Services within Student Life and Development in the Office of the Dean of Students which reports to the Office of the Vice Chancellor for Students. The objective of this audit is to assess WRC financial results and evaluate the processes, procedures and practices implemented to safeguard assets and ensure the health and safety of members. Procedures may include but are not limited to:

- 1) Reviewing financial reports (financial results, repair and replacement reserves, equipment inventory, etc.)
- 2) Touring WRC facilities
- 3) Evaluating written processes and procedures and/or unwritten practices relating to safeguarding of assets, repairs and maintenance of facilities/equipment, staff training including emergency procedures and cleaning/sanitation.

Type:	Operational, Financial
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	November 2020 – February 2021

#### 4. University Property Lease Management

In June 2019, the University of Hawai'i established the Office of Strategic Development and Partnership (OSDP) to lead the coordination of real property administration for the 10 UH campuses. OSDP reports directly to the Office of Vice President for Budget and Finance/Chief Financial Officer. According to the OSDP functional statement, the OSDP is responsible to plan, develop and execute strategic land and business development opportunities guided by the Systemwide Guiding Principles and Priorities in the Integrated Academic and Facilities Plan approved by the BOR. Accordingly, these responsibilities include management, execution and monitoring the leasing of University assets to external parties to generate revenue.

The University leases building space to food vendors (e.g., Subway), and financial service institutions (e.g., American Savings Bank, UH Federal Credit Union, etc.). The University also leases housing units to faculty and staff as well as building units, office space and land to external parties. According to the General Accounting Office's list of leases obtained for Internal Audit's FY20 GASB 87 audit, the University earned approximately \$2.2 million as a lessor during the year ended June 30, 2019. Internal Audit noted no University policies specific to the leasing of University assets to external parties.

The objective of this audit is to assess the management of University-owned leased real property to ensure safeguarding of assets, increase efficiency of operations and property administration, and ensure that the University is operating in compliance with applicable policies. Procedures may include but are not limited to:

- 1) Obtaining a complete list of leases from OSDP
- 2) Reviewing lease contracts for lease terms and amounts
- 3) Evaluating accurate and timely collection and recordkeeping of lease payments
- 4) Evaluating the process to monitor compliance with lease terms and conditions including payment of lease rent



- 5) Reviewing proper monitoring of accounts receivables
- 6) Comparing the list of leases provided by OSDP to GAO's list of leases

Type:	Operational, Compliance, Financial
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	December 2020 – April 2021

## 5. Waikīkī Aquarium

Founded in 1904 and administered by UHM since 1919, the Waikīkī Aquarium (Aquarium) is located on the shoreline of Waikīkī Beach next to a living reef and across from Kapi'olani Park. The Aquarium – second oldest in the U.S. – showcases more than 500 marine species, and maintains more than 3,500 marine specimens. Public exhibits, education programs, and research focus on the unique aquatic life of Hawai'i and the tropical Pacific. The Aquarium is open daily from 9:00 a.m. to 4:30 p.m., except Honolulu Marathon Sunday and Christmas Day.

The Director of the Aquarium reports to the UHM Provost. The Aquarium's July 1, 2019 organization chart lists 11 general funded permanent employees.

### Sources of revenue:

In addition to State of Hawai'i general fund appropriations, other sources of Aquarium revenues include the following:

#### Admission fees

Admission is \$12 for visitors; \$8 for local residents and active duty military with ID, \$5 for senior citizens and juniors ages four to 12; and free for children three and under and Friends of Waikīkī Aquarium members.

#### Event fees

The Aquarium offers its facilities to celebrate weddings, birthdays, graduations and corporate events. Rental of the Aquarium is currently available on Tuesday and Saturday evenings from 5:15 p.m. – 10:30 p.m. For events of up to 100 people, rental of the Aquarium is \$2,000. For events of over 100 people, there is an additional admission fee of \$8 per person. There is no charge for children 4 years of age and younger.

#### Gift shop

The Aquarium operates a gift shop selling a variety of apparel, giftware, jewelry, toys, art and other products that are made in Hawai'i. The Friends of Waikīkī Aquarium operated the gift shop from 1996 through December 31, 2017 and paid 20% of gross proceeds to the Aquarium. As of January 1, 2018, the Aquarium operates the gift shop. From 2002 through 2017, the Aquarium also operated a gift shop at Hanauma Bay.

#### Luau

A luau (Diamond Head Luau) is held at the Aquarium every Sunday, Monday, Thursday, and Friday evenings from 5:00 p.m. - 7:45 p.m. The standard luau package fee for adults is \$159; youth (13-17 years) is \$139; child (4-12 years) is \$89; and free for children ages three and under. The package includes a fresh flower lei, mai tai cocktail, two drink tickets, cultural activities, standard luau seating, buffet, and admission to Waikīkī Aquarium (during luau hours).



Friends of the Waikīkī Aquarium:

The Friends of the Waikīkī Aquarium (FOWA) is a nonprofit corporation organized for charitable, scientific and educational purposes to benefit the Aquarium. As previously noted, the FOWA operated the gift shop through December 31, 2017.

Internal Audit will review operational and financial aspects of the Aquarium. The tentative procedures are as follows:

- 1) Interview Aquarium management personnel and tour the facilities.
- 2) Request and review contracts with third-parties (e.g., FOWA, Diamond Head Luau, various events, etc.).
- 3) Evaluate the Aquarium’s management and oversight of third parties using the Aquarium’s facilities.
- 4) Review documentation of the Aquarium’s accounting and fiscal office processes and operations.
- 5) Review policies, procedures and practices regarding the Aquarium’s budgeting process and periodic monitoring and evaluation of budget to actual financial reports.
- 6) Review inventory management and related accounting and operational controls of the gift shop.
- 7) Review documentation of policies and procedures related to the preparation and review of periodic financial reports. In addition, review the Aquarium’s financial reports as of and for fiscal years ended June 30, 2020, 2019 and 2018.

Type:	Operational, Financial
Period under audit:	July 1, 2017 – June 30, 2020
Est. time of performance:	July 2020 – November 2020

6. Conflict of Interest Management

According to University Administrative Procedure (AP) 5.504, *Procedures for Disclosing and Addressing Conflicts of Interest and Commitment*, dated August 11, 2014, a Conflict of Interest (COI) “refers to situations in which an employee’s financial, professional, or other personal interests may influence, or appear to interest, the employee’s judgment in fulfilling his or her responsibilities to the University.” AP 5.504 and Executive Policy (EP) 12.214, *Conflicts of Interest and Commitment*, dated October 2014, comprise the Universities policies in regards to COIs. Attachment A to AP 5.504 provides a COI Disclosure Form that must be completed and submitted by all non-exempt (exemptions defined by AP 5.504) employees on an annual basis by April 15<sup>th</sup>. Examples of non-exempt employees defined in AP 5.504 include:

- Professors, associate professors, assistant professors, instructors, lecturers and specialists
- Staff members, students, trainees, postdoctoral research fellows, associates or assistants, and other individuals identified as investigators or senior/key personnel of the University responsible for or in a position to influence the design, conduct or reporting of research or other scholarly activity
- All administrators, including Executive and Managerial positions, such as President, Vice Presidents, Chancellors, Vice Chancellors, Deans and Directors (exemptions apply to personnel not responsible, directly or indirectly, for the design, conduct, or reporting of research or other scholarly activity).
- Any individual who acts or appears to act as agent of the University in using, controlling, or assigning to others the use of University facilities and resources as well as procurement of facilities and resources



The University’s Office of the Vice President for Research is responsible for oversight of compliance with AP 5.504 and EP 12.214. Internal Audit issued a report dated May 11, 2011 titled “Review of Conflicts of Interest and Commitments Policies and Procedures” and a report dated April 4, 2012 titled “Status of the Conflict of Interest and Commitments Policies and Procedures”. These reports evaluated the University’s current and revised COI policies. Accordingly, the objective of this audit is to evaluate compliance with AP 5.504 and EP 12.214. Procedures may include but are not limited to:

- 1) Reviewing training, notifications and communications to relevant staff regarding COI policies
- 2) Interview the Vice President for Research and other personnel responsible for monitoring compliance with COI policies, and obtain and review relevant documents describing the process to distribute and evaluate annual COI Disclosure Forms in addition to ensuring compliance with AP 5.504 and EP 12.214.
- 3) With respect to the COI Disclosure Forms due on April 15, 2020, obtain information regarding the quantity distributed and returned to evaluate compliance.
- 4) Selecting and reviewing a sample of COI Disclosure Forms for potential COIs, including required approvals.
- 5) Reviewing identified potential COIs for appropriate review and determination/remediation in conformity with AP 5.504 and EP 12.214.
- 6) Research other higher education institution COI policies and best practices and compare to the University’s policies (AP 5.504 and EP 12.214). Also identify policies, best practices and processes implemented to mitigate the risk of exposing the University to COIs with foreign governments/entities. Consultation with the University President, Vice President for Research and other senior management personnel may be appropriate.

Type:	Compliance
Period under audit:	July 1, 2019 – June 30, 2020
Est. time of performance:	October 2020 – February 2021

**Follow-up:**

The following engagements relate to the performance of follow-up reviews to evaluate the status of corrective action of audit findings reported in reports issued in the prior year.

7. Corrective Action – Auditee Status

Internal Audit performs follow-up reviews to evaluate the status of corrective action on audit findings reported in prior year audit reports. An assessment of the implementation of corrective action for historical Internal Audit projects will be performed during fiscal 2021. The report will document Internal Audit’s prior year recommendations and the procedures performed to assess corrective action implementation. Follow-up reviews in connection with completed fiscal 2020 audits (presented to the Audit Committee during fiscal 2020 or anticipated to be presented during early fiscal 2021) are anticipated to include the following:

- Clearing Accounts
- University Housing Program
- Revenue Bond Covenant and Policy Compliance
- Government Accounting Standards Board No. 87, Leases



Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2020
Est. time of performance:	January 2021 – May 2021

**Carryover:**

8. The Vietnam Executive MBA Program

The Vietnam Executive MBA program (VEMBA) is a two year graduate program operated by the Shidler College of Business (Shidler) and hosted at Vietnam universities. The VEMBA program began in 2001 in Hanoi and 2007 in Ho Chi Minh City (HCMC).

Instruction for the VEMBA program is conducted at the campuses of the following Vietnam universities:

- International University - Vietnam National University located in HCMC and
- Thanh Tay University located in Hanoi

During Internal Audit’s “Review of the Cash Receipts Process” during fiscal years 2018 and 2019, Internal Audit identified certain opportunities for internal control and process improvements and noted that the VEMBA program incurred operating losses (unaudited) for the years ended June 30, 2017 and 2018 of approximately \$200,000 and \$478,000, respectively. Given the opportunities for internal control and process improvements, the objective of this audit is to further review the VEMBA program’s processes, procedures and internal controls and compliance with University policies.

In September 2019, Internal Audit met with VEMBA personnel and requested preliminary information. Internal Audit followed up on the preliminary information request in October 2019 and December 2019, resulting in the receipt of one requested item. In February 2020, Internal Audit met with the Dean of the Shidler College of Business and was informed that fiscal personnel have other tasks taking priority over the audit. No additional requested information has been received to date.

Type:	Operational, Compliance, Financial
Period under audit:	July 1, 2018 – June 30, 2020
Est. time of performance:	July 2020 – November 2020

9. UHM Bookstore

The UHM Bookstore (Bookstore) sells books, electronics, clothing, supplies and other items both at its store and via an online portal. In addition, the Bookstore took over the operations of the H-Zone from UHM Athletics during June 2017. The H-Zone sells Rainbow Warrior and Rainbow Wahine apparel and merchandise.

The Bookstore is responsible for all accounting functions of all University bookstore locations within the University. In connection with Internal Audit’s “Review of the Cash Receipts Process” project, Internal Audit identified operational, compliance and financial risks related to the Bookstore’s inventory management, monitoring of financial results and overall compliance with University policy. Internal Audit previously evaluated the Bookstore as a result of a material weakness in internal control comment by Accuity LLP in connection with its fiscal year 2009 audits. In Internal Audit’s



December 2010 report, recommendations were provided to mitigate risks related to inventory management, internal controls and financial oversight.

Thus, Internal Audit will review operational, compliance and financial aspects of the Bookstore, including but not limited to the following:

- Inventory management and related accounting and operational controls
- Monitoring of outstanding accounts receivable and credit memos
- Monitoring and management of financial results

In connection with preliminary audit procedures performed during fiscal 2019, Internal Audit noted the following:

- Approximately \$1.1 million of unapplied credit memos and chargebacks (approximately \$100,000 greater than 120 days outstanding) as of June 30, 2018
- Greater than \$5,000,000 of inventory as of June 30, 2018
- Operating loss (operating expenses less operating revenues) of approximately \$687,000 for the year ended June 30, 2018
- It was determined that UHM Conference & Event Services (CES) is a component of the Bookstore's operations that incurred operating losses for the years ended June 30, 2018 and 2017 of approximately \$67,000 and \$21,000, respectively. CES provides support services for conferences, training sessions, workshops, symposiums, seminars, and meetings ranging from 20 - 1,000 participants. These services are provided to the UH community, state and county agencies, non-profit organizations, and local professional associations. The minimum administrative fee charged per event is \$750.

In May 2019, Internal Audit requested information required to begin this audit. Due to fiscal personnel absence due to illness (temporary leave from August 2019 to January 2020), information was provided piecemeal through November 2019. Internal Audit requested additional information (as well as previously requested information not yet provided) in December 2019. Confirmation of receipt of the request was received from the Bookstore Director in December 2019 but no additional information has been received to date.

Type:	Operational, Compliance, Financial
Period under audit:	July 1, 2017 – June 30, 2020
Est. time of performance:	July 2020 – December 2020

#### 10. Evaluation of Corrective Action Status

As noted previously, Internal Audit performs follow-up reviews to evaluate the status of corrective action on audit findings reported in prior year audit reports. Follow-up reviews in process and that will be completed during fiscal 2021 include the following:

- Sodexo Food Services Contracts
- UHH Student Housing
- UHM Student Housing
- Student Accounts Receivable
- Check Disbursements less than \$2,500
- Maunakea





Sodexo – Audit is approximately 60% complete and is pending additional information to be provided by UHH Student Housing personnel. Preliminary findings show that the majority of corrective actions have been implemented or in process and expected to be completed in fiscal year 2021.

UHH Student Housing - Audit is approximately 95% complete and is pending revisions to the status of corrective action memo drafted by the UHH Vice Chancellor for Student Affairs. The majority of corrective actions have been implemented. Any corrective actions not yet completed are in process.

UHM Student Housing - Audit is approximately 90% complete and is pending revisions to the status of corrective action memo drafted by the UHM Vice Chancellor for Students and other requested supporting documentation. The majority of corrective actions have been implemented. Any corrective actions not yet completed are in process.

Student Accounts Receivable - Audit is approximately 80% complete and is pending clarification on information provided by the Bursar. The majority of corrective actions have not been implemented. Any corrective actions not yet completed are in process.

Check Disbursements Less Than \$2,500 - Preliminary meetings conducted with responsible personnel. The majority of corrective actions have not been implemented but are in process and expected to be completed in fiscal year 2021. Accordingly, the evaluation of corrective action status was deferred until fiscal year 2021.

Maunakea -. Preliminary discussion with the Director of the Office of Maunakea Management. The Maunakea Management Board is currently in the process of reorganizing and restructuring. The Governor approved the Maunakea administrative rules in January 2020. Evaluation of corrective action status was deferred until fiscal year 2021 due to the ongoing changes with the management and operations of Mauna Kea.

Type:

Period under audit:

Financial, Operational, Compliance

Various depending on audit



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# Committee on Independent Audit of the Board of Regents

Annual Report  
*For the Fiscal Year Ended June 30, 2020*

**+** Office of Internal Audit: *Audit Results for the fiscal year ended June 30, 2020*

## **Summary**

This Annual Report is prepared pursuant to the provisions of Hawai‘i Revised Statutes (HRS) §304A-321, *Independent Audit Committee*. This June 30, 2020 Annual Report is organized by the following sections:

1. Committee on Independent Audit (Audit Committee) Charter
2. Audit Committee Membership
3. Audit Committee Meetings

The Audit Committee has fulfilled its responsibilities pursuant to the Bylaws of the Board of Regents of the University of Hawai‘i (BOR Bylaws) and HRS §304A-321. Collectively, BOR Bylaws (Article II.D.2.e) and HRS §304A-321 functions as the Audit Committee’s Charter. This Annual Report includes and is complemented and supported by the “Audit Results” report prepared by the University of Hawai‘i (University or UH) Office of Internal Audit (Internal Audit) that summarizes Internal Audit’s activities during the fiscal year ended June 30, 2020.

## **Committee on Independent Audit (Audit Committee) Charter**

The duties and responsibilities of the Audit Committee are documented in its Audit Charter (collectively BOR Bylaws and HRS §304A-321). The Audit Committee’s duties and responsibilities include the following:

1. Undertake professional development to improve the financial expertise of the Audit Committee.
2. Provide oversight relating to enterprise risk management.
3. Hold meetings at least twice per year.
4. Review the Audit Committee’s effectiveness and prepare or oversee the preparation of an annual report to the BOR.
5. Review the procedures for the receipt, retention, and treatment of complaints received by the University regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any internal or external party.
6. Review (1) significant findings of internal audits and auditee responses, (2) whether internal auditors have encountered difficulties in the course of their audits, (3) changes in the scope of internal audits, (4) the internal audit budget and staffing, (5) the annual internal audit plan, and (6) the annual report of the internal audit department.
7. Review the following with management and the external auditor: (1) UH’s annual financial statements and related footnotes, (2) all reports certified by the external auditor, (3) the external auditor’s judgments about the quality of UH’s accounting principles, (4) any significant changes required in the external auditor’s audit plan, (5) any difficulties or disputes encountered during the audit, and (6) matters pursuant to Statement on Auditing Standards No. 114 (critical accounting policies and practices, consultations with audit firms other than the external auditor, and any other information relating to significant estimates and judgments).
8. Review with the external auditor matters affecting internal control including (1) the adequacy of UH’s internal control, including computerized information system controls and security and (2) any related significant findings and recommendations of the internal and external auditors, together with the responses of UH.
9. Annually evaluate the external auditor and the internal audit function.
10. Recommend to the BOR, the external auditor to be retained by UH and their fees.
11. Submit an annual report to the BOR and the legislature no later than 20 days prior to the convening of each regular session of the legislature on matters that include (1) all instances of

material weaknesses in internal control, including the responses of UH management and (2) all instances of fraud, including the responses of UH management.

12. Perform such other functions as assigned by the BOR and/or its bylaws.

### **Audit Committee Membership**

The Audit Committee members are appointed by the BOR Chair and serve for one year or until the appointment of successors. The Audit Committee Chair is selected by the members of the Audit Committee.

The Audit Committee must consist of at least three members but not more than five members. During the fiscal year ended June 30, 2020, membership of the Audit Committee consisted of the following Regents:

1. Michael McEnerney, Chair
2. Wayne Higaki, Vice Chair
3. Randy Moore
4. Robert Westerman
5. Ernest Wilson Jr.

### **Audit Committee Meetings**

The Audit Committee is required to meet at least twice per year. During fiscal year 2020, the Audit Committee held four meetings (compared to six during fiscal year 2019 and seven during fiscal year 2018). The fiscal year 2020 Audit Plan was approved by the Audit Committee at the May 2, 2019 Audit Committee meeting. In addition to Audit Committee members, other BOR members attending fiscal year 2020 meetings included BOR Chair Benjamin Kudo and Regents Simeon Acoba, Kelli Acopan, Eugene Bal, and Alapaki Nahale-a. Meeting attendees also included University executive management (President, Vice Presidents, Chancellors of various campuses, etc.), the Director of Internal Audit, and personnel from the University's external auditors (Accuity, LLP or Accuity). Other attendees consisted of University personnel from a University campus/department/function associated with an Audit Committee meeting agenda topic or matter.

The following summarizes the significant matters and topics discussed at Audit Committee meetings held during fiscal year 2020.

#### **October 3, 2019:**

1. Regent McEnerney was re-elected as chair of the Audit Committee.
2. Chair McEnerney welcomed Regents Westerman and Wilson as new members to the committee.
3. The need to pursue additional information on Title III grants (due to Senate Resolution (SR) 120 requesting that Internal Audit perform an audit of certain University of Hawai'i at West O'ahu grants) will be determined by the next committee meeting.
4. The Audit Committee reviewed and accepted the Audit Report on the status of corrective actions related to Capital Improvement Projects and Repairs and Maintenance.
5. The Audit Committee approved recommending BOR approval of the revisions to Regents Policy (RP) 2.205, *Whistleblowing and Retaliation*, as amended.

#### **December 5, 2019:**

1. Accuity discussed their professional responsibilities and required communications pursuant to Statement on Auditing Standards No. 114

2. The Audit Committee reviewed and accepted the following reports presented by Accuity:
  - a. University Audited Financial Reports for the year ended June 30, 2019
  - b. UHM Intercollegiate Athletics NCAA Agreed-Upon Procedures Report for the year ended June 30, 2019
  - c. UHM Intercollegiate Athletics Department Internal Control and Business Issues Report for the year ended June 30, 2019
3. The Audit Committee requested Internal Audit to develop a plan to address two non-Title III program grants at the University of Hawai'i at West O'ahu funded by Kamehameha Schools (KS) listed in SR 120 that were not included in the scope of the audit conducted by Accuity. These KS funded grants amount to approximately \$450,000.
4. The Audit Committee reviewed and accepted the Annual Report to the Legislature on Material Weaknesses and Fraud pursuant to HRS §304A-321 prepared and presented by Internal Audit. The report noted no material weaknesses or fraud.
5. The Audit Committee reviewed and accepted the Internal Audit Review of Clearing Accounts.
6. Internal Audit presented the Whistleblower Hotline Tracking Report.

**February 6, 2020:**

1. The Audit Committee reviewed and accepted the following reports presented by Accuity:
  - a. University supplemental information to the financial and compliance reports presented during the December 5, 2019 Audit Committee meeting.
  - b. University Internal Control and Business Issues Report for the year ended June 30, 2019.
  - c. UHM Intercollegiate Athletics Report on Agreed-Upon Procedures for the 2019 Football Season attendance.
2. The Audit Committee approved the Audit Plan Supplement to Internal Audit Work Plan for 2019-2020 presented by Internal Audit. The approved Audit Plan Supplement describes Internal Audit's planned procedures to audit certain KS funded grants listed in SR 120.
3. The Audit Committee reviewed and accepted Review of University Housing Program presented by Internal Audit.
4. Fiscal year 2019 Whistleblower Hotline Annual Report was presented by the VP for Administration.
5. Annual Enterprise Risk Management (ERM) update was presented by the VP for Administration.
6. Discussion on the future of the Audit Committee resulted in the conclusion that the Audit Committee must be maintained as it is required by statute.

**June 4, 2020:**

The following lists the matters and topics anticipated to be discussed at this meeting.

1. Approval of Annual Review of Audit Committee Charter
2. The Audit Committee's review and acceptance of the following reports presented by Internal Audit:
  - a. Proposed year ended June 30, 2021 Audit Plan
  - b. Year ended June 30, 2020 Annual Report of the Committee on Independent Audit
  - c. Year ended June 30, 2020 Audit Results of the Office of Internal Audit
  - d. Review of Certain Kamehameha Schools Funded Programs
  - e. Professional Fee Programs – Status of Corrective Action
  - f. Cash Receipts Process – Status of Corrective Action
  - g. Outreach College – Status of Corrective Action
3. Review of Internal Audit Emergency Response Plan
4. Audit Committee Annual Review
5. ERM update

# UNIVERSITY OF HAWAII

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## OFFICE OF INTERNAL AUDIT

### Audit Results

*For the Fiscal Year Ended June 30, 2020*

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For the Committee on Independent Audit of the Board of Regents

May 2020



## Executive Summary

### Introduction

The Office of Internal Audit (Internal Audit) prepares this Audit Results (or Annual Report) report to summarize their activities and accomplishments for the fiscal year ended June 30, 2020. The Bylaws of the Committee on Independent Audit of the Board of Regents (Audit Committee) require that the Audit Committee review this report. Additionally, the preparation of this report assists the Audit Committee review the internal audit function of the University of Hawai'i (University) as required by Hawai'i Revised Statutes (HRS) §304A-321, *Independent Audit Committee*. Pursuant to the Charter of the Office of Internal Audit of the University of Hawai'i (Internal Audit Charter), an annual audit plan is developed and submitted to the Audit Committee for review and approval. The fiscal year 2020 Audit Plan was approved by the Audit Committee on May 2, 2019.

### Overview of fiscal 2020 audit engagements

*Exhibit 1* summarizes the audit objective(s), audit scope, observations, findings, conclusions and status of the fiscal 2020 audit engagements. The following table categorizes the engagements listed in *Exhibit 1* (excluding external audit assistance).

Fiscal 2020 engagements:	Completed reports			In process	Total
	Reviewed and accepted	Completed but not yet reviewed/accepted	For information		
New and carryover	2	3	-	2	7
Added during FY20	1	-	-	-	1
Audit Committee assistance	2	-	1	-	3
Follow-up	4	1	-	6	11
<b>Total</b>	9	4	1	8	22

The Audit Committee assistance engagements consisted of 1) the Whistleblower Hotline Program and related tracking reports, 2) the annual report to the Hawai'i State Legislature noting no instances of material weaknesses or fraud and 3) the Audit Committee's annual report evaluating their effectiveness. Substantial audit work has been completed with respect to the in-process engagements. The in-process engagements are anticipated to be completed during the first half of fiscal 2021.

With respect to the new and carryover completed engagements, Unit (audited campus, college, department, etc.) management concurred with all observations/findings and conclusions. For the completed engagements reviewed and accepted by the Audit Committee, Internal Audit produced 3 and 6 recommendations for each engagement to mitigate identified operational, financial and compliance risks. For the engagements completed but not yet reviewed/accepted by the Audit Committee, Internal Audit produced 20 conclusions/recommendations ranging from 3 – 7 for each engagement. Unit management have implemented or are in the process of implementing corrective actions pursuant to these recommendations. Regarding the completed follow-up audits, Internal Audit verified implementation of corrective actions for 31 recommendations and also verified that Unit management was in-process of implementing corrective actions for all remaining corrective actions (7).



### Senate Resolution 120

Following the adoption of Senate Resolution (SR) 120 titled, “Requesting the University of Hawai‘i Office of Internal Audit to Conduct an Audit of Various Programs at the University of Hawai‘i West O‘ahu that Receive Extramural Funding, including Title III Grant Funding” by the Senate Committee on Ways and Means of the Thirtieth Legislature of the State of Hawai‘i, Regular Session of 2019, the Audit Committee requested that Internal Audit perform an audit of two Kamehameha Schools (KS) funded programs. The Review of Certain Kamehameha Schools Funded Programs was a significant project for Internal Audit that necessitated multiple meetings and discussions with key personnel at University of Hawai‘i West O‘ahu (UHWO) as well as at KS. Internal Audit reviewed program documents (Memorandums of Agreement, required reporting to KS, etc.) for KS funded programs across five different funding periods, sample tested program expenses to gain approximately 60% coverage, and reviewed a sample of hiring records (support for hired personnel meeting minimum qualifications, approved payroll forms, hiring approval memos, etc.). This audit was added to the previously approved fiscal 2020 Audit Plan and required significant effort and resources.

### COVID-19 Impact on Fiscal 2020 Audit Engagements

In some cases, COVID-19 has negatively impacted Internal Audit’s ability to complete in-process audit engagements as auditees have indicated constraints on the time available to respond to Internal Audit’s questions and requests. This has led to a greater than normal number of uncompleted Internal Audits that will be required to be carried over to fiscal 2021. Furthermore, various fiscal year 2020 audit projects completed during fiscal year 2020 were unable to be presented to the Audit Committee due to a decrease in the number of Audit Committee meetings as well as limitations on the number of agenda items during the final Audit Committee meeting of the fiscal year as a result of COVID-19 social distancing requirements (represented in the above table by the “Completed but not yet reviewed/accepted” column). These audit projects are as follows:

- Revenue Bond Covenant and Policy Compliance
- Government Accounting Standards Board No. 87, Leases
- Associated Students of the University of Hawai‘i (ASUH) at Mānoa- Recognition Awards for Service and Graduate Test Preparation Awards
- ASUH – Status of Corrective Action

Accordingly, these audit reports will be presented for Audit Committee approval and acceptance during fiscal year 2021. Deferral of these reports for presentation during fiscal year 2021 does not create any additional risks to the University as issues noted in these reports have either already been remediated or are in the process of remediation.

### **Conclusion**

In connection with the fiscal 2020 audit engagements, Internal Audit did not identify conditions that we believe are material weaknesses. Common recommendations included in fiscal 2020 audit reports included improving compliance with, establishing and/or updating policies and procedures, improving the performance of periodic budget to actual analyses, and implementing additional training to ensure compliance with University policies and procedures.

Internal Audit recognizes the importance of building and sustaining effective relationships among the Audit Committee, University management and the external auditor. These relationships provide efficiencies and enhancements in the University’s risk assessment and management processes and in the performance of internal and external audits. Accordingly, Internal Audit appreciates and thanks





University management and staff for their cooperation and responsiveness in connection with the engagements summarized in *Exhibit 1*. Further, we thank the Audit Committee for their continued support of Internal Audit. Please call Glenn Shizumura at 956-7318 with any questions or comments with respect to the contents of this report.

DRAFT



## **Audit Resources & Competencies**

Internal Audit's staffing at the conclusion of the fiscal year ended June 30, 2020 consisted of its Director and three full-time staff auditors which was consistent with staffing as of July 1, 2019. Collectively, Internal Audit's professionals have a substantial number of years of auditing and accounting experience within both the University environment and the private sector. The audit experience of Internal Audit personnel at international public accounting firms is in excess of 40 years.

Internal Audit also employs University students majoring in accounting to provide the students with the opportunity to experience auditing from an internal audit perspective in addition to an external audit perspective. Assistance on Internal Audit projects include research and preparing working papers documenting the results of their research, verifying the mathematical accuracy of schedules and financial statements, obtaining and analyzing financial information from the University's general ledger, reviewing the contents of electronic and manual audit files for completeness, etc. Student auditor tasks may also include research on new or recently revised accounting and auditing literature. The work product of this research is an oral presentation and PowerPoint slide presentation to Internal Audit staff and student auditors. Audit experience gained through their employment at Internal Audit has benefited and assisted student auditors obtain internship and/or full-time employment opportunities with international and local accounting firms.

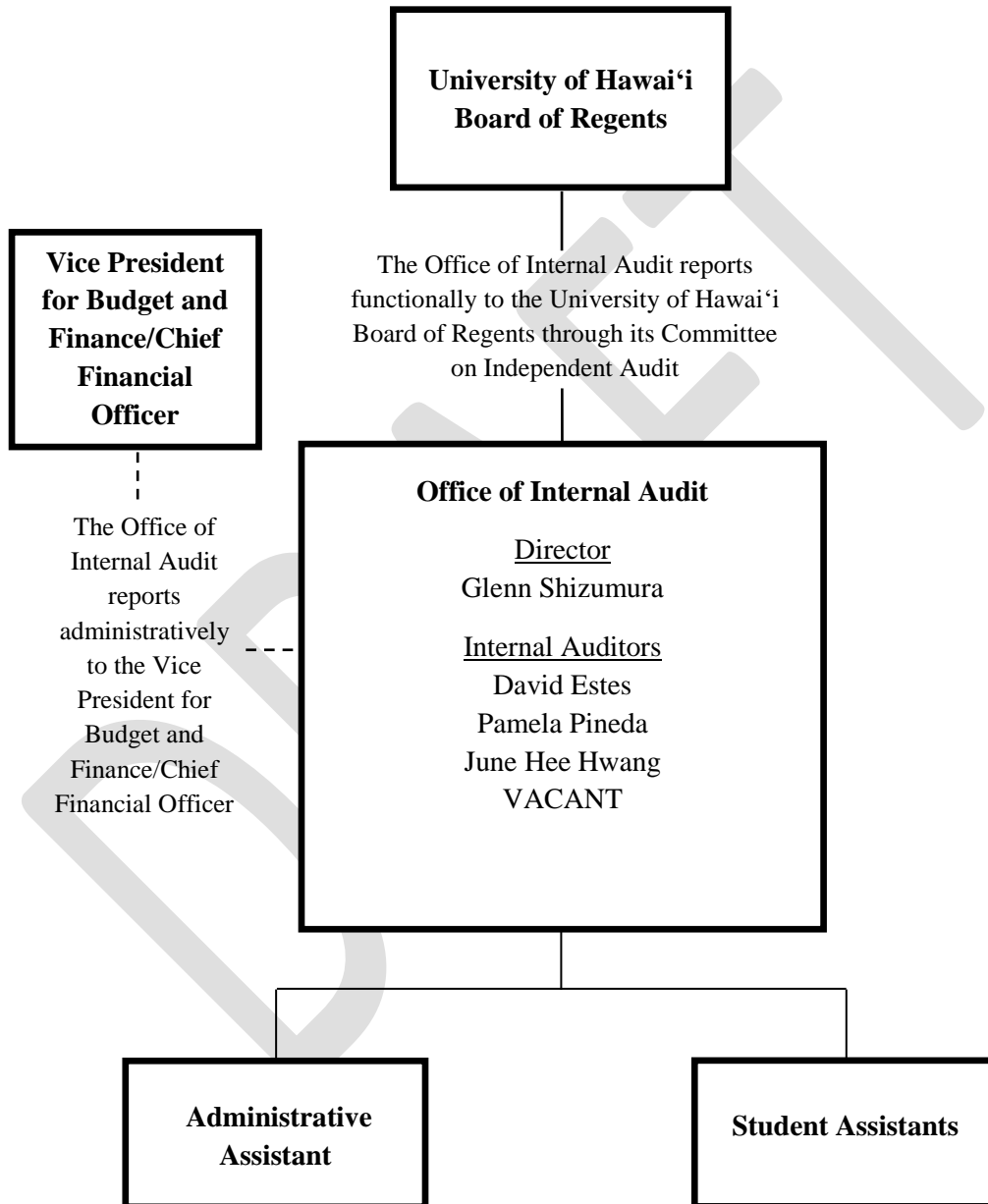
Internal Audit employed a total of eight students during the year ended June 30, 2020. During this period, two – five students were employed at any point in time. Employment fluctuations result from student internships at downtown accounting firms and graduation. Internal Audit encourages these internships and reserves the student auditor position for the student upon the completion of their internship.

The administrative functions of Internal Audit are handled by a full-time Administrative Assistant and student auditors. Administrative duties consist primarily of the following:

- Provide information technology support.
- Manage the storage, back-up and security of Internal Audit's electronic files.
- Prepare and issue fiscal related documentation for procuring goods and processing payments.
- Coordinate work orders and auxiliary services.
- Maintain office supplies and equipment, including routine security maintenance on computers.
- File and archive internal and external audit reports.
- Manage office information flow.
- Prepare monthly and year-to-date financial reports to track and monitor Internal Audit expenses.
- Compare and analyze current year-to-date expenses to budget and prior year expenses.



## Office of Internal Audit Organization Chart July 1, 2019 – June 30, 2020





## Profile of the Office of Internal Audit

Name:	Glenn Shizumura
Title:	Director
Professional Designation:	Certified Public Accountant (CPA) – Hawai'i 1990
Academic Qualification:	Bachelor of Business Administration (BBA)
Work Experience:	23 years Public Accounting/Ernst & Young <ul style="list-style-type: none"><li>• Executive Director/Principal</li><li>• Industry expertise – public sector, real estate, retail, insurance and not-for-profit</li></ul> 10 years Director of Internal Audit/University of Hawai'i
Name:	David Estes
Title:	Internal Auditor
Professional Designation:	CPA – Pennsylvania 2004
Academic Qualifications:	BBA
Work Experience:	6 years Public Accounting/PricewaterhouseCoopers <ul style="list-style-type: none"><li>• Industry expertise – investment management, not-for-profit</li></ul> 2 years Operational Risk/Perpetual Ltd. (Sydney, Australia) 3 years Internal Audit/University of Hawai'i
Name:	Pamela Pineda
Title:	Internal Auditor
Academic Qualifications:	BBA
Work Experience:	11 years Public Accounting/Deloitte <ul style="list-style-type: none"><li>• Industry expertise – public sector (Single Audits, Uniform Guidance, OMB Compliance) and not-for-profit</li></ul> 1 year Internal Audit/University of Hawai'i
Name:	June Hee Hwang
Title:	Internal Auditor
Academic Qualifications:	BS/MBA in Accounting
Work Experience:	2 years Public Accounting/Deloitte 4 years Accounting/Various Investment Banks 2 years Accounting Lecturer/HCC 1 year Internal Audit/University of Hawai'i



## Internal Audit Activity and Results

### Audit Plan

Internal Audit's fiscal 2020 Audit Plan was approved by the Audit Committee during its meeting held on May 2, 2019. The Audit Plan is a living document, requiring continual monitoring and revision as conditions warrant. A good example was the addition of the Review of Certain KS Funded Programs audit approved by the Audit Committee in order to comply with SR 120. The Audit Plan was developed using a risk-based approach and considered Internal Audit's available resources. Criteria used in selecting audit projects included providing coverage of higher risk departments/units/functions and areas of concern to the Board of Regents (BOR) and University management. The following are considered in preparing Internal Audit's Audit Plan:

- Matters discussed at periodic Audit Committee meetings.
- Meetings and discussions with certain members of University management.
- Observations and findings contained in historical reports issued by Internal Audit. Certain University departments and/or functions may be reviewed as a result of:
  - audit findings noted in departments and/or functions with similar operations and/or
  - unremediated audit findings.
- Review of the various University Internal Control and Business Issues Reports issued by the University's external auditors (Accuity).
- Meetings and discussions with Accuity with respect to sensitive audit areas.
- Regulatory compliance.

The following are the types of engagements (including examples of fiscal 2020 engagements) generally performed by Internal Audit:

- **Financial audits and reviews** – determine the fairness, accuracy, and reliability of financial information presented in accordance with established or stated criteria. An example is the assistance provided by Internal Audit to the University's external auditor.
- **Attestation engagement** – examination, review, or agreed-upon procedures on a subject matter, or an assertion about a subject matter (including financial information). An example is the review of ASUH's financial statements that is required every three years pursuant to the ASUH Constitution (last performed for the year ended June 30, 2018). The performance of this engagement by Internal Audit precluded the need to engage an external audit firm.
- **Operational reviews** – evaluate an area, department, or functional operation with the objective of evaluating efficiency and effectiveness. Examples of operational review projects include the 1) Review of Clearing Accounts, 2) Review of the University Housing Program and 3) Review of Revenue Bond Covenant and Policy Compliance.
- **Compliance reviews** – assess the adherence to laws, regulations, policies and procedures. A compliance review may also include assessing compliance with the terms and conditions of contracts/agreements. Examples of compliance review projects include 1) Review of Revenue Bond Covenant and Policy Compliance, 2) Review of Certain Kamehameha Schools Funded Programs at West Oahu and 3) Review of the University Housing Program.



- **Follow-up audits** – performed to identify and evaluate management actions implemented in response to a prior audit. Follow-up audits are generally performed during the year following the issuance of the report to assess if management actions have been effectively implemented or if senior management has accepted the risk of not taking action.

Internal Audit provides consultative services to University personnel when questions arise with respect to generally accepted accounting principles and its application, accounting and operational process analyses and related internal control matters. Internal Audit also provides guidance and collaborates with auditees in connection with their implementation of Internal Audit recommendations. In addition, Internal Audit may perform and participate in investigation projects as a result of complaints to the BOR office, University management and/or Whistleblower Hotline.

### **Audit Phases**

Internal Audit's audit process commences with the above described Audit Plan. Summarized below are the typical audit phases utilized by Internal Audit in connection with each audit project. An overarching Internal Audit objective is frequent and constant communication with Unit personnel on an ongoing basis. Ongoing and effective communication is critical in validating potential audit issues/findings as well as determining feasible recommendations.

1. **Preliminary review:**  
Internal Audit gathers and reviews information to obtain a preliminary understanding of the operation, activity or process that will be audited. A preliminary assessment of risks relevant to the audit is conducted.
2. **Notification:**  
The Director of Internal Audit contacts appropriate University management regarding an audit project(s) that will impact their Unit. The audit purpose and objective, scope, time period covered by the audit, etc. are also discussed.
3. **Initial meeting:**  
An initial meeting is scheduled to establish the tone for the audit and to discuss the audit's scope, objectives, timing and expectations. Internal Audit will also request the auditee to describe their Unit's operations that will be impacted by the audit as well as available resources (personnel, facilities, systems, etc.) and any other issues or concerns.
4. **Planning:**  
Written documentation of relevant processes and controls is requested and analyzed. Internal Audit will perform a walk-through to confirm the documented processes and controls. Subsequent to the completion of the preliminary risk assessment, an audit plan and program are developed to assist in the performance of an efficient and effective audit. Internal Audit has developed a quality assurance checklist to utilize on all engagements to ensure compliance with applicable professional authoritative literature and Internal Audit's in-house policies.
5. **Fieldwork:**  
Fieldwork consists of gathering evidence and analyzing and evaluating that evidence pursuant to the audit program. Audit procedures are performed such that the most significant and high risk audit risk areas are completed first. Internal Audit utilizes Microsoft One Note to manage and electronically file audit documentation and workpapers. All engagement documentation and workpapers are reviewed



by the designated supervisor(s).

6. Report draft:

The drafting of the audit report commences during the performance of fieldwork. Internal Audit schedules a meeting with Unit management to discuss the form and content of the draft report and provides a copy of the draft report concurrently with or subsequent to this meeting. From a timing perspective, Internal Audit generally provides the preliminary draft report to the auditee approximately four (4) weeks prior to the next scheduled Audit Committee meeting. The auditee is requested to provide draft report comments by an agreed upon due date of receiving the initial draft report. Internal Audit incorporates relevant and appropriate comments received by the auditee into the report draft. A revised draft report is generally distributed to the auditee within one business day.

7. Report distribution to the Audit Committee Chair, Vice Chair and BOR Office:

Subsequent to incorporating auditee comments into the draft report, the report draft will generally be distributed to the Audit Committee Chair and Vice Chair for review and comment. This practice may vary dependent on the nature/significance of the audit project, the timing of auditee comments and corrective action response and the corresponding Audit Committee meeting. The report draft will then be forwarded to the BOR Office for distribution to Audit Committee members prior to the Audit Committee meeting. The report draft will be presented by the Director of Internal Audit at the Audit Committee meeting.

8. Management response:

Unit management is generally requested to provide a written response to findings and recommendations included in Internal Audit's report. Depending upon the timing of management's preparation of their written response, the Director of Internal Audit forwards the written response to the Audit Committee Chair and Vice Chair prior to distribution to Audit Committee members. Unit management personnel are requested to attend the Audit Committee meeting to respond to possible Audit Committee member questions and comments.

9. Final report distribution:

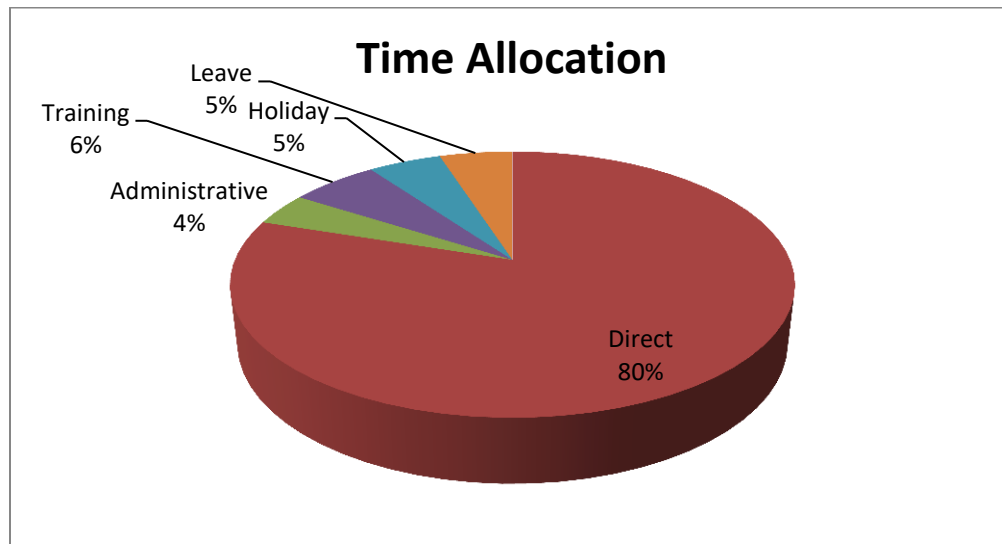
Subsequent to the Audit Committee's review and acceptance of the draft report, Internal Audit finalizes and distributes printed and electronic copies of the report to Unit management and appropriate senior management personnel of the University.

10. Follow-up:

Approximately one year subsequent to audit report issuance, Internal Audit performs a follow-up audit to assess the implementation of Internal Audit's recommendations and Unit corrective action.

**Time Allocation**

Similar to other professionals in accounting and auditing, Internal Audit tracks time spent on each project and task. The following chart summarizes the time allocation for the fiscal year ended June 30, 2020 (actual time through May 15<sup>th</sup> and estimate to complete through June 30<sup>th</sup>):



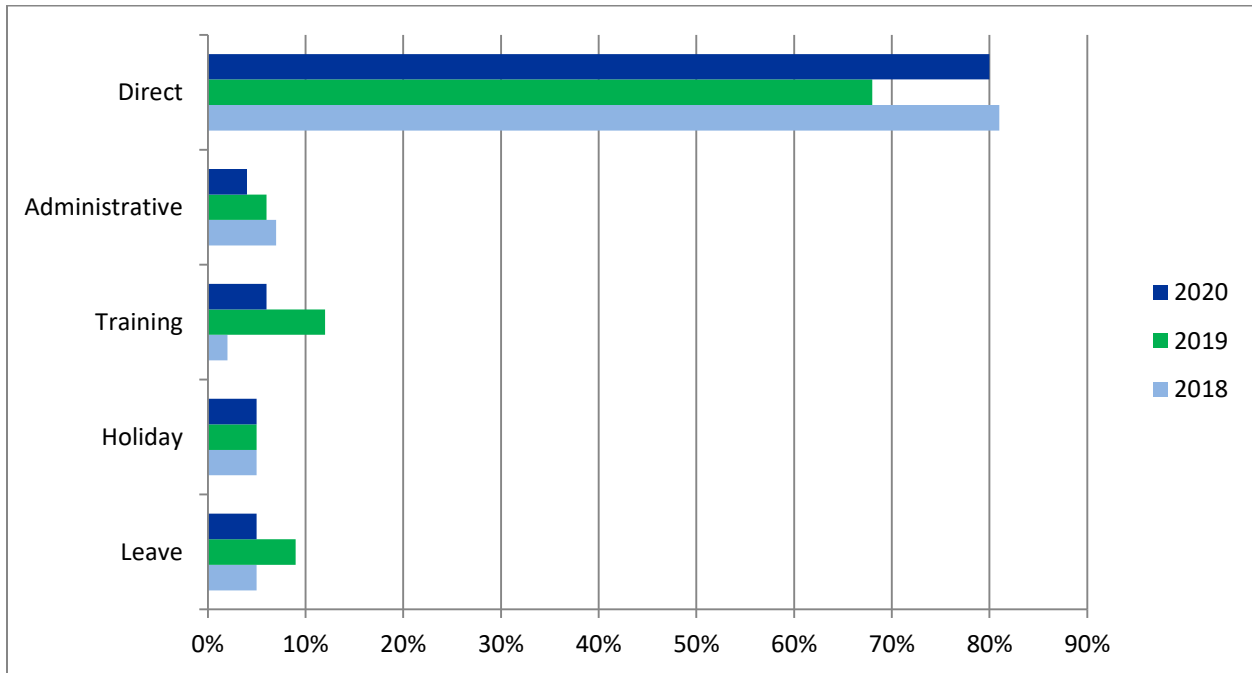
Administrative time primarily includes various human resource related functions (e.g., performance of employee evaluations, hiring of full-time and student auditors, review and approval of student auditor timesheets, etc.) and office management functions (e.g., review of current year-to-date expenses to budget and prior year expenses, engagement scheduling, etc.). Training time includes the reading of various professional organization periodicals (Association of College and University Auditors, National Association of College and University Business Officers, Journal of Accountancy, etc.) and participating in webinars and on-line courses relating to emerging accounting, auditing and operational issues primarily affecting governmental entities and higher education institutions.

The following table and chart compares Internal Audit’s allocation of total time for the fiscal years ended June 30, 2020, 2019, and 2018:

	Fiscal Year Ended June 30,		
	2020	2019	2018
Direct	80%	68%	81%
Administrative	4%	6%	7%
Training	6%	12%	2%
Holiday	5%	5%	5%
Leave	5%	9%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

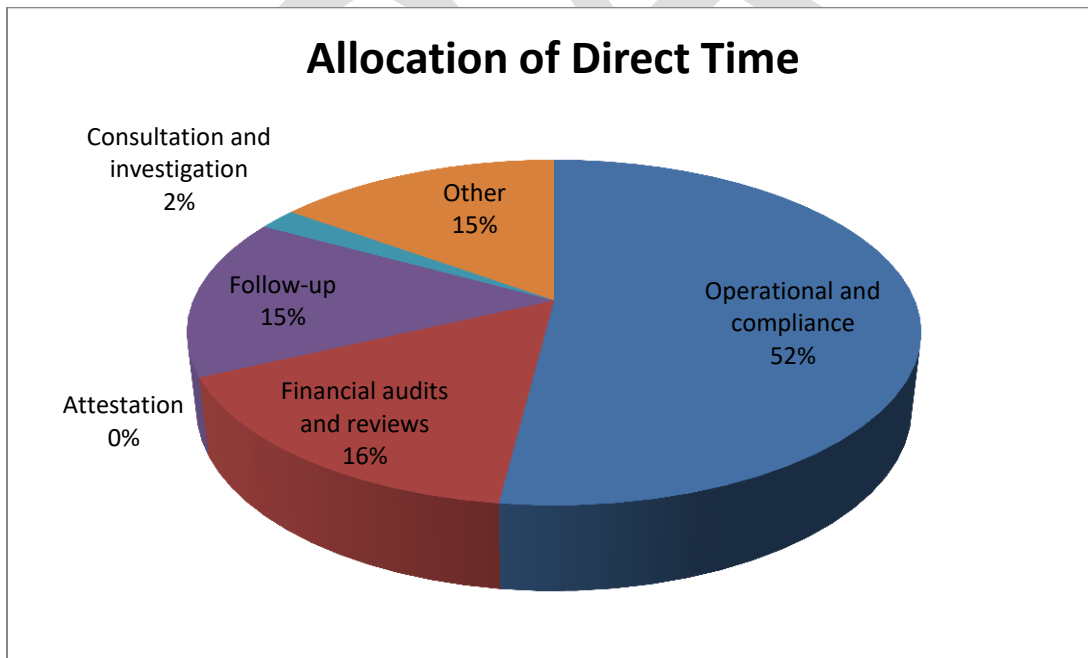
\*Training time for the fiscal year ended June 30, 2019 includes the training/onboarding of Internal Audit’s two new employees.





**Direct Time**

Direct time represents services directly benefiting the University. The following chart summarizes the allocation of direct time by engagement type for the fiscal year ended June 30, 2020:

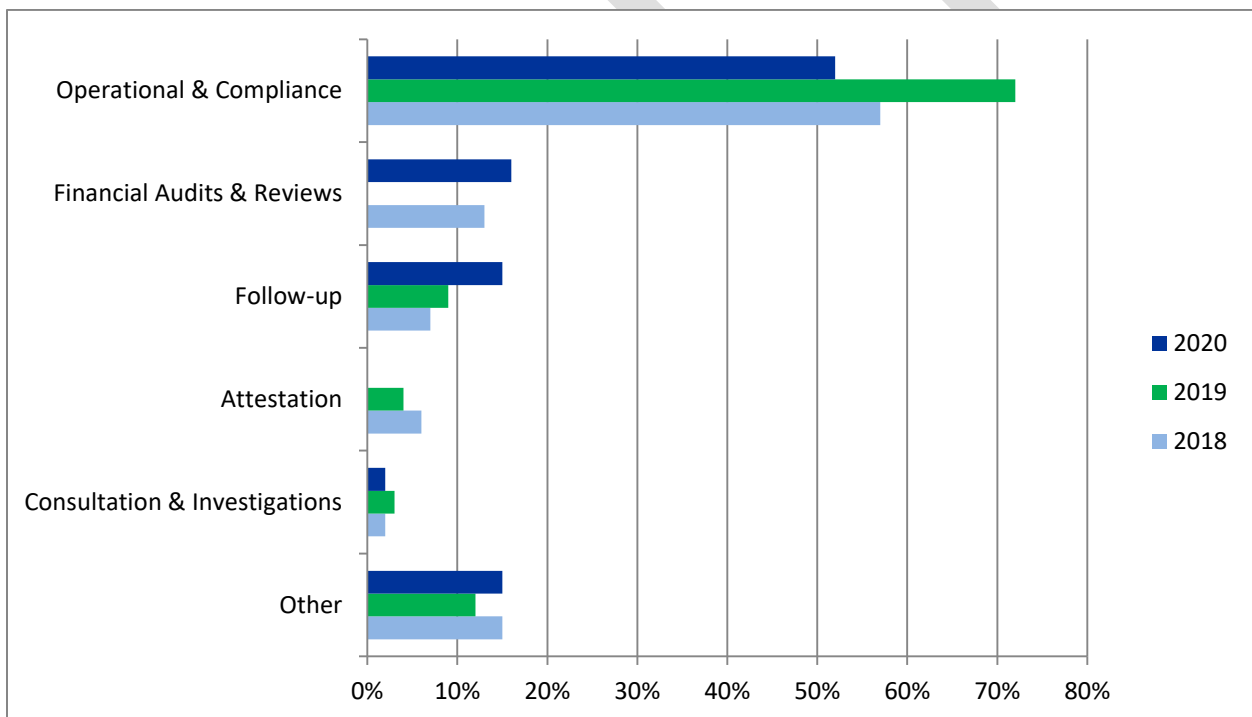




Other time represents audit related functions, such as preparing for and attending Audit Committee meetings and Audit Committee planning meetings, as well as the preparation of documents for the Audit Committee.

The following table and chart compares Internal Audit’s allocation of direct time for the fiscal years ended June 30, 2020, 2019, and 2018:

	Fiscal Year Ended June 30,		
	2020	2019	2018
Operational & Compliance	52%	72%	57%
Financial Audits & Reviews	16%	0%	13%
Follow-up	15%	9%	7%
Attestation	0%	4%	6%
Consultation & Investigations	2%	3%	2%
Other	15%	12%	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
<b>EXTERNAL AUDIT ASSISTANCE</b>			
1. <b>University of Hawai'i (Consolidated) Financial Reports</b> <ul style="list-style-type: none"> <li>• Type: Financial</li> <li>• Period: Year ended June 30, 2019</li> </ul>	Audits pursuant to federal requirements. <ul style="list-style-type: none"> <li>• Provide audit assistance under the direction of Accuity, LLP (Accuity).</li> <li>• Provide support and assistance in connection with all audit reports.</li> <li>• Participate in periodic status meetings with Accuity and Financial Management Office personnel.</li> </ul>	Accuity's report noted: <ul style="list-style-type: none"> <li>• Unmodified audit opinion.</li> <li>• No material weaknesses in internal controls over financial reporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on December 5, 2019.</li> </ul>
2. <b>University of Hawai'i (Uniform Guidance) Reports</b> <ul style="list-style-type: none"> <li>• Type: Compliance</li> <li>• Period: Year ended June 30, 2019</li> </ul>		<ul style="list-style-type: none"> <li>• Unmodified audit opinion</li> <li>• Total expenditures of federal awards - \$519 million.</li> <li>• No material weaknesses in internal controls over financial reporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on December 5, 2019.</li> </ul>
3. <b>UHM Athletics agreed-upon procedures (AUP) report</b> <ul style="list-style-type: none"> <li>• Type: Attestation (NCAA agreed-upon procedures)</li> <li>• Period: Year ended June 30, 2019</li> </ul>	AUP pursuant to NCAA regulations. <ul style="list-style-type: none"> <li>• Provide AUP assistance under the direction of Accuity.</li> <li>• Provide support and assistance in connection with the AUP report.</li> </ul>	Accuity's report noted no exceptions.	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on December 5, 2019.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
<b>AUDIT COMMITTEE ASSISTANCE</b>			
<p>4. <b>Whistleblower Hotline</b></p> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: Ongoing</li> </ul>	<p>The Audit Committee will be provided with a “Whistleblower Tracking Report” summarizing the type, nature, status, etc. of hotline reports received during their periodic meetings.</p>	<p>Most frequently reported complaints relate to human resource matters. Administrators continue to oversee the resolution of reported cases.</p>	<ul style="list-style-type: none"> <li>• Continuous.</li> <li>• Report provided for the December 5, 2019 and February 6, 2020 Audit Committee meetings.</li> </ul>
<p>5. <b>Audit Committee Reports – Annual Report to the Board of Regents (BOR) and Hawai‘i State Legislature</b></p> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: July 1, 2018 – June 30, 2019</li> </ul>	<p>Assisting the Audit Committee prepare an annual report to the Board of Regents (BOR) and Hawai‘i State Legislature identifying 1) all instances of material weakness in internal controls and 2) all instances of fraud required by HRS §304A-321.</p>	<p>Annual report to the Hawai‘i State Legislature dated December 5, 2019 noted no instances of material weaknesses in internal controls over financial reporting and no instances of fraud or illegal acts.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• Accepted by the Audit Committee on December 5, 2019.</li> </ul>
<p>6. <b>Audit Committee Reports – Annual Report to the BOR</b></p> <ul style="list-style-type: none"> <li>• Type: Audit Committee Assistance</li> <li>• Period: July 1, 2019 – June 30, 2020</li> </ul>	<p>Assisting the Audit Committee prepare an annual report to the BOR regarding the Audit Committee’s effectiveness required by HRS §304A-321.</p>	<p>Annual report to the BOR notes that the Audit Committee fulfilled its HRS §304A-321 and Charter responsibilities for the fiscal year ended June 30, 2020.</p>	<ul style="list-style-type: none"> <li>• Complete.</li> <li>• To be presented at the June 2020 Audit Committee meeting.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
<b>INTERNAL AUDITS</b>						
<p><b>7. University of Hawai'i – Review of Clearing Accounts</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2018 to June 30, 2019</li> </ul>	<p>Given that the University has approximately 1,000 clearing accounts as of June 30, 2019, assess compliance and evaluate the process to monitor compliance with AP 8.650. In addition, evaluate the process of reclassifying clearing account balances to the appropriate general ledger account.</p>	<p>Consider alternative processes and procedures to eliminate or reduce the need for clearing accounts. Additionally:</p> <ul style="list-style-type: none"> <li>• Monitor clearing accounts at least quarterly to ensure clearing accounts are reclassified properly and in a timely manner</li> <li>• Provide annual clearing account training to fiscal personnel</li> <li>• Delete/archive inactive accounts</li> </ul>	<p>Management response dated November 15, 2019 concurred with all conclusions and recommendations.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on December 5, 2019</li> </ul>
<p><b>8. University of Hawai'i at Mānoa (UHM) – Review of University Housing Program</b></p> <ul style="list-style-type: none"> <li>• Type: Compliance, Financial</li> <li>• Period: July 1,</li> </ul>	<p>Evaluate compliance with University policies as well as determine whether matters noted in historical Internal Audit reports have been addressed. Additionally, review University Housing financial results.</p>	<p>Overall, University Housing has revised and improved their processes and procedures since Internal Audit's historical reviews during 2010 and 2013. Additionally, University Housing appears to be meeting their mandate of financial self-sustainability and maintained a repairs and replacements reserve in excess of \$8.5 million as of June 30, 2019.</p>	<p>Management response dated January 27, 2020 concurred with all conclusions and recommendations.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on February 6, 2020</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
2018 to June 30, 2019		Consider enhancing the Standard Operating Procedures Manual to include the following: <ul style="list-style-type: none"> <li>• performing an annual federal income tax analysis,</li> <li>• obtaining University Tax Manager approval of the annual federal income tax analysis</li> <li>• procedures to comply with Hawai'i Revised Statutes § 514A</li> </ul>				
9. <b>University of Hawai'i at West O'ahu – Review of Certain Kamehameha Schools Funded Programs</b> <ul style="list-style-type: none"> <li>• Type: Compliance, Financial</li> <li>• Period: July 1, 2017 to June 30, 2019</li> </ul>	Pursuant to Senate Resolution 120, evaluate certain Kamehameha Schools (KS) funded programs at the University of Hawai'i at West O'ahu.	Internal Audit noted the following: <ul style="list-style-type: none"> <li>• Instances of program/financial reports and student reports not submitted to KS within deadlines.</li> <li>• No documentation supporting the derivation and appropriateness of flat-rate compensation amounts.</li> <li>• Payroll forms not approved prior to the employee's first day of work.</li> <li>• Inconsistent expense classification of identical course charges between</li> </ul>	UHWO Chancellor prepared a written response to Internal Audit's report.	N/A	100%	<ul style="list-style-type: none"> <li>• To be presented at the June 2020 Audit Committee meeting.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
		different funding periods. • Lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum qualifications for the position.				
10. <b>University of Hawai‘i- Governmental Accounting Standards Board (GASB) Statement No. 87</b>  • Type: Financial • Period: As of December 31, 2019	Evaluate the University’s readiness in adopting GASB 87, <i>Leases</i> , by assessing the University’s GASB 87 implementation plan and the status of implementation.  On May 8, 2020, the GASB deferred GASB 87 for 18 months to fiscal years beginning after June 15, 2021. For the University GASB 87 must be implemented for the fiscal year ended June 30, 2022.	Internal Audit noted that the General Accounting Office has created a Lease Listing with input from the FAs. However, this listing has inconsistencies, errors and incomplete information  Although an informal implementation plan was communicated to FAs during a quarterly Financial Management Office meeting, a written GASB 87 implementation plan including the planned timeline to achieve significant milestones has not been developed.	Internal Audit believes management has sufficient time to implement GASB 87. Management has committed to developing a GASB 87 implementation plan and executing the plan in the first half of fiscal year 2021.	N/A	100%	• Report drafted. Ready to be presented to Audit Committee
11. <b>UHM – Revenue Bond Covenant and Policy Compliance</b>	The University issues taxable and nontaxable Revenue Bonds. Evaluate whether processes and procedures have been	Revisions to written policies, as well as the drafting of written processes and procedures, began in June 2014 but have not been finalized.	Pending	N/A	100%	• Report drafted. Ready to be presented to Audit Committee

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
<ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2018 to June 30, 2019</li> </ul>	<p>implemented to mitigate risks with regards to bond covenant and federal income tax law compliance.</p>	<p>An external service provider (BLX) has not identified any post-issuance compliance or arbitrage issues since FY 2013. However, the BLX contract expired in December 2018 and no post-issuance compliance review has been performed since contract expiration.</p> <p>Internal Audit believes that the post-issuance compliance and arbitrage analysis previously provided by BLX can be performed internally by the UBS office as well as Bond covenant compliance. Should issues arise indicating possible private business use noncompliance, the UBS Office should consult with OGC regarding retaining legal assistance from OGC personnel or external counsel.</p>				



**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
12. <b>UHM-Associated Students of the University of Hawai'i (ASUH)</b>	Evaluate compliance with ASUH policies regarding Awards for Services (Service Awards) and Graduate Test Preparation Awards (GTPAs)	Upon appeal, Service Awards were granted to senators who did not meet the minimum requirements.  Untimely payments of awarded GTPAs.	Management's response dated April 28, 2020 states that ASUH has begun implementing corrective actions to address all conclusions and recommendations.	N/A	100%	<ul style="list-style-type: none"> <li>• Report drafted. Ready to be presented to Audit Committee</li> </ul>
13. <b>UHM-Bookstore</b>  <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2017 to June 30, 2019</li> </ul>	As a result of historical audits including the fiscal year 2019 "Review of Cash Receipts", Internal Audit identified operational, compliance and financial risks at the Bookstore. Accordingly, the scope of this audit includes: <ul style="list-style-type: none"> <li>• reviewing inventory management and related accounting and operational controls.</li> <li>• analyzing outstanding accounts receivable and credit memos.</li> <li>• reviewing the monitoring of financial results by management.</li> </ul>	Minimal information received from examinee to date.	TBD	<ul style="list-style-type: none"> <li>• Preliminary information requested from examinee in May 2019</li> <li>• Due to fiscal personnel absence (temporary leave from August 2019 to January 2020), requested information was provided piecemeal through November 2019. Various discussions conducted with the Campus Services Admin Services Manager from September 2019 through December 2019 to discuss pending requested information.</li> <li>• Additional information (as well as previously requested items not yet provided) requested in December 2019.</li> <li>• Confirmation of receipt of request was received from the Bookstore Director in</li> </ul>	30%	<ul style="list-style-type: none"> <li>• Outline of report drafted</li> <li>• Pending information from examinee</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Management Response/Action Plan	Ongoing Audit Timeline	% Complete	Status
				December 2019, but no additional information has been received to date.		
<p>14. <b>UHM – Review of the Masters of Business Administration for Executives in Vietnam (VEMBA) Program</b></p> <ul style="list-style-type: none"> <li>• Type: Operational, Compliance, Financial</li> <li>• Period: July 1, 2018 to June 30, 2019</li> </ul>	<p>As a result of various non-cash receipts related risks identified during Internal Audit’s fiscal year 2019 “Review of Cash Receipts Process” in connection with the VEMBA Program, Internal Audit’s objective is to review the VEMBA program’s processes, procedures and internal controls related to admissions, revenues and expenses in addition to compliance with University policies.</p>	<p>Insufficient information received from examinee to conclude.</p>	<p>TBD</p>	<ul style="list-style-type: none"> <li>• Kick-off meeting held on September 10, 2019 with the preliminary information request e-mailed later that day. Two follow ups via e-mail/voicemail in October 2019 and another v-mail in December 2019 has resulted in the receipt of minimal requested information.</li> <li>• Meeting with the Dean of the Shidler College of Business in February 2020 resulted in the Dean noting that fiscal personnel have other tasks taking priority over the audit.</li> </ul>	<p>20%</p>	<ul style="list-style-type: none"> <li>• Outline of report drafted</li> <li>• Pending information from examinee</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Implementation Status	Ongoing Audit Timeline	% Complete	Status
<b>FOLLOW-UP</b>						
<p><b>15. Auditee Status – Capital Improvement Projects (CIP) and Repairs and Maintenance</b></p> <ul style="list-style-type: none"> <li>• Type: Follow-up</li> <li>• Period: Through June 30, 2019</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Two (2) recommendations identified in the prior year for Procurement of CIP. Nine (9) recommendations identified in the prior year for CIP Management. Seven (7) recommendations identified in the prior year for Repairs and Maintenance.</p>	<p>All of the Procurement of CIP recommendations have been implemented. Eight of the CIP Management recommendations have been implemented and one is in process with expected implementation in fiscal year 2020. Five of the Repairs and Maintenance recommendations have been implemented and two are in process with expected implementation in fiscal year 2020.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>• Complete</li> <li>• Accepted by Audit Committee on October 3, 2019</li> </ul>
<p><b>16. Auditee Status – UHM Outreach College</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through February 28, 2020</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Eight (8) recommendations identified in the prior year.</p>	<p>Recommendations have been implemented for the significant financial and operational risks. All other recommendations are in process with expected implementation in fiscal year 2021.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>• To be presented at the June 2020 Audit Committee meeting</li> </ul>
<p><b>17. Auditee Status – Student Fees for Professional Program</b></p>	<p>Assess the implementation status of corrective action.</p>	<p>Six (6) recommendations identified in the prior year.</p>	<p>All recommendations have been implemented or in process with expected implementation in fiscal year 2020.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>• To be presented at the June 2020 Audit Committee meeting</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Implementation Status	Ongoing Audit Timeline	% Complete	Status
<ul style="list-style-type: none"> <li>Type: Follow-up</li> <li>Period: Through December 31, 2019</li> </ul>						
<p><b>18. Auditee Status – Cash Receipts Process</b></p> <ul style="list-style-type: none"> <li>Type: Follow-up</li> <li>Period: Through December 31, 2019</li> </ul>	<p>Assess the implementation status of corrective actions related to the cash receipts process and the University’s compliance with the Payment Card Industry’s (PCI) Data Security Standard (DSS).</p>	<p>Two (2) recommendations identified in the prior year related to the cash receipts process. Three (3) recommendations identified in the prior year related to compliance with PCI DSS.</p>	<p>All recommendations have been implemented.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>To be presented at the June 2020 Audit Committee meeting</li> </ul>
<p><b>19. Auditee Status - ASUH</b></p> <ul style="list-style-type: none"> <li>Type: Follow-up</li> <li>Period: Through December 31, 2019</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>One (1) recommendation identified in the prior year</p>	<p>Corrective action completed, although Internal Audit suggested that management consider improving documentation of review of the Investment Manager’s reporting on investment policy compliance.</p>	<p>N/A</p>	<p>100%</p>	<ul style="list-style-type: none"> <li>Report drafted. Ready to be presented to the Audit Committee</li> </ul>
<p><b>20. Auditee Status – UHM Student Housing</b></p> <ul style="list-style-type: none"> <li>Type: Follow Up</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Ten (10) recommendations identified in the prior year.</p>	<p><u>Preliminary</u> All recommendations have been implemented or in process with expected implementation in fiscal year 2020.</p>	<p>Timeline:  <ul style="list-style-type: none"> <li>Nov. 2019- prelim. mtg with the UHM Interim Vice Chancellor for Students (VCS) to request corrective action status update (status update)</li> </ul> </p>	<p>90%</p>	<ul style="list-style-type: none"> <li>Report drafted. Pending information from examinee.</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Implementation Status	Ongoing Audit Timeline	% Complete	Status
<ul style="list-style-type: none"> <li>• Period: Through December 31, 2019</li> </ul>				Feb. and March 2020- met with VCS and UHM Student Housing personnel, requested addtl supporting docs and revisions to the status update <ul style="list-style-type: none"> <li>• Mar. 18, 2020- rec. e-mail from VCS stating the uncertainty of providing the info due to COVID-19.</li> </ul>		
<b>21. Auditee Status – UHH Student Housing</b>  <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2019</li> </ul>	Assess the implementation status of corrective action.	Eight (8) recommendations identified in the prior year.	<u>Preliminary</u> All recommendations have been implemented or in process with expected implementation in fiscal year 2020.	Timeline: <ul style="list-style-type: none"> <li>• Dec. 12, 2019- call with UHH Vice Chancellor for Student Affairs (VCSA) to request a corrective action status update (status update)</li> <li>• Jan. and Feb 2020- rec. several verbal and e-mail updates from the VCSA, rec. draft status update , discussions with VCSA and UHH Student Housing personnel.</li> <li>• Early Mar. 2020- rec. addl docs and revised status update</li> <li>• Mar. 10, 2020- call with the VCSA and Student Housing personnel to request addl revisions to status update</li> </ul>	95%	<ul style="list-style-type: none"> <li>• Report drafted. Pending information from examinee.</li> </ul>
<b>22. Auditee Status - Student Accounts</b>	Assess the implementation status of corrective action.	Nine (9) recommendations identified in the prior year.	<u>Preliminary</u> Insufficient information received to conclude.	<ul style="list-style-type: none"> <li>• Preliminary information request partially fulfilled in February 2020</li> </ul>	80%	<ul style="list-style-type: none"> <li>• Report draft distributed to the</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Implementation Status	Ongoing Audit Timeline	% Complete	Status
<p><b>Receivable</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2019</li> </ul>				<ul style="list-style-type: none"> <li>• Followed up on information requested in March 2020 but no response received</li> </ul>		<ul style="list-style-type: none"> <li>• Controller for review on March 5, 2020.</li> <li>• Pending information from examinee</li> </ul>
<p><b>23. Auditee Status– Sodexo Food Service Contracts</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2019</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Three (3) recommendations identified in the prior year for UH System. One (1) recommendation for UHM, six (6) for UHH and two (2) recommendations for UHMC.</p>	<p><u>Preliminary</u> Insufficient information received to conclude</p>	<ul style="list-style-type: none"> <li>• Preliminary information requested in February 2020 from UHH but no response received</li> </ul>	<p>60%</p>	<ul style="list-style-type: none"> <li>• Report is in draft form</li> <li>• Pending information from UHH</li> </ul>
<p><b>24. Auditee Status – Check Disbursements less than \$2,500</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Period: Through December 31, 2019</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Six (6) recommendations identified in the prior year.</p>	<p>Corrective actions in process.</p>	<p>Internal Audit met with examinee personnel twice during 2019 but it was determined that the audit should be delayed as corrective actions had not yet been completed due to initiatives being undertaken by the PCard Administrator. Additionally, Internal Audit was informed that the PCard Administrator’s two staff retired during 2019 and were</p>	<p>10%</p>	<ul style="list-style-type: none"> <li>• Preliminary meetings conducted</li> </ul>

**Office of Internal Audit  
Summary of Audit Engagements  
Fiscal Year Ended June 30, 2020**

Engagement	Primary Objective(s)/ Audit Scope	Condensed Conclusions & Comments	Implementation Status	Ongoing Audit Timeline	% Complete	Status
				replaced. Onboarding/training of new staff required additional time/resources.		
<p><b>25. Auditee Status – Mauna Kea</b></p> <ul style="list-style-type: none"> <li>• Type: Follow Up</li> <li>• Not performed in fiscal year 2020</li> </ul>	<p>Assess the implementation status of corrective action.</p>	<p>Six (6) recommendations identified in the prior year</p>	<p>To be determined</p>	<p>Given the uncertainty regarding the University’s operations on Maunakea due to the ongoing protests related to the Thirty Meter Telescope (TMT) project, completing the follow up audit has been delayed.</p> <p>Additionally, the Chair of the Maunakea Management Board presented a reorganization and restructuring plan for management of Maunakea to the BOR on April 16, 2020.</p> <p>Finally, Internal Audit noted the implementation of corrective actions related to the recommendation that the impact of GASB 83, Certain Asset Retirement Obligations, be assessed in regards to the University-owned observatories at the summit of Maunakea.</p>	<p>10%</p>	<ul style="list-style-type: none"> <li>• To be completed during fiscal year 2021</li> </ul>

**UNIVERSITY OF HAWAI‘I AT WEST O‘AHU**

**REVIEW OF CERTAIN  
KAMEHAMEHA SCHOOLS FUNDED  
PROGRAMS**

May 2020



University of Hawai'i  
Office of Internal Audit





UNIVERSITY  
of HAWAII®  
SYSTEM

May 18, 2020

To the Board of Regents  
University of Hawai'i

Senate Resolution (SR) 120 adopted by the Senate Committee on Ways and Means of the Thirtieth Legislature of the State of Hawai'i, Regular Session of 2019 requested that the University of Hawai'i (University) Office of Internal Audit (Internal Audit) audit certain University of Hawai'i West O'ahu (UHWO) programs funded by Kamehameha Schools (KS) and the U.S. Department of Education (ED). The University's Board of Regents Committee on Independent Audit (Audit Committee) determined that Internal Audit would audit the following KS Funded Programs identified in SR 120:

- 'A'ali'i Scholars Program (formerly known as College Pathways and Summer Academy)
- 'Ike Ola: Pathways to College Success Program (known in 2017-2018 as 'Ike Maui Ola College Pathway Program)

Internal Audit identified the following issues that are more fully described in the accompanying report:

- payroll forms not approved prior to the employee's first day of work
- no documentation supporting the derivation and appropriateness of flat-rate compensation amounts
- inconsistent expense classification of identical course charges between different funding periods
- lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum qualifications for the position
- noncompliance with the terms and conditions of the KS Memorandum of Agreement (MOA).

However, in both written and verbal correspondence, KS personnel indicated that KS is satisfied with UHWO's management of the KS Funded Programs on an overall basis. In addition, KS has continued to fund the A'ali'i Scholars and Ike Ola programs subsequent to the funding periods under audit (for the fiscal year ended June 30, 2020).

As a result of the issues and matters identified in the accompanying report, UHWO management should evaluate and improve its processes and procedures to ensure compliance with extramurally funded program agreements and University policies in addition to ensuring consistent accounting treatment of similar transactions.

Sincerely,

Glenn Shizumura  
Director

## **I. Background**

### **A. Senate Resolution 120**

Senate Resolution (SR) 120 adopted by the Senate Committee on Ways and Means of the Thirtieth Legislature of the State of Hawai‘i, Regular Session of 2019 is titled, “Requesting the University of Hawai‘i Office of Internal Audit to Conduct an Audit of Various Programs at the University of Hawai‘i West O‘ahu that Receive Extramural Funding, including Title III Grant Funding”. SR120 requests the audit to include a review of the below noted programs (segregated by source of funding):

1. Kamehameha Schools (KS)
  - a) ‘A‘ali‘i Scholars Program (formerly known as College Pathways and Summer Academy)
  - b) ‘Ike Ola: Pathways to College Success Program (known in 2017-2018 as ‘Ike Maui Ola College Pathway Program)
2. U.S. Department of Education (ED)
  - a) Mobile High-Touch, High Tech Learning Environment Program
  - b) Kūkulu ma ke Kahua
  - c) PIKO project
  - d) University of Hawai‘i at West O‘ahu (UHWO) Pueo Scholars
  - e) University of Hawai‘i at Hilo and Hawai‘i Community College cooperative arrangement development grant
  - f) Ho‘okahua

The University of Hawai‘i’s (University) Title III program (Higher Education Institutional Aid) is a major federal program for Single Audit purposes. Accordingly, the University’s external auditors (Accuity LLP) audit the University’s Title III program for compliance with the requirements described in the Office of Management and Budget (OMB) Compliance Supplement. Included in Accuity’s Title III program examination are the programs noted above and listed as 2a) – 2f). Accuity presented its Single Audit report for the year ended June 30, 2019 at the December 5, 2019 University Board of Regents Committee on Independent Audit (Audit Committee) meeting. This Single Audit report was approved and accepted by the Audit Committee. Accuity’s Single Audit reports for the years ended June 30, 2019, 2018 and 2017 noted no Title III related “Findings and Questioned Costs”.

### **B. Audit Committee Decision**

SR120 was discussed at the October 3, 2019 and December 5, 2019 Audit Committee meetings. During the December 5, 2019 Audit Committee meeting, the Audit Committee determined that an Office of Internal Audit (Internal Audit) project to examine Title III programs would be a duplication of Accuity’s Single Audits. Accordingly, the Audit Committee concluded that Internal Audit would audit the above noted UHWO programs funded by KS (hereafter referred to as the “KS Funded Programs”) but not audit the programs funded by the ED.

At the February 6, 2020 Audit Committee meeting, Internal Audit presented a document describing the proposed audit procedures and timing with respect to the KS Funded Programs. This document was approved and accepted by the Audit Committee and supplements the fiscal year ended June 30, 2020 Audit Plan (Audit Plan) approved by the Audit Committee at its May 2, 2019 meeting.

## II. Description of Kamehameha Schools Funded Programs

### A. ‘A‘ali‘i Scholars Program (2017-2018/2018-2019)

The Memorandum of Agreements (MOAs) with KS notes that the funds are to be used for the following:

1. Early College Courses: Early college courses and a summer bridge program for high school students from West Hawai‘i focusing on course work which integrates ethnomathematics and culture-based learning experiences to increase the students' science and math self-efficacy and academic success.
2. Financial Aid Workshops: Financial aid and scholarship workshops for high school students and their families.
3. College Application Process: Assist high school students in their college application process and provide a college overview once accepted.
4. Residential Early College Exploration: A four week residential early college exploration (May 2019-June 2019) where students will be able to earn seven college credits.
5. Pre-Summer Advisory: Provide guidance and support with college and career exploration, college admission, financial aid and scholarships, as well as student development that may include a personal statement essay and resume workshop, mock interviews, and personality assessment.

### B. ‘Ike Ola: Pathways to College Success Program (2016-2017/2018-2019) and ‘Ike Maui Ola College Pathway Program (2017-2018) (hereafter collectively referred to as “‘Ike Ola”)

The MOAs with KS notes that the funds are to be used for the following:

1. College-Readiness and College-Going Services: Provide services including but not limited to student outreach, mentoring, financial aid workshops and advising.
2. Summer Bridge Program: Provide a summer bridge program focusing on career pathways in Health Care, Education, and Food Security.
3. Providing Professional Development Opportunities: Provide professional development activities to Waianae Coast high school teachers to strengthen college going and success rates of Waianae Coast learners.
4. College Pathways and Health Science Summer Academy: Provide or connect students at Waianae region target schools to services including but not limited to outreach and recruitment and student support services, summer bridge experience, early college coursework grounded in culture based education, tutoring programs, and test preparation workshops to enhance students' academic skills and increase students self-efficacy.
5. Freshman Learning Community: Transition students into the Freshman Learning Community during academic year 2018 - 2019 to begin prerequisite coursework toward their designated health science program of study and receive wrap-around support services to be successful toward the completion of a four-year degree.

## III. Work Performed

Internal Audit commenced this audit by performing inquiries with UHWO personnel and reading relevant documents including MOAs, grant proposals, financial reports, operational reports, etc. The following procedures were subsequently performed:

- A. Reviewed processes and procedures to manage and monitor the KS Funded Programs, including the pre-award phase, award phase and post-award phase.

**University of Hawai‘i at West O‘ahu**  
**Review of Certain Kamehameha Schools Funded Programs**  
**May 2020**

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- B. Evaluated UHWO compliance with the terms and conditions documented in the MOAs which include but are not limited to the following:
  - 1. Timely submission of required reports
  - 2. Achievement of goals and objectives
  - 3. Maintenance of adequate accounting records
  - 4. Timely return of unspent contributions
- C. Reviewed a sample of KS Funded Program expenses to assess compliance with University policies and procedures in addition to determining if the expenses were consistent with the expected use of funds documented in the MOAs.
- D. Reviewed correspondence received from KS regarding the KS Funded Program operations and financial results. Also discussed the operations and financial results of the KS Funded Programs with KS personnel managing KS funded community programs in the West O‘ahu region (KS Regional Director).

#### **IV. Observations and Analysis**

##### **A. Processes and procedures**

Internal Audit reviewed UHWO prepared written documentation regarding processes and procedures to manage and monitor the KS Funded Programs. A summary of these processes and procedures are as follows.

##### Pre-award phase

The KS Community Investing program develops relationships with partners that align with their vision and mission and invites these partners to apply for KS funding. For the KS Funded Programs, UHWO was invited to submit a Community Investing proposal because (a) of their prior and ongoing UHWO professional relationship with KS Community Investing Programs, (b) UHWO’s geographic location serving the largest population of Native Hawaiians thereby their focus on increasing the number of Native Hawaiian students entering college, and (c) KS and the University’s overarching partnership commitment. On an annual basis, KS Community Investing program invites UHWO to submit proposals via a Request for Proposal.

Proposals are developed by a team of UHWO faculty and staff that provide expertise in the area of focus and advisement in supporting administrative functions (as needed, based on the proposal scope). These administrative functions include procurement, human resources, information technology, facilities, etc. The proposal also includes the related program budget, which is reviewed by the UHWO Business Office and includes expected costs (personnel, program design and implementation, course and instructor needs, supporting materials and supplies, direct support for students, etc.). Draft proposals are submitted through the University’s Office of Research Services (ORS) myGrant system. The myGrant system electronically routes and tracks the proposal to each of the required reviewers/approvers, including the UHWO Chancellor, UHWO Business Office, and ultimately ORS. According to Administrative Procedure (AP) 8.926, *Extramurally Funded Research and Non-Research*, ORS is responsible for:

- The coordination, follow up and monitoring of all University grants, contracts and other award agreements with external sponsors,
- The review and monitoring of reporting requirements,
- Account establishment and maintenance, invoicing, and reporting activities,
- Performing monitoring activities to ensure adherence with Federal laws, State of Hawai‘i (State) statutes, sponsor requirements and University policies and procedures.

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Award phase

ORS and the Principal Investigator (PI) collaborate with KS to draft each program’s MOA. ORS is responsible for negotiating terms and conditions, while the PI and Project Director (PD) are responsible for programmatic and/or scope changes. Final MOAs are reviewed and approved by the Director of ORS. Once the MOA has been executed, ORS establishes the required accounts in the University’s general ledger (Kuali Financial System or KFS) for the program. According to the respective MOAs, KS funds the KS Funded Programs as follows:

- ‘A‘ali‘i Scholars- all funds are provided upon execution of the MOA
- ‘Ike Ola- a designated portion of the funds are provided upon execution of the MOA, with the remainder once UHWO has submitted and KS has approved the mid-year reports

Funds received from KS are deposited into the University’s general bank account with a separate KFS account established for each KS Funded Program and funding period. Internal Audit validated that separate KFS accounts were established for each KS Funded Program and funding period.

Post-award phase

1. Hiring/Payroll:

Personnel requirements are determined by the PI/PD in order to meet the KS Funded Programs’ objectives/goals. Once personnel requirements have been determined, the PI collaborates with Human Resources (HR) personnel to determine the appropriate classification (full time, casual hire, pay band, etc.) and a salary range or hourly wage. Minimum qualifications are based on the amount of program development expertise required, including consideration of the following:

- Category of personnel the applicant will work and collaborate with (e.g., personnel working and collaborating with senior management would require a higher level of or additional minimum qualifications than personnel working and collaborating with clerical staff)
- Level of supervision required
- Specific duties to be performed

The minimum education, experience, skills and qualifications are determined and included in the position description prior to starting the recruiting process.

For two of three full time positions hired by the KS Funded Programs, Internal Audit was informed that the KS Funded Programs utilized currently employed UHWO personnel upon approval by the UHWO Vice Chancellor of Student Affairs (VCSA). Internal Audit was informed that this practice is allowable if the position description and qualifications for the positions are identical.

Internal Audit was also informed that the third full time position was filled by a UHWO casual hire previously employed by the other KS Funded Program. This hire was approved by the VCSA. For the hiring of full time positions not filled by currently employed UHWO personnel, Internal Audit was informed that all University HR policies were complied with including the utilization of NEOGOV (on-demand human resources software used to post available positions and receive applicant submissions) and the use of an Interview Committee to interview candidates and refer the top candidate to the VCSA for approval.

The PI or PD may also utilize casual hiring practices for shorter term and/or intermittent personnel needs. This process requires the PI or PD to submit a casual hire request form to UHWO HR for review prior to the public posting of the position. All casual hires must be approved by the UHWO Chancellor.

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Typically, casual hires are paid an hourly wage rate and required to prepare a timesheet for each pay period, which are reviewed and approved by the supervisor and the Business Office.

In addition to salary or hourly wage, personnel receive a night differential if working between 6 p.m. and 6 a.m. Overtime must be pre-approved by the PI and Fiscal Administrator (FA) via UH Form 10-Authorization for Overtime. Overtime and night differential hours are tracked via a specific timesheet that must be submitted to payroll for processing. Regular (non-overtime or between 6 a.m. and 6 p.m.) hours do not require the preparation of a timesheet. The PI and/or PD monitor that personnel work the requisite number of hours on the program.

2. Other Expenses:

Prior to incurring non-payroll expenses, the PI reviews and ensures the validity of the expense in accordance with the objectives of the program as defined by the MOA. The FA then verifies that the expense amounts are within the approved budget. Once routed for review and approval by the PI/FA and paid (after receipt of goods/services and related invoice), expenses are recorded in KFS.

Indirect costs are calculated and posted in KFS via an automated process based on the indirect cost rate of 10% of the KS contribution amount, which is pursuant to the standing rate that KS has negotiated with ORS for their funds. Indirect costs are charged to each KS Funded Program’s KFS accounts.

3. KS Funded Program Monitoring:

UHWO KS Funded Program leadership have periodic (generally quarterly) meetings (both in person and via phone) with KS Regional Directors to obtain updates on program progress toward meeting goals and objectives, and to address potential changes to the KS Funded Program due to student needs. KS also provides an online Portal for the PI/PD to submit required mid-year and end of year reports. These reports require the PI/PD to assess and measure progress in achieving program objectives and goals. The PI/PD is also responsible for ensuring compliance with all MOA terms and conditions.

The UHWO Business Office prepares a monthly financial report (budget, actual/forecasted expenses, projected available balance, etc.) for review by the PI/PD. The PI/PD uses the report to manage each KS Funded Program’s expenses to ensure the expenses do not exceed the budgeted amounts and are recorded appropriately.

4. KS Funded Program Reporting and Wrap Up:

The aforementioned KS Portal automatically e-mails reminder notifications to UHWO KS Funded Program personnel 14 days prior to reporting deadlines and one day after a reporting deadline has passed for past due reports. The PI completes final reports (end of year program/financial report) within the KS Portal. Once all pending expenditures have been paid and recorded in KFS, the UHWO Business Office notifies ORS, which generates a final expenditure report which is uploaded to the KS Portal.

**Conclusions:**

The processes and procedures noted above were verified in connection with Internal Audit’s testing of MOA compliance and KS Funded Program expenses. See sections *IV.B. MOA compliance* and *IV.C. KS Funded Program expense testing* for results of testing and conclusions reached.

**B. MOA compliance**

Internal Audit’s evaluation of UHWO’s compliance with the terms and conditions documented in the MOAs are as follows:

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1. Submission of required reports

The following table presents the required and actual submission dates of mid-year/end of year reports and student data reports. The table notes five of 13 reports were submitted subsequent to the due date (including extended due date).

	<b>Report due date per MOA</b>	<b>KS-approved extended due date, if any</b>	<b>KS Funded Program submission date<sup>2</sup></b>	<b>Days past due</b>
<b>‘A‘ali‘i</b>				
2017/2018: Mid-year report	Jan. 19, 2018		Jan. 19, 2018	-
End of year report	Aug. 30, 2018	Oct. 31, 2018	Nov. 7, 2018	7
Student data report	July 16, 2018		July 15, 2018	-
2018/2019: End of year report	Aug. 30, 2019	Sep. 30, 2019	Sep. 30, 2019	-
Student data report	July 15, 2019		July 15, 2019	-
<b>‘Ike Ola</b>				
2016/2017: Mid-year report	Jan. 20, 2017		Jan. 19, 2017	-
End of year report	Sep. 29, 2017		Oct. 6, 2017	7
Student data report	Jul. 14, 2017		Jul. 27, 2017	13
2017/2018: Mid-year report	Jan. 19, 2018	Mar. 30, 2018 <sup>1</sup>	Feb. 14, 2018	-
End of year report	Sep. 28, 2018		Sep. 29, 2018	1
Student data report	Jul. 16, 2018		Jul. 27, 2018	11
2018/2019: End of year report	Sep. 30, 2019		Sep. 30, 2019	-
Student data report	Jul. 15, 2019		Jul. 15, 2019	-

<sup>1</sup> Correspondence received from KS authorizing the due date extension stated that the next KS contribution (\$60,000) would not be paid until the required report was submitted and reviewed. The correspondence also requested that “Quarter 2 Check In Report” be submitted by February 2, 2018. Internal Audit requested but was not provided with documentation supporting the timely submission of this report.

<sup>2</sup> Provided by UHWO. Mid and end of year report dates were consistent with correspondence from the KS Community Investing Central Office. In addition, KS Funded Program submission dates resulting in past due reporting were provided to the KS Regional Director for review and no revisions to these dates were communicated to Internal Audit.

Internal Audit noted no past due reporting for the KS Funded Programs for the 2018-2019 funding period. Internal Audit was informed by the UHWO Chancellor that improving the timeliness of reporting was a UHWO focus during 2018 and has since been resolved.

Additionally, Internal Audit reviewed the student data reports for the ‘A‘ali‘i Scholars program and noted the inclusion of eight and ten students from O‘ahu in 2017-2018 and 2018-2019, respectively. Internal Audit noted that the MOA for both funding periods states that this program is intended to support students residing in West Hawai‘i (west coast of Hawai‘i Island). Internal Audit was informed that priority was given to West Hawai‘i students with unfilled spots available to other qualifying O‘ahu students. The KS Regional Director confirmed with Internal Audit the intention of the ‘A‘ali‘i Scholars program is to support students residing in West Hawai‘i and that verbal (no written) authorization was provided regarding the participation of O‘ahu students. (See KS feedback at section IV.D.3.c) *Inclusion of West O‘ahu students in the ‘A‘ali‘i Program*).

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2. Achievement of goals and objectives

Internal Audit reviewed end of year program reports submitted to KS, which included an evaluation of whether the MOA’s goals and objectives were achieved. Internal Audit noted that in all cases UHWO stated that each goal/objective was achieved. Examples include but are not limited to:

- Increasing interest in attending college
- Increasing college preparedness
- Increasing awareness of student financial resources
- Increasing college enrollment
- Increasing knowledge of Hawaiian cultural values, practices and principles
- Increasing number of students in good standing (above 2.0 GPA)

UHWO measured achievement of goals/outcomes using various methods, including surveying students, calculating the change (increase/decrease) in student college enrollment, number of students completing the Free Application for Federal Student Aid (FAFSA), etc., noting that the majority of goals/outcomes were achieved for both programs for all funding periods. Internal Audit reviewed the goals, desired outcomes, and criteria defined in the MOAs to measure the achievement of goals and outcomes and read end of year program reports provided to KS, noting the following:

a) Measurement criteria

Measurement criteria were often more qualitative than quantitative in assessing whether a goal was achieved. For example, one goal listed in the ‘A‘ali‘i Scholars Program 2017-2018 MOA is “Increase in the number of West Hawai‘i students who are prepared for college-level coursework”. The measurement criteria included the following:

- Number of students passing college level coursework
- Number of credits students accumulate
- Number of students admitted to a four-year college

These measurement criteria does not specify the number or percentage of students required to achieve the desired goal/outcome nor did the goal/outcome measure and track the number of students admitted and remained enrolled in a four-year college. Accordingly, Internal Audit is unable to determine whether the goal/outcome was achieved.

b) Non-applicable goals

In some cases, the goals/outcomes were not applicable and thus not measureable for the majority of students participating in the program. For example, only two of 23 students participating in the 2017-2018 ‘A‘ali‘i Scholars Program were high school seniors. Thus, only two of 23 students were able to complete the FAFSA and apply for college, which were two desired outcomes of the program. (See KS feedback at section *IV.D.3.b) Measurement criteria that are not applicable to the majority of KS Funded Program students*)

3. Maintenance of accounting records

Internal Audit noted that the Standard Terms attached as an exhibit to each of the MOAs state that the University must maintain accounting records in accordance with generally accepted accounting principles (GAAP). A basic GAAP principle is the accrual basis of accounting. KFS and its related accounting records are maintained on a cash basis (non-GAAP) of accounting. However, Internal Audit was informed that financial reporting to KS was prepared on an accrual (GAAP) basis of accounting.



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4. Return of unspent contributions

Internal Audit noted the following in regards to return of unspent contributions:

	‘A‘ali‘i Scholars - Funding Period Ended July 31,		‘Ike Ola: Pathways – Funding Period Ended August 31,		
	2019	2018	2019	2018	2017
Amount returned	\$73	\$50	\$4,293	\$191	\$99,074
Date due	Sep. 30, 2019	Sep. 30, 2018	Oct. 30, 2019	Nov. 30, 2018	Sep. 30, 2017
Date of University check	Oct. 30, 2019	Nov. 13, 2018	Oct. 30, 2019	Dec. 7, 2018	Dec. 7, 2017
Days past due	30	44	-	7	68

The KS Funded Program MOAs state that unspent contributions must be returned within a specified time period subsequent to the termination of the program or the MOA, whichever comes first. Accordingly, the “Days past due” of returned unspent contributions is based on this requirement.

In regards to the approximately \$99,000 required to be returned for Ike Ola in 2017, Internal Audit was informed that the proposal and budget was initially for a two year period. Upon award, the program period was reduced to a one year period without a corresponding reduction in requested funding. Accordingly, a substantial amount was unspent at the end of the award period and returned to KS. Internal Audit noted that future funding periods resulted in only insignificant contribution amounts being returned to KS.

**Conclusions:**

Internal Audit noted the following instances of MOA non-compliance:

1. certain required reports were not submitted to KS within deadlines specified by the respective MOAs or KS approved due date extensions.
2. unspent contributions were not returned to KS within the due date in four of five instances.
3. the Standard Terms section of the MOAs require the University to maintain accounting records in accordance with GAAP, but the University’s accounting records in KFS are maintained on a cash (Non-GAAP) basis.
4. the ‘A‘ali‘i Scholars program designed to benefit students from West Hawai‘i included 18 students from O‘ahu.

UHWO KS Funded Program leadership did not provide Internal Audit with KS documentation authorizing the past due submission of required reports and return of unspent contributions. Internal Audit understands that a final expenditure report prepared by ORS is required to determine and thus pay the unspent contribution amount. Accordingly, the delayed return of unspent contributions may be attributable to the untimely submission of end of year reports by UHWO KS Funded Program personnel to ORS. Furthermore, Internal Audit was informed UHWO KS Program leadership assumed that a KS approved due date extension for submission of end of year reports equates to a corresponding due date extension for the return of unspent contributions. However, as previously noted, Internal Audit was not provided with KS documentation authorizing the past due submission of unspent contributions. UHWO KS Funded Program leadership was also unaware of the GAAP requirement and was unable to provide an explanation as to inclusion of this requirement. Continued non-compliance with terms and conditions of the MOAs with respect to untimely submission of reports and payment of unspent contributions risks future KS funding.

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Internal Audit also noted challenges in determining whether certain KS Funded Program goals/outcomes were met. These challenges included:

- The use of criteria that were not measurable
- Goals/outcomes that were not applicable to all KS Funded Program students

Additional analysis with respect to attaining KS Funded Program goals/objectives are noted in Section IV.C. *KS Funded Program expense testing*. Internal Audit discussed the above noted instances of non-compliance and goals/outcomes challenges with the KS Regional Director. See Section IV.D. *KS Correspondence* noting the KS Regional Director’s awareness of these matters and KS’ continued 2020 funding as a result of the overall performance of the KS Funded Programs.

**C. KS Funded Program expense testing**

For each KS Funded Program, Internal Audit selected a sample of payroll and non-payroll expenses for the funding periods noted in the tables that follow to assess compliance with University policies and procedures. The following is a summary of the sample selected:

	<b>‘A‘ali‘i Scholars</b>	<b>‘Ike Ola: Pathways</b>
Payroll (\$)	\$ 53,899	\$ 74,511
Non-payroll (\$)	35,608	148,760
Total tested	\$ 89,507	\$223,271
Total program expenses	\$149,877	\$386,096
% of expenditures	60%	58%

For the expense samples selected for each KS Funded Program, Internal Audit requested the PI to map each selected expense to a KS Funded Program goal/objective noted in the respective MOA. For example, expenses related to food, water flask and backpack purchases were mapped to “Increasing College Readiness” (approximately \$5,600 in ‘A‘ali‘i and \$54,000 in ‘Ike Ola). Internal Audit was informed that UHWO KS Funded Program leadership believes such expenses are necessary so students may focus on learning throughout the course of the KS Funded Programs. Additionally, Internal Audit noted that the KS Funded Program budgets included in the KS approved MOAs include narratives specifying the types of expenses expected to be incurred. The narratives note that items such as “food” (including snacks, lunches, banquet meals, etc.) and “miscellaneous supplies” are budgeted as “other expenses”.

The financial information presented in the tables below for the ‘A‘ali‘i Scholars and ‘Ike Ola Programs were derived from UHWO financial reports submitted to KS. The letters to the right of each expense description correspond with the subsequent description of each expense and related testing.

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‘A‘ali‘i Scholars

	Funding period		
	Aug. 1, 2018 – July 31, 2019	July 1, 2017 – July 31, 2018	Total
<b>Expense:</b>			
Personnel			
Salaries and wages	\$48,298	\$40,417	\$88,715
Benefits	8,471	7,870	16,341
Total personnel	<b>A</b> 56,769	48,287	105,056
Travel			
Student excursions	135	1,730	1,865
Student travel	1,822	656	2,478
Total travel	<b>B</b> 1,957	2,386	4,343
Equipment and supplies	<b>C</b> 7,866	5,463	13,329
General & administrative	<b>D</b> 6,812	6,814	13,626
Direct support to students	<b>E</b> -	12,000	12,000
Contractual services	<b>F</b> 150	-	150
Other	<b>G</b> 1,373	-	1,373
Total	\$74,927	\$74,950	\$149,877
Budget per MOA	\$75,000	\$75,000	\$150,000
Under budget	\$ 73	\$ 50	\$ 123

A - Personnel expenses include salaries, wages and benefits (if applicable) for regular (full-time), casual and student employees. Internal Audit noted that personnel for the funding periods in the above table were comprised of five regular, six casual and 13 student employees. For both KS Funded Programs, Internal Audit reviewed approved (by the VCSA, fiscal personnel and the UHWO Vice Chancellor for Administration) Payroll Notification Forms or other equivalent payroll forms (collectively referred to hereafter as PNFs), timesheets and other documentation supporting a sample of personnel expenses, noting the following:

- 1) A casual hire employee was appointed for the same KS Funded Program for consecutive 89 day periods with only a one day break in between appointment periods. Internal Audit was informed that, in some cases, the same casual hire may be reappointed for multiple periods after a short break. The UHWO HR Director defines a short break as one day and informed Internal Audit that consecutive reappointments only occurs after the casual position is reposted and the casual hiring process required by University policy is completed. Internal Audit noted that AP 9.480, *Casual Appointments*, states that “A casual appointment cannot be extended if the initial appointment period plus the extension will exceed the limits”. AP 9.480 states a limit of three months for casual hires. AP 9.480 also states that “End-to-end casual appointments with a short break in service to avoid a full-scale recruitment and/or fringe benefit coverage is not permitted” unless approved with good cause by the University President, Vice Presidents, Chancellors, et al. Internal Audit noted that the end-to-end reappointment of this casual hire employee was approved by the UHWO Chancellor.

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- 2) Four payroll forms for overload (i.e., regular University employees hired to perform additional work outside of their regular workload) compensation were approved/signed after the appointment period commenced (or in some cases, after the entire appointment period had been completed).
- 3) A lack of documentation supporting the derivation and appropriateness of the flat-rate compensation amounts paid to two overload employees hired to complete certain tasks within a specified time period. The flat-rate compensation amounted to \$3,000 for an 11 day appointment and \$6,000 for a 29 day appointment. Internal Audit was subsequently informed that flat-rate overload compensation was initially determined by the VCSA, which is then reviewed and approved by the UHWO HR Director. The UHWO HR Director stated that the flat-rate amount for the appointment period cannot exceed the employee’s daily compensation rate based on the employee’s regular annual salary. On May 18, 2020, Internal Audit was provided with a description of the tasks associated with the flat-rate compensation paid to the two overload employees including a KS Program calendar of events, staffing schedule, staff duties, course schedule and course syllabus.
- 4) Internal Audit was provided with VCSA approval for one of the two full time positions hired by the KS Funded Programs that were currently employed by the University. In regards to the previous casual hire who was hired for a full time position by the KS Funded Programs, Internal Audit noted VCSA approval. Internal Audit also requested Interview Committee documentation supporting the hiring of the candidate on March 18, 2020. On May 18, 2020, Internal Audit was provided with an Assessment of Strengths and Weaknesses document supporting the hire.
- 5) HR personnel do not approve PNFs.

Although HR personnel did not approve and sign PNFs, the UHWO HR Director stated that all regular and casual employees met all job qualifications and were hired in accordance with University policies and procedures. To validate this assertion, Internal Audit selected a sample of ten KS Funded Program employees and reviewed documentation (resumes, cover letters, transcripts, etc.) supporting that they met the minimum required qualifications. Internal Audit noted that one casual lecturer hired did not meet the minimum qualification, which required a master’s degree. The VCSA informed Internal Audit that it was determined that the casual lecturer had training and work experience equivalent to a master’s degree and thus met the minimum qualification. Internal Audit requested but was not provided with documentation supporting this determination.

**B** - Travel expenses primarily consist of the cost of excursions (bus transportation, cost of admission, etc.) for all students as well as travel (airfare, hotel, per diem, etc.) for one employee. For the employee’s travel expenses, Internal Audit reviewed approved travel request and completion forms, noting compliance with AP 8.851, *Employee Out-of-State and Intra-State Travel*. Excursions included the Bishop Museum, the Mokauea Fishermen’s Association, Ko‘ihonua, and Dynamic Community Solutions. Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of these expenses noting compliance with University purchasing/disbursement policies. Internal Audit was informed that travel expenses (airfare, hotel, per diem, etc.) for West Hawai‘i students traveling to O‘ahu to participate in the ‘A‘ali‘i Scholars Program were paid by other external non-KS funded grants not managed by UHWO.

**C** - Equipment and supplies expenses include food, operational and other supplies. Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of equipment and supplies expenses noting compliance with University policy (including campus senior management approval for all food related purchases as mandated by Administrative Policy (AP) 8.265, *Specialized Purchasing*).

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**D** - General and administrative expenses are related to indirect costs (overhead costs for back office administration, utilities, etc.) charged to the program as stated in the MOA not to exceed 10% of the KS contribution amount. Internal Audit recalculated 10% of the contribution amount for each funding period and noted that actual indirect costs charged did not exceed the maximum amount.

**E** - Direct support to students covered tuition for students enrolled in two 3-credit summer classes (Anthropology 152 and Art 101) at UHWO. The cost of each class was \$6,000. Internal Audit reviewed the list of students, invoice and MOA noting that 23 students enrolled in both summer classes. According to the end of year report provided to KS, all 23 students passed each class with GPAs ranging between 3.5 and 4.0 while receiving three college credits per class.

Internal Audit noted that for the 2018-2019 funding period, program students were enrolled in two different 3-credit courses (Health 204 and Public Administration 100) similar to the 2017-2018 funding period. However, the cost for the courses during the 2018-2019 funding period charged to personnel expenses for instructor payroll. Thus, the cost for identical services was classified inconsistently between the funding periods.

Internal Audit noted that the six college credits earned by students during the 2019 funding period was one credit less than the seven college credits stated in the MOA. Internal Audit was informed by the PI that it was determined that offering six college credits was more reasonable as most courses are three credits. The PI stated that this change was discussed verbally with the KS Regional Director but no written documentation was maintained.

**F** - Contractual services expense was for an honorarium paid to a non-University guest speaker. See letter “H” related to Contractual services expense for ‘Ike Ola Pathways below for an enhanced description of honorariums.

**G** - Other expenses include printing, freight and delivery, and supplies provided to students during the program (water flasks, backpacks, etc.). Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of other expenses noting compliance with University purchasing/disbursement policies.

‘Ike Ola

The following financial information was derived from UHWO financial reports submitted to KS. The letters to the right of each category of expense correspond with the subsequent description of each expense and related testing.

		Funding period			Total
		Sept. 1, 2018 – Aug. 31, 2019	Sept. 1, 2017 – Aug. 31, 2018	July 1, 2016 – Aug. 31, 2017	
<b>Expense:</b>					
Personnel					
Salaries and wages		\$56,473	\$59,861	\$39,937	\$156,271
Benefits		10,233	9,339	728	20,300
Total personnel	<b>A</b>	66,706	69,200	40,665	176,571
Stipends and allowances	<b>B</b>	-	-	33,000	33,000

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Travel						
Student excursions		3,285	1,385	6,850	11,520	
Student bus passes		2,565	2,700	2,025	7,290	
Total travel	<b>C</b>	5,850	4,085	8,875	18,810	
Equipment and supplies	<b>D</b>	27,310	33,560	17,727	78,597	
General & administrative	<b>E</b>	10,519	10,892	15,057	36,468	
Rentals	<b>F</b>	-	-	3,756	3,756	
Training and training materials	<b>G</b>	-	-	31,500	31,500	
Contractual services <sup>1</sup>	<b>H</b>	600	1,400	-	2,000	
Other <sup>1</sup>	<b>I</b>	4,722	672	-	5,394	
Total		\$115,707	\$119,809	\$150,580	\$386,096	
Budget per MOA		\$120,000	\$120,000	\$249,654	\$489,654	
Under budget		\$ 4,293	\$ 191	\$ 99,074	\$103,558	

*1- For the funding period ended August 31, 2018, Internal Audit reclassified \$1,400 from Other to Contractual services as the amount was due to honorariums paid to guest speakers. This categorization of such expenditures is consistent with the funding period ended August 31, 2019.*

**A** - Personnel expenses include salaries, wages and benefits (if applicable) for regular (full-time), casual and student employees. Internal Audit noted that personnel for the funding periods in the above table were comprised of five regular, six casual and 16 student employees. For the funding period ended August 31, 2017, Internal Audit noted minimal employee benefit expenses as personnel were comprised of one casual and two student employees. For casual employees, the University is required to make payments for Medicare, unemployment and worker’s compensation, but not for medical, dental, retirement, vacation, etc. Students are paid hourly and do not receive any benefits. Internal Audit reviewed PNFs, timesheets and other documentation supporting a sample of personnel expenses, noting consistency with the observations described previously in the Personnel expenses section for the ‘A‘ali‘i Scholars Program. The UHWO HR Director stated that all regular and casual employees met all job qualifications and were hired in accordance with University policies and procedures.

**B** - Stipends and allowances relates to a \$1,500 stipend awarded to 22 students that successfully completed the ‘Ike Ola Summer Academy in 2017. Stipends were not awarded in the subsequent two funding periods.

**C** - Travel expenses consist of the cost of excursions (bus transportation, cost of admission, etc.) and bus passes for all students. Excursions included visiting the Salvation Army and Waianae Community Re-Development Corporation. Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of travel expenses noting compliance with University purchasing/disbursement policies.

**D** - Equipment and supplies expenses include food, operational and other supplies used for the program. Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of equipment and supplies expenses noting compliance with University purchasing/disbursement policies (including campus senior management approval for all food related purchases as mandated by AP 8.265).

**E** - General and administrative expenses are related to indirect costs charged to the program as stated in the MOA not to exceed 10% of the KS contribution amount. Internal Audit recalculated 10% of the contribution

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amount for each funding period and noted that actual indirect costs charged did not exceed the maximum amount.

**F** - Rentals expense is for the cost of students’ attendance at a final program wrap up event at Camp Palehua during the funding period ended August 31, 2017. Internal Audit was informed that during this event, students presented what they learned from the ‘Ike Ola program. Internal Audit reviewed the purchase order, invoice and other supporting documents noting compliance with University purchasing/disbursement policies.

**G** - Training and training materials expense relates to enrollment of eighteen students in the Nurse Aide Training Program at Leeward Community College (LCC). Internal Audit reviewed the invoice and noted charges for 18 students. However, according to the end of year report, only 16 students participated of which 15 received their Certified Nurse Aide (CNA) certificate. Internal Audit was informed that two of the students were “student mentors” available to assist students in developing skills unrelated to the course content, such as studying and time management. The two student mentors were employees of the KS Funded Program and did receive a CNA certificate upon completion of the Nurse Aide Training Program. Given these student mentors were employees rather than students of the KS Funded Program, Internal Audit believes the cost of the student mentors to attend the Nurse Aide Training Program should not have been paid by the KS Funded Program. If student mentors are deemed necessary to carry out the KS Funded Program, such student mentors should operate outside of any courses such that the KS Funded Program is not charged for their participation.

**H** - Contractual services expenses are for honorariums paid to guest speakers not employed by the University. Internal Audit reviewed all honorariums and noted that all guest speakers were determined to be treated as non-employees. For such payments, the Internal Revenue Service (IRS) requires IRS Form 1099-Misc to be provided to the recipient only if the annual aggregate amount is greater than \$600. Internal Audit noted that the annual amount paid by the KS Funded Program to individual guest speakers did not exceed \$600.

**I** - Other expenses include printing, freight and delivery, and supplies used by students during the program (water flasks, backpacks, etc.). Internal Audit reviewed purchase orders, invoices and related KFS approvals for a sample of other expenses noting compliance with University purchasing/disbursement policies.

**Conclusions:**

Internal Audit noted four payroll forms related to overload employees not approved in a timely manner (i.e., prior to the start of the appointment period), a lack of documentation supporting the derivation of flat-rate compensation for overload employees and the lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum requirements for the position. Internal Audit believes that, in aggregate, these issues indicate a deficiency in the hiring process that may result in the hiring of unqualified candidates, compensation amounts not commensurate with extent of job requirements, etc.

Additionally, Internal Audit noted inconsistencies in charges assessed for courses provided to KS Funded Program students. In one instance, charges were assessed by UHWO on a per-credit basis (\$2,000/credit) for the courses and classified in “direct support to students” in the financial reports submitted to KS while in all other instances charges were assessed for instructor payroll and classified in personnel expenses in the financial reports submitted to KS.

**D. KS correspondence**

Internal Audit performed the following to discuss and verify various issues and matters described in this report. Discussions and correspondence with the KS Regional Director include:

1. Confirmation letter

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Internal Audit requested that KS confirm the submission by UHWO of required KS Funded Program reports and return of unspent contributions. The KS Regional Director provided a letter dated February 6, 2020 confirming that MOA required deliverables (program evaluations, financial reports, student data and return of unspent contributions) were submitted and prepared in an acceptable manner.

2. Videoconference

Internal Audit conducted a videoconference with the KS Regional Director and UHWO KS Funded Program personnel to discuss various matters, including but not limited to the following:

a) Preparation of the aforementioned confirmation letter

The confirmation letter was prepared by the KS Regional Director and reviewed by various KS personnel, including the Community Investing Central Office (CICO), legal personnel, and personnel responsible for monitoring the KS Funded Programs.

b) MOA preparation

The MOA standard terms are written by KS legal personnel, while terms specific to the KS Funded Programs (required reporting, goals/objectives, etc.) are developed by the respective KS Regional Director’s staff.

c) Compliance monitoring

On a quarterly basis, the CICO monitors KS Funded Program progress including a review of required reports (mid-year/end of year budget to actual expense reports, student data reports, etc.). Any concerns are communicated to the KS Regional Director. The KS Regional Director’s staff also reviews reports submitted and communicate any questions to UHWO KS Funded Program personnel for clarification.

d) Expense monitoring

The KS Regional Director’s staff reviews mid-year/end of year budget to actual expense reports submitted by each KS Funded Program to identify significant and/or unexpected variances, if any.

3. Additional correspondence and discussions with the KS Regional Director

At the closing of the videoconference discussed above, the KS Regional Director stated that a memorandum could be provided to Internal Audit to address questions that were not answered during the videoconference as well as any other questions. Accordingly, Internal Audit submitted a list of questions to which the KS Regional Director provided a memorandum responding to Internal Audit’s questions, including responses to the following observations previously presented in this report:

a) Untimely report submissions

The memorandum noted that no formal approvals or authorizations were provided to UHWO but that KS does accept late report submissions. Discussions with the KS Regional Director noted that KS was aware of but did not deem the late submissions to be problematic due to the attainment of KS Funded Program objectives. KS also noted that UHWO has improved in the timeliness, completeness and thoroughness of reporting over the course of the KS Funded Programs. (See section *IV.B.1. Submission of required reports*)

b) Measurement criteria that are not applicable to the majority of KS Funded Program students

The memorandum noted that these measurement criteria were discussed with UHWO and it was determined that no amendment would be made to existing MOAs and instead incorporate changes to the measurement criteria into future MOAs. (See section *IV.B.2.b) Non-applicable goals*)



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- c) Inclusion of West O‘ahu students in the ‘A‘ali‘i Program  
The memorandum confirmed the discussion with UHWO KS Funded Program personnel regarding inclusion of students from West O‘ahu given the lack of student participants from West Hawai‘i. However, this revision of student participants was not subject to any written approval or authorization. (See section *IV.B.1. Submission of required reports*)
- d) Prospective funding  
The memorandum noted that both KS Funded Programs continued to be funded during the 2020 fiscal year as a result of the overall performance of the KS Funded Programs.
- e) Other non-compliance  
The memorandum noted that KS records document no instance of MOA non-compliance. Discussions with the KS Regional Director confirmed no instances of non-compliance but that KS was aware of the late report submissions.

## **V. Overall Conclusions**

### **University policy and/or UHWO KS Funded Program processes and procedures**

Internal Audit noted the following issues and/or noncompliance with University policy and/or UHWO KS Funded Program processes and procedures:

- payroll forms not approved prior to the employee’s first day of work
- no documentation supporting the derivation and appropriateness of flat-rate compensation amounts
- inconsistent expense classification of identical course charges between different funding periods
- lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum qualifications for the position.

### **KS Funded Program compliance**

Internal Audit noted instances of noncompliance with MOA terms and conditions. However, in both written and verbal correspondence, KS personnel indicated that KS is satisfied with the KS Funded Programs on an overall basis due to the attainment of KS Funded Program objectives. In addition, KS has continued to fund the A‘ali‘i Scholars Program and Ike Ola Program subsequent to the funding periods under audit (for the fiscal year ended June 30, 2020).




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WEST O'AHU


Office of the Chancellor

Tuesday, May 25, 2020

TO: Michael McEnerney  
Chair, Board of Regents Independent Audit

VIA: David Lassner  
President

VIA: Kalbert Young   
Vice President for Budget and Finance/Chief Financial Officer

FROM: Maenette Benham   
Chancellor

SUBJECT: Response to the May 2020 Office of Internal Audit's Review of Certain  
Kamehameha Schools Funded Programs at the University of Hawai'i West O'ahu

The following memo consists of responses to the Overall Conclusions included in the Office of Internal Audit's Review of Certain Kamehameha Schools Funded Programs at the University of Hawai'i West O'ahu (UH West O'ahu or UHWO).

**From Internal Audit Report:**

**V. Overall Conclusions**

University policy and/or UHWO KS Funded Program processes and procedures

Internal Audit noted the following issues and/or noncompliance with University policy and/or UHWO KS Funded Program processes and procedures:

- payroll forms not approved prior to the employee's first day of work
- no documentation supporting the derivation and appropriateness of flat-rate compensation amounts
- inconsistent expense classification of identical course charges between different funding periods
- lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum qualifications for the position.

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Kapolei, Hawaii 96707  
Telephone: (808) 689-2770  
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**From Internal Audit Report:**

**First Bullet: payroll forms not approved prior to the employee's first day of work.**

**Response:**

As background, in summer 2018, the grant offered summer learning experiences taught by UHWO faculty where personnel documents were processed late. The primary reason for the delay in processing was due to a lack of coordination between the Project Director's request for faculty appointments with the approved Summer Session course schedule. This had been exacerbated by a lack of communication between the Project Director, the Office of the Vice Chancellor for Academic Affairs (OVCAA), Human Resources (HR), the faculty member, and Division Chair. At the time, it was unclear "who" (the PI of this grant or the staff of OVCAA) appointed the faculty instructor (i.e., generated personnel forms) and "who" had purview to assure that faculty summer appointments complied with collective bargaining agreement requirements. Additionally, faculty compensation during summer months must comply with University of Hawai'i Professional Assembly (UHPA) Collective Bargaining Agreement (CBA).

This issue came to the attention of the Chancellor's office in September of 2018, which began an internal investigation that resulted in procedural changes instituted in preparation for summer 2019.

**Corrective Action:**

The process for summer instructional faculty appointments on grants now complies with our campus process. In brief, all Principal Investigators (PI)/Project Directors (PD) are oriented to the process and work closely with the OVCAA and HR. The process, in summary is as follows:

- PIs/PDs make request to the OVCAA for summer course instructors.
- Division Chairs determine teaching load observing compliance with the UHPA CBA.
- Appropriate forms are executed and routed through the OVCAA.
- Summer instruction forms, if approved by the OVCAA, is routed back to the PI/PD for approval and then to the appropriate campus Vice Chancellor.

**From Internal Audit Report:**

**Second Bullet: no documentation supporting the derivation and appropriateness of flat-rate compensation amounts**

**Response:**

The initial documentation provided to the auditors for the flat-rate compensation amounts supported the UHWO's approval process of overload compensation. However, the initial set of documentation provided to the internal auditors did not provide descriptive information related to the specific duties required for curriculum development funded by the KS grants. In additional documentation submitted to the auditors, UHWO and the faculty members provided a complete explanation of the duties, responsibilities and a copy of deliverables that were prepared to earn the flat-rate compensation amounts.

Corrective Action:

Written documentation of specific duties, deliverables, and time requirements to support the determination of flat-rate compensation is currently required and is maintained in the faculty/staff personnel record.

**From Internal Audit Report:**

**Third Bullet: inconsistent expense classification of identical course charges between different funding periods**

Response and Corrective Action:

Management agrees that the handling of expense classification for similar services should be consistently applied. For all grant funded credit-bearing courses provided under an executed Early College Memorandum of Agreement (MOA), which allows courses to be provided at a rate of \$2,000/credit, the expense will be classified as “direct support to students.”

**From Internal Audit Report:**

**Fourth Bullet: lack of documentation supporting the hiring of a casual lecturer that did not meet the minimum qualifications for the position.**

Response and Corrective Action:

Management agrees that documentation supporting any “equivalencies” used for hires to meet position minimum qualifications should be maintained. As background, lecturer positions generally require a Master’s Degree at minimum or equivalent training and experience. In this situation, the selectee is a Registered Nurse with a Bachelor of Science in Nursing (BSN) and 8 years of experience. She had been employed at Hawai‘i Pacific University leading the clinical training for students seeking a nursing degree and held a lecturer position at the UH Kapi‘olani Community College (KCC) Nursing program. Her experience (and appointment at KCC) substantiated her ability to teach an Introduction to Healthcare Fields course.

Currently, a majority of job postings allow for “equivalencies.” Additionally, HR will review and approve all documented equivalencies used to meet minimum qualifications for hires. Documentation is maintained in the employee’s personnel file.

**From Internal Audit Report:**

**KS Funded Program compliance**

Internal Audit noted instances of noncompliance with MOA terms and conditions. However, in both written and verbal correspondence, KS personnel indicated that KS is satisfied with the KS Funded Programs on an overall basis due to the attainment of KS Funded Program objectives. In addition, KS has continued to fund the A‘ali‘i Scholars Program and Ike Ola Program subsequent to the funding periods under audit (for the fiscal year ended June 30, 2020).

Response and Corrective Action:

After a meeting with the Office of Research Services (ORS), a clear process for non-Federal grants has been instituted for all actions that include requesting:

- substantive changes to the scope of work , that is the goals/objectives of the effort is significant enough that it implicates the interventions, the outcomes/deliverables, and/or the budget,
- a no-cost extension, and/or
- extensions to due dates for reports, return of funds, other deliverables.

Steps require the PI/PD to:

- Work with the Program Officer to define the change(s) that need to be made.
- Write a memo that clearly defines the change(s), dates, financial implications, and requests that ORS document receipt of the memo, send memo to the funder for their approval, and upon receipt of the approval make note of changes, including affected due dates on the MOA.

**UNIVERSITY OF HAWAI‘I**

**CASH RECEIPTS PROCESS**

**Status of Corrective Action**

March 2020

DRAFT



University of Hawai'i  
Office of Internal Audit

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March 9, 2020

To the University of Hawai'i Board of Regents  
and

University of Hawai'i Vice President for Budget and Finance / Chief Financial Officer (CFO)

The purpose of this report is to evaluate the status of corrective actions to address improvement opportunities and mitigate risks documented in the Office of Internal Audit's (Internal Audit) report titled "The University of Hawai'i Review of the Cash Receipts Process" (report dated March 29, 2019).

This report reviewed historical University of Hawai'i (University) financial records and the related processes and controls in addition to evaluating financial, operational and compliance risks and opportunities related to cash receipts. As a result of our review of the status of corrective actions related to recommendations identified in the prior report, Internal Audit noted that all corrective actions have been implemented. Enhancement considerations noted by Internal Audit during the audit include:

- implementing testing procedures as part of the annual review of cash collection location (CCL) Self-Assessment Questionnaires (SAQs) to gain additional comfort that the University's overall SAQ is complete and accurate
- enhancing Administrative Procedure (AP) 8.701, *Receipting and Depositing of Funds Received by the University*, to specify which financial reports should be reviewed by CCL and/or campus-level fiscal personnel on a monthly basis (i.e., budget to actual analysis, aging of unrecorded cash receipts, etc.)

Internal Audit believes adding these procedures will further mitigate risks relating to data security and misappropriation of cash.

Sincerely,

Glenn Shizumura  
Director

## I. BACKGROUND

### Overview

During the year ended June 30, 2019, the University of Hawai‘i (University) Office of Internal Audit (Internal Audit) issued an audit report titled “The University of Hawai‘i Review of the Cash Receipts Process” (report dated March 29, 2019 and issued in May 2019). From an audit and business perspective, cash is a highly liquid asset and thus has a high risk of misappropriation. In addition, almost all business transactions are ultimately settled in cash. Thus, Internal Audit evaluated the University’s cash receipts process and compliance with AP 8.701, *Receipting and Depositing of Funds Received by the University*, for certain University Cash Collection Locations (CCLs). Additionally, Internal Audit reviewed the Treasury Office’s process to assess the University’s compliance with the Payment Card Industry’s (PCI) Data Security Standard (DSS). Internal Audit’s report dated March 29, 2019 identified opportunities for improvement, including the following:

#### PCI DSS:

- Develop a robust and comprehensive PCI DSS process supplemented with written policies and procedures to mitigate the risk of a cardholder data breach. The process should include procedures that ensure the accuracy and completeness of the CCL prepared Self-Assessment Questionnaires (SAQs) submitted to Treasury as well as the Treasury prepared SAQ submitted to Bank of Hawai‘i’s data security company contracted to provide PCI DSS compliance services (Security Metrics).
- Include in the PCI DSS policies training requirements and the roles and responsibilities of University personnel in ensuring PCI DSS compliance.

#### Cash Receipts:

- Revise AP 8.701 requiring the timely recordation of cash receipts, including notification of policy noncompliance to CCL senior management for repeated and persistent instances of noncompliance.
- AP 8.701 should include a requirement for the preparation and review of monthly revenue and expense budget to actual schedules to monitor financial results by University department.

Both Internal Audit’s report and the Treasury Office response (dated April 22, 2019) were reviewed and approved by the Audit Committee on May 2, 2019.

### Corrective Action Status

The purpose of this report is to evaluate the corrective action status of Internal Audit’s recommendations. The report is organized as follows: 1) an overview of the auditee, 2) a condensed summary of observations and recommendations presented in Internal Audit’s originally issued report, 3) a condensed overview of management’s response, and 4) an evaluation of the status of corrective action.

Commencing in January 2020 and throughout the course of the audit, Internal Audit met with relevant personnel at the Treasury Office (Treasury) and Information Technology Services (ITS) to determine the implementation status of Internal Audit’s recommendations. For purposes of assessing implementation status, Internal Audit examined relevant financial schedules, policies and procedures and contracts.



## II. CASH RECEIPTS

### PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS

#### Overview of PCI DSS

In 2004, the Payment Card Industry’s (PCI) Data Security Standard (DSS) was developed by the major credit card companies consisting of American Express, Discover Financial Services (Discover), JCB International (JCB), MasterCard Worldwide (MasterCard) and Visa Inc. (Visa). PCI DSS is a set of security standards designed to ensure that organizations accepting, processing, storing and/or transmitting credit card information maintain a secure environment. During 2006, these major credit card companies formed the Payment Card Industry Security Standards Council (PCI SSC) to oversee the further development, enhancement and dissemination of PCI DSS. Pursuant to the Treasury Office’s functional statement, the Treasury Office is responsible for managing University compliance with PCI DSS. Three University policies, AP 8.710, *Credit Card Program*, Executive Policy (EP) 2.214, *Institutional Data Classification Categories and Information Security Guidelines*, and EP 2.215, *Institutional Data Governance*, address compliance with PCI DSS.

Noncompliance with PCI DSS may result in contractual penalties, sanctions from members of the payment card industry and potential costs to the University including the following:

- Notification and response to cardholders who may have had their data stolen
- Loss of reputation and trust
- Enrollment decrease
- Fraud losses
- Higher subsequent cost of compliance
- Legal, investigative, administrative, settlement and judgment costs
- Fines and penalties
- Termination of ability to accept certain payment cards
- Additional expenses related to customer support such as information hotlines and credit monitoring

Bank of Hawai‘i (BOH) provides authorization, processing, settlement and reporting of credit/debit card transaction services to the University pursuant to a three-year agreement commencing on August 1, 2018 and expiring on July 31, 2021 (may be renewed for an additional two years). The agreement requires BOH to provide the University with vulnerability scanning services as required by PCI DSS at no cost to the University in addition to PCI DSS compliance training. Security Metrics has been engaged by BOH to provide the vulnerability scanning services. Security Metrics is an Approved Scanning Vendor (ASV) that performs quarterly external vulnerability scans of the University’s (including CCLs) network and/or website from the outside looking inward using data security tools to determine compliance with PCI DSS.

PCI SSC requires each merchant that processes credit/debit cards to prepare a PCI Self-Assessment Questionnaire (SAQ). The Treasury Officer informed Internal Audit that the University is considered a merchant for this purpose. In accordance with the University’s credit card agreement with BOH, the Treasury Office is responsible for preparing a University wide SAQ. Internal Audit was informed that the Treasury Officer prepares and submits the required SAQ to Security Metrics every January based on SAQs prepared and submitted by each CCL.

#### **A. Establishing Comprehensive PCI DSS Policies**

##### Prior Internal Audit Observation and Recommendation:

The University must enhance its policies to mitigate the risk of PCI DSS noncompliance. Current PCI DSS policies lack specificity regarding the PCI DSS requirements and are interspersed throughout various

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University policies. Accordingly, the University may be exposed to an increased risk of noncompliance and the accompanying results previously noted (loss of reputation and trust, enrollment decrease, fraud losses, fines and penalties, termination of ability to accept certain payment cards, etc.). The University must develop robust, comprehensive and easily understood PCI DSS policies to mitigate the risk of a cardholder data breach. The policies should include training requirements (applicable personnel, content, frequency, etc.) and roles and responsibilities of UH personnel in ensuring PCI DSS compliance.

Management Response (April 2019):

The Treasury Office concurs that the University’s PCI DSS process should be reviewed to identify opportunities to broaden and strengthen the University’s PCI DSS process to ensure PCI DSS compliance among the merchant departments. The Treasury Office has already begun the process to review and evaluate current policies and procedures and will expand efforts to:

1. Develop a comprehensive PCI DSS requirements document to assist merchant staff.
2. Plan for additional training sessions for University merchant staff, including evaluating the feasibility of utilizing external training resources, to strengthen the knowledge of PCI DSS by applicable University merchant department staff.
3. Work in collaboration with ITS to organize training and develop a comprehensive PCI DSS requirements document to facilitate and improve the quality, completeness and accuracy of the SAQs submitted by merchant departments.
4. Identify process and method to test and validate merchant responses to SAQ filings.
5. Coordinate the review of the University’s overall annual SAQ filing with ITS and applicable FMO staff prior to submission to Security Metrics/BOH.

Additionally, the Treasury Office will work with ITS to determine policies and procedures already in place within existing University information technology (IT) policies that should be incorporated into the University’s PCI DSS requirements document.

Status

Internal Audit noted the following (numbering of paragraphs corresponds with the above list of corrective actions):

1. AP 8.710 was revised (effective January 2020) to incorporate roles and responsibilities and requirements related to compliance with PCI DSS (Section F. University PCI DSS Compliance Process). Additionally, three PCI DSS related appendices were added as follows:
  - Appendix A: UH PCI Technical Guidelines - provides principles and guidelines for CCLs accepting credit cards as a form of payment to ensure compliance with all twelve PCI DSS requirements and prepare annual SAQs.
  - Appendix B: Credit Card Program-Participation and Change Request Form - form required to establish a new merchant account, including information on the systems and devices that will be used to process credit cards, whether payment card information will be stored, and a certification that the responsible personnel understand the requirements to participate in the University’s credit card program as stated in AP 8.710.
  - Appendix C: UH PCI Incident Response Plan Guidelines - states the guidelines for each CCL to develop its incident response plan including the following phases: 1) Preparation; 2) Detection and Analysis; 3) Containment, Eradication, and Recovery; 4) Post-Incident Activity.
- 2-3. The revised AP 8.710 states that the Treasury Office is responsible for coordinating PCI DSS training with assistance from ITS. PCI DSS training conducted during 2019 consisted of the following:

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- July 2019: general PCI DSS training for CCL personnel to provide an overview of the requirements of PCI DSS, the roles and responsibilities of various personnel at the University (Treasury, ITS, CCL personnel, etc.) and the required reporting (i.e., SAQs).
- August 2019: BOH presented to CCL personnel regarding the requirements for completing the annual SAQs and provide advice and tools for responding to each section of questions.
- September 2019: town hall meeting conducted by the Treasury Officer and Chief Information Security Officer (CISO) to provide specific PCI DSS training for Treasury and CCL personnel. The focus of the training was to provide technical guidance in completing the annual SAQs.

Attendees for each of the above training sessions generally included Treasury personnel and CCL Fiscal Administrators (FA), Merchant Account Contacts (defined by AP 8.710 as a regular full-time employee designated by the Dean/Director or Department Head as the individual responsible for coordinating compliance with PCI DSS. Internal Audit was informed that the Merchant Account Contact may be the FA or other supervisory personnel with management and monitoring responsibilities over the cash receipts process for their CCL) and IT staff. Internal Audit was informed that Treasury personnel currently do not validate that all personnel responsible for processing payment cards attended training. Prospectively, Treasury plans to implement a procedure requiring the main contact at each CCL to complete a form stating which personnel attended each training session, including webinars. In addition, all CCL personnel responsible for processing payment cards will be required to attend PCI DSS training relevant to their job function.

4. As noted above, the CISO collaborated with Treasury to organize PCI DSS training including guidelines for completing annual SAQs. In addition, Appendix A to AP 8.710 provides technical guidelines and principles to assist CCLs in the accurate completion and submission of the annual SAQ.

Furthermore, Internal Audit was informed by the Treasury Officer that all 2019 CCL SAQs have been received and reviewed. The Treasury Officer stated that the SAQ review process includes reading each SAQ and identifying missing information or inconsistencies by completing a checklist, but does not include any testing of responses. Internal Audit reviewed a sample of completed checklists and noted that for any items listed as missing or inconsistent the Treasury Officer corresponded with personnel at the CCL for resolution. Internal Audit was informed that in collaboration with ITS, Treasury personnel plan to implement procedures to perform validation of 2020 SAQ responses.

5. Internal Audit noted that the University’s overall 2019 SAQ was submitted to BOH in January of 2020. Internal Audit noted that the Treasury Officer provided the SAQ to the CISO and Controller for review. The Treasury Officer informed Internal Audit that verbal approval was provided by the CISO prior to submission.

Finally, Internal Audit noted that the University contracted a Qualified Security Assessor (QSA) on January 7, 2020. The Statement of Work notes the QSA will provide external and internal PCI penetration tests and provide a report on the resulting findings, which will include remediation recommendations, if any.

Conclusion

Corrective actions implemented. The Treasury Officer should consider implementing testing procedures as part of the annual review of CCL SAQs to gain additional comfort that the University’s overall SAQ is complete and accurate. Additionally, Treasury should continue to collaborate with ITS to conduct annual PCI DSS training.

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**B. BOH Agreement Compliance**

Prior Internal Audit Observation and Recommendation:

Internal Audit believes that the University and BOH may not be complying with certain terms and conditions of the BOH credit card agreement. The University must evaluate this agreement and implement corrective action for any identified noncompliance matters. Consultation and collaboration with BOH to ensure compliance by both entities may be necessary.

Management Response (April 2019):

On April 17, 2019, BOH provided an extract from the Attestation of Compliance for Onsite Assessments – Service Providers for First Data Merchant Services, the processor for BOH. In addition, the Treasury Officer believes that the University and BOH are complying with the terms and conditions of the credit card agreement with BOH, however, will consult and collaborate with BOH to review terms and conditions for confirmation.

Status

Internal Audit noted that BOH provided written confirmation that the University and BOH are complying with the terms and conditions of the credit card agreement.

Conclusion

Corrective action implemented.

**C. Payment Card Network Vulnerabilities**

Prior Internal Audit Observation and Recommendation:

Internal Audit noted that the April 2018 and February 2019 quarterly network scans performed by Security Metrics identified a number of vulnerabilities, including one deemed to be a “Fail” in terms of PCI DSS compliance and two that recurred from one scan to the next. Internal Audit was informed that the detected vulnerabilities were not communicated to the respective CCLs as these CCLs obtained an overall “Pass” rating. Accordingly, no additional work is performed on detected vulnerabilities unless a “Fail” rating is assigned to a CCL. Internal Audit believes the Treasury Office should communicate all detected vulnerabilities to the respective CCL to minimize the risk of a breach of cardholder information.

The Treasury Office should also consult with BOH and/or Security Metrics regarding the applicability of Visa’s Attestation of Compliance (AOC) requirement. If deemed not applicable, obtain written correspondence signed by appropriate BOH and/or Security Metrics personnel. If deemed applicable, prepare and submit the required AOC.

Management Response (April 2019):

The Treasury Office concurs that all detected vulnerabilities identified in the Security Metrics external scanning should be communicated to the applicable merchant IT staff for review and resolution. Beginning in April 2019, the Treasury Office began routing a copy of the quarterly scan report that detected any vulnerability to the merchant IT staff, even if the scan received an overall passing score.

The Treasury Office has consulted with BOH regarding the Visa requirement for AOC and BOH provided the following response:

*Bank of Hawai‘i produces PCI DSS Compliance reporting to the card brands for our entire merchant portfolio. UH is included in these reports and there is no other independent PCI Compliance reporting requirement UH must complete or provide to the card brands. Bank of Hawai‘i can provide redacted copies of these reports on request.*

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*Is it the acquirer’s (Bank of Hawai‘i) responsibility to report the status of compliance for all merchants within its portfolio.*

The Treasury Office will seek to obtain signed documentation from BOH regarding the above response.

Status

The Treasury Officer informed Internal Audit that Treasury now forwards any Security Metrics quarterly scan reports that contain vulnerabilities to the respective main contact (IT Contact and Merchant Account Contact) at each CCL for review and resolution regardless of whether the overall scan report stated a passing score. Internal Audit reviewed the Security Metrics scan report as of February 9, 2020 and reviewed evidence that all CCLs with identified vulnerabilities were provided with a copy of the report for review and resolution. Internal Audit was informed that the Treasury Officer also collaborates with CCL IT staff and Security Metrics to determine which detected vulnerabilities require resolution.

Additionally, Internal Audit noted that BOH provided a signed confirmation that the University is not required to submit any information to Visa or the other card brands in order to comply with their respective PCI DSS requirements.

Conclusion

Corrective action implemented.

**CASH RECEIPTS PROCESS**

**Overview of the Cash Receipts Process**

Each University campus has various cash collection locations (business office, school, department, dining center, etc.) that are responsible for the collection and depositing of cash. For purposes of this report, Cash is defined as United States currency, checks, money orders, electronic funds transfers, negotiable instruments and credit/debit card transactions. Sources of Cash include tuition and fees, housing and meals, parking, graduate school application fees, athletic event tickets, etc. The modes of collecting Cash include on premise (e.g., Cash collected in person), through the mail, over the phone, or electronically (internet, wire transfers, etc.). Internal Audit was informed that the University’s Administrative Policy (AP) 8.701, *Receipting and Depositing of Funds Received by the University*, is the primary policy regarding the University’s Cash receipts process.

**D. Improving Timeliness of Recordation of Cash Receipts**

Prior Internal Audit Observation and Recommendation:

Internal Audit noted instances of policy noncompliance with the most frequent exception relating to the untimely recordation of Cash receipts to KFS. The Treasury Office monitors and notifies CCLs via e-mail when untimely recordation of Cash receipts is detected. Despite the notifications, Internal Audit was informed that untimely recordation of Cash receipts continues to occur throughout the University. Management should consider drafting revisions to AP 8.701 enforcing the timely recordation of Cash receipts, including notification of policy noncompliance to CCL senior management for repeated and persistent instances of noncompliance.

Management Response (April 2019):

The Treasury Office is in the process of revising AP 8.701 to include a role and responsibility of department heads (includes Administrative Services Managers, Deans, Directors, Associate Vice Chancellors, Vice Chancellors, Associate Vice Presidents and Vice Presidents) to assist in resolving issues of noncompliance by department staff with policies and procedures outlined in AP 8.701.

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**Cash Receipts Process Follow-Up**  
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Status

Internal Audit reviewed the revised AP 8.701 (effective May 2019) and noted the following revisions related to the timely recordation of Cash receipts in KFS:

- The addition of “Department Heads” under section III.A. Roles and Responsibilities, requiring Department Heads to “Assist in resolving any issues of noncompliance by department staff with procedures outlined [in this policy].”
- Section III.C.4. Recording states the following:
  - Cash receipts are preferably entered in KFS on the same day of the deposit, however, no later than three working days from the date of deposit.
  - The FA (or delegate) shall approve and finalize the entry as soon as possible, however, no later than three working days from the date of submission.
  - Efforts should be made to record and finalize all of the month’s deposits by month-end.

The Treasury Officer informed Internal Audit that CCLs have improved their timeliness of Cash receipts recordation subsequent to the prior audit. Internal Audit reviewed Treasury’s monthly analysis of Cash receipts recordation as of September 30, 2019 and December 31, 2019 and noted a listing of all cash receipts deemed to be noncompliant with the timely recordation policy including the number of days delinquent. Treasury provided a comparison of noncompliant cash receipts from September 2017 to September 2019 and from December 2017 and December 2019, as follows:

	<b>Number of bank deposits - unrecorded at month end exceeding AP 8.701 requirements</b>		
	<b>Cash/check</b>	<b>Credit Card</b>	<b>EFT</b>
September 2019	11	114	45
September 2017	59	256	131
Decrease	(48)	(142)	(86)
December 2019	45	123	48
December 2017	51	136	347
Net	(6)	(13)	(299)

Additionally, Internal Audit reviewed samples of Treasury correspondence with those CCLs with noncompliant Cash receipts, noting an emphasis placed by Treasury on the importance of timely recordation of Cash receipts. Internal Audit was informed that if, upon receiving the notifications from Treasury, the CCL personnel make an effort to resolve the unrecorded Cash receipts, then Treasury does not further escalate the issue. However, for CCLs with recurring noncompliance or lack of resolution of unrecorded Cash receipts, Treasury escalates to the Department Head. Escalation has only been necessary for one CCL (the University Bookstore system) since January 2019. Internal Audit reviewed Treasury correspondence with the CCL requiring escalation, noting the involvement of the Department Head to investigate and resolve the issue.

Conclusion

Corrective action implemented.

**E. Monitoring of Financial Results**

Prior Internal Audit Observation and Recommendation:

Internal Audit believes periodic and consistent monitoring of financial results is a significant control from both an operational and financial standpoint. Monitoring periodic financial results allows management to analyze financial performance and trends to assist management decision making. Of the 12 CCL’s reviewed, Internal Audit noted that only UHM Athletics, Bookstores, LCC and HELP are performing this

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control. Management should consider revising AP 8.701 requiring the periodic preparation and review of monthly revenue and expense budget to actual schedules to monitor financial results by University department. CCL senior management review of budget to actual comparisons may assist in the detection of the untimely recordation of Cash receipts in addition to providing management with a tool to analyze financial performance and trends to assist decision making.

Management Response (April 2019):

The Treasury Office is in the process of revising AP 8.701 to include a role and responsibility of department heads (includes Administrative Services Managers, Deans, Directors, Associate Vice Chancellors, Vice Chancellors, Associate Vice Presidents and Vice Presidents) to assist in resolving issues of noncompliance by department staff with policies and procedures outlined in AP 8.701. AP 8.701 also includes a reconciliation procedure to review deposit variances relative to budgeted amounts to identify any receipt issues that may need further investigation.

Status

Internal Audit reviewed AP 8.701 and noted that section III.C.5. Reconciling states:

- Deposits posted each month should be reconciled to KFS in order to identify any variances that may require further investigation.
- Financial reports should be reviewed on a monthly basis to ensure that all Cash receipts are properly credited to the correct accounts.

Internal Audit was informed that Treasury personnel do not monitor compliance with the above AP 8.701 requirements and rely on personnel at each CCL’s business office to monitor compliance.

Conclusion

Corrective action implemented. However, the Treasury Office should consider enhancing AP 8.701 to specify which financial reports should be reviewed by CCL and/or campus-level fiscal personnel on a monthly basis (i.e., budget to actual analysis, aging of unrecorded cash receipts, etc.).

**UNIVERSITY OF HAWAI‘I AT MĀNOA**

**STUDENT FEES FOR  
PROFESSIONAL PROGRAMS**

**Status of Corrective Action**

April 2020

DRAFT



University of Hawai'i  
Office of Internal Audit

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April 8, 2020

To the University of Hawai'i Board of Regents  
and  
University of Hawai'i at Mānoa Provost

In connection with the October 4, 2018 meeting of the University of Hawai'i Board of Regents' Committee on Independent Audit (Audit Committee), the Audit Committee reviewed and accepted an Office of Internal Audit (Internal Audit) report titled "Review of Student Fees for Professional Programs" and dated May 31, 2018 that evaluated the establishment, administration, monitoring and utilization of professional fees (Fees) assessed at the University of Hawai'i at Mānoa (UHM). The Audit Committee also reviewed and accepted the corrective action plan dated August 22, 2018. The purpose of this report is to evaluate UHM's written representations regarding the status of their corrective action plan to address improvement opportunities and mitigate risks documented in the Internal Audit report.

### Background

University of Hawai'i (University) policy permits professional programs that have high costs in comparison to other instructional programs with the same tuition to assess Fees to students enrolled in the respective professional program. The establishment of and adjustments to these Fees require approval by the Board of Regents. At UHM, the following professional programs charge Fees ranging from \$500 - \$1,000 per semester.

1. College of Engineering (Engineering)
2. School of Nursing (Nursing) and Dental Hygiene (Dental Hygiene)
3. Shidler College of Business (Business)
4. School of Architecture (Architecture)

### Procedures performed

In December 2019 and January 2020, Internal Audit discussed the status of corrective actions with UHM OVCAA personnel and the UHM Interim Vice Chancellor for Administration, Finance, and Operations (VCAFO). It was agreed that the UHM VCAFO would contact and gather information from the respective professional programs to prepare a written update to the August 22, 2018 corrective action plan. It was also agreed that Internal Audit would perform audit procedures deemed necessary to evaluate and corroborate the written update.

The UHM VCAFO prepared the accompanying Attachment with the current corrective action statuses highlighted in yellow. Internal Audit met with the Deans and other senior personnel at each of the professional programs and examined relevant documents supporting and corroborating the represented corrective action statuses.

### Conclusion

Internal Audit concludes that the accompanying Attachment accurately describes the current status of the corrective action plan. All corrective actions have been implemented except for Architecture's inclusion of Fee information on their website which is expected to be included in May 2020.

Sincerely,

Glenn Shizumura  
Director



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MĀNOA

Office of the Vice Chancellor  
for Administration, Finance and Operations

April 8, 2020

**TO:** Glenn Shizumura  
Director, Office of Internal Audit

**VIA:** Michael Bruno *Michael Bruno*  
Provost

**FROM:** Sandy French *Sandy French*  
Interim Vice Chancellor for Administration, Finance, and Operations

Lori Ideta *Lori Ideta*  
Interim Vice Chancellor for Students

Laura Lyons *Laura Lyons*  
Interim Associate Vice Chancellor for Academic Affairs

**SUBJECT:** Response to May 2018 Office of Internal Audit Review of University of Hawai'i at Mānoa Student Fees for Professional Programs

The following are updated responses to the Internal Auditor's overall conclusions and recommendations in the May 2018 Review of UHM Student Fees for Professional Programs.

From Internal Audit Report:

**Overall Conclusions**

*Overall, Internal Audit determined that the establishment of Fees for Engineering, Nursing, Dental Hygiene and Architecture conformed to RP 6.203. Internal Audit's assessment was based on signed action memos submitted to the BOR and published BOR meeting minutes. Internal Audit was unable to corroborate if the Fee for Business was established in conformance with RP 6.203.*

*In connection with budgeting, tracking and monitoring expenses associated with Fees collected, Internal Audit noted varying levels of competencies by Program. Engineering prepares documentation to track and monitor expenses by KFS codes monthly while other Programs did not provide Internal Audit with any documentation supporting the tracking and monitoring of these expenses. Accordingly, Engineering is the only Program that discloses on their website the purpose of their professional fee in addition to providing a description of expenses incurred associated with professional fees.*

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*As previously noted, Internal Audit requested but was not provided documentation evidencing the approval by the CFAC [Campus Fee Advisory Committee] of changes to Fee amounts and it was unclear whether professional program senior management was aware of the requirement that the establishment and changes to student fees, including professional fees, must be submitted to the CFAC for review and consideration. Thus, the role of the CFAC in regards to professional fees should be clarified with all relevant stakeholders.*

Response:

Administration agrees that increased awareness of the Campus Fee Advisory Committee (CFAC) as part of the overall process to implement program fees is warranted. Administration notes that management has been elevating its efforts in this regards. The Office of the Vice Chancellor for Students (OVCS) and the Office of the Vice Chancellor for Academic Affairs (OVCAA) have collaboratively reviewed and processed all student fee requests delineated in RP 6.203. Management confirms auditor's note that Campus Fee Advisory Committee (CFAC) has reviewed many course and lab fee requests, application fee requests, and various other categories of fees, but no professional fee proposals have been approved through this process. As the audit report recommendations noted, this may be evidence that campus units were not aware of CFAC or the fee proposal process. The VCS and VCAA have already communicated to campus deans and directors the fee proposal process for future fee proposals.

Administration also notes that since 2014, OVCAA has implemented a more rigorous system of document tracking than had previously existed. This newer system maintains scanned copies of all official documents related to fee proposals from request through final approval, as well as a chronological narrative of the process. Hence, for all requests related to student fees beginning in 2014, OVCAA/OVCS can produce a complete record of the request process. This will ensure that for future requests, records can be accessed in an efficient and streamlined fashion. The internal auditor would have, and should have, been provided requested supporting documentation related to any fees if they were implemented subsequently to 2014.

Update: There have been no proposals to change student fees for professional programs since the audit response was submitted in August 2018.

From Internal Audit Report:

*In addition, Internal Audit's inquiries with Program management personnel determined that annual evaluations assessing the reasonableness of the Fee charged to students based on past and expected future expense levels are not performed because of the uncertainty in the respective Program's annual Fee allocation. Therefore, Internal Audit believes management of the UHM Office of Academic Affairs should consider allocating Fees in KFS under a separate account code for each Program.*

Response:

Management agrees with the recommendation to create separate account codes to better track and assign relevant expenses to associated fees (revenue). The current process employed by the UH-Manoa Budget Office allocates fee revenue based on the prior year’s collection of fee revenue. This method has developed to account for inherent year-to-year variability in fee revenue. In this regard, management will explore whether separating the tuition allocations and fee allocations within KFS will assist campus programs in budgeting and accounting for expenditures of professional fees.

Expected Completion Date: April 2019

**Update:** New Budget Plan IDs (BPIDs) for student professional fees were established in KFS in October 2018, and new accounts were established in November 2018.

From Internal Audit Report:

*Additionally, Internal Audit recommends the following for management consideration (applicable recommendations to each Program are marked with an “X”):*

Recommendations	UHM Professional Programs			
	Eng.	Nursing/ Dental	Bus.	Arch.
<b><u>1. Annual Fee review</u></b> Institute an annual review process to validate whether the Fee amount continues to be reasonable based on past and expected future expense levels.	X	X	X	X
<b><u>2. Fees and expense budgeting, tracking and monitoring</u></b>				
<b>a. Processes and procedures</b> Implement processes and procedures for budgeting, tracking and monitoring of Fees and the associated expenses.		X	X	X
<b>b. Enhancement considerations</b> <ul style="list-style-type: none"> <li>• Prepare budgets at a departmental level</li> <li>• Budget expenses by nature of expense (e.g., personnel, supplies, etc.)</li> <li>• Compare and analyze budget to actual expenses by nature of expense, department totals and Program totals</li> <li>• With respect to Engineering, prepare a budget for “Pre-Engineering” expenses</li> </ul>	X	X	X	X
<b><u>3. Fee transparency</u></b> Enhance transparency by disclosing the purpose of the Fee and the expenses incurred annually associated with the Fees on each Program’s respective website. (See Appendix A for an example by Engineering.)		X	X	X

Response:

1. Annual Fee review

The UHM Vice Chancellors agree with the recommendation to implement an annual evaluation of the reasonableness of professional fee amounts based on past and projected future expenses. OVCAFO will work with program fiscal personnel to establish a consistent procedure and timeline for annual review of professional fee amounts. Each of the programs reviewed by Internal Audit have independently concurred with the recommendation and committed to implementing an annual review process.

Expected Completion Date: April 2019

Update: Each of the four UHM professional programs have implemented an annual review of professional fee amounts. The review procedures and timelines followed vary due to differences in administrative processes for each program. The School of Nursing and Dental Hygiene has implanted a formal documented annual review process. The School of Architecture, College of Engineering, and Shidler College of Business have implemented verbal annual review processes that are not currently documented in writing concerning process or findings.

2. *Fees and expense budgeting, tracking and monitoring*

a. *Processes and procedures*

*Implement processes and procedures for budgeting, tracking and monitoring of Fees and the associated expenses.*

The UHM Vice Chancellors agree with the recommendation to implement processes and procedures for budgeting, tracking and monitoring fees and associated expenses. OVCAFO will develop consistent accounting infrastructure within KFS to support this effort campus wide. As noted in the report, the College of Engineering currently budgets, tracks, and monitors expenses associated with fees in accordance with the purposes documented in the Board action memo. The School of Architecture has prepared a system for tracking expenses associated with student fees in response to this review. The College of Business and the School of Nursing and Dental Hygiene have each independently committed to implementing this recommendation.

Expected Completion Date: January 2019

Update: As stated above, Budget Plan IDs and operating accounts have been established for each professional program to aid in budgeting and tracking fees and associated expenses. Each of the four UHM professional programs have implemented processes to monitor fees and expenses.

b. *Enhancement considerations*

- *Prepare budgets at a departmental level*

The UHM Vice Chancellors note that each professional program is structured differently, and the professional fees are intended to support different purposes for each program. OVCAFO will consult individually with the programs to determine the most appropriate level of budgeting for fees within each program.

Expected Completion Date: January 2019

Update: The professional fees for the Shidler College of Business and the School of Architecture were approved for college/school level purposes and therefore are being budgeted at the college/school level. The Shidler College of Business professional fee is used to support salaries that are budgeted and paid at the Dean's Office level. The School of Architecture professional fee is used to support computer graphics lab operations and therefore does not need to be budgeted at a lower level. The School of Nursing and Dental Hygiene and the College of Engineering budget their professional fees at the departmental level since the expenditures are made at the departmental level.

- *Budget expenses by nature of expense (e.g., personnel, supplies, etc.)*

The UHM Vice Chancellors and each of the professional programs agree with the recommendation to budget professional fee expenses by nature of expenses.

Expected Completion Date: January 2019

Update: Each of the professional programs budgets by nature of expense in their respective KFS Budget Plan Control Account using the following series of budget object codes:

- "B100" for Regular Employee Salary
- "B200" for Non-Regular Employee Payroll
- "B300" for Lecturer Payroll
- "B400" for Student Help Payroll
- "B500" for Other Personal Services
- "B600" for Other
- "B610" for Utilities & Communications
- "B620" for Scholarships, Tuition & Stipends
- "B700" for Equipment
- "B800" for Motor Vehicles

- *Compare and analyze budget to actual expenses by nature of expense, department totals and Program totals*

Each of the professional programs interviewed for this report has committed to implementing a process to compare and analyze budget to actual expenditures. OVCAFO notes that elsewhere in the report, Internal Audit recommended to each program that they prepare monthly comparisons of budgeted to actual expenses. Monthly review is valuable in tracking year-to-date expenditure totals. With regard to regular analysis of budget to actual expenses, OVCAFO will implement a requirement for quarterly analysis. This will align with the quarterly schedule of budget to actual reporting to the BOR.

Expected Completion Date: January 2019

Update: The College of Engineering has implemented a monthly review and analysis of budgeted to actual expenditures. The School of Nursing and Dental Hygiene has implemented a quarterly review and analysis of budgeted to actual expenditures. The Shidler College of Business is using the professional fee to pay for designated faculty salaries; since this type of expenditure is easily projected and reconciled, Shidler is following an annual schedule for review and analysis of budgeted to actual expenditures. The School of Architecture similarly uses the professional fee to pay for lab manager positions and has not implemented a quarterly budget to actual analysis. Quarterly analyses can be implemented for these latter units in the event that expenditure categories are broadened.

- *With respect to Engineering, prepare a budget for “Pre-Engineering” expenses*

The College of Engineering agrees that a more rigorously documented budget process should be implemented for expenditures of pre-engineering fees. These fees are used to cover labs that are used by students from multiple departments. In the spring the balance (if any) is distributed to the departments for their allowable expenses. The College is in the process of implementing a more rigorous process.

Expected Completion Date: October 2018

Update: The College of Engineering prepared a budget for FY 19 “pre-engineering” expenses and an overall budget for their FY 19 professional fee allocation in November 2018.

### 3. *Fee transparency*

The UHM Vice Chancellors agree in principle that disclosing the purpose and use of each professional fee will provide greater transparency to students with regard to the use of the fees. The Vice Chancellors will explore possible posting locations, including

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the program web sites, for this information. OVCAFO will work with programs to develop a consistent reporting format for use of the fees.

Expected Completion Date: April 2019

Update: Each professional program was asked to post the purpose and use of their respective professional fees on their college/school websites. As the fees are expended at different operating levels within the colleges/schools, a standard format was not prescribed.

The School of Architecture website has been undergoing redesign since spring 2019. The fee information will be posted once the redesign is complete (expected by May 2020). The other three programs have each posted fee information on their websites.



**UNIVERSITY OF HAWAI‘I AT MĀNOA**

**OUTREACH COLLEGE**

**Status of Corrective Action**

April 2020

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University of Hawai'i  
Office of Internal Audit



UNIVERSITY  
of HAWAI'I®  
SYSTEM

April 3, 2020

To the University of Hawai'i Board of Regents  
and  
University of Hawai'i at Mānoa Dean of Outreach College

The purpose of this report is to evaluate the status of corrective actions to address improvement opportunities and mitigate risks documented in the historical Office of Internal Audit (Internal Audit) report titled the University of Hawai'i (University) at Mānoa (UHM) Outreach College (report dated December 21, 2017).

As a result of our review of the status of corrective actions, Internal Audit noted that corrective actions have been implemented for the significant financial and operational risks. These corrective actions include:

- Formally documenting and approving the use of surplus cash generated by Outreach College operations – a surplus cash memo was approved and implemented in January 2020.
- Developing policies for standard Memorandum of Agreement (MOA) terms thereby limiting and/or eliminating the preparation of separate MOAs for each of the 100 plus courses.
- Implementing a single class registration and student payment information system to replace the three different databases/programs utilized to manage International and Professional Programs.
- Fulltime students paying additional amounts to attend Outreach courses identical to ones offered by the University - the UHM Provost and Dean of Outreach College have agreed in writing that starting in Fall 2020, Outreach College will no longer offer Credit Program courses required for fulltime UHM students as part of their degree programs. These courses are planned to be offered during the day by the University but not by Outreach. This will eliminate full-time UHM students attending the regular day program from paying additional amounts.

Internal Audit noted that Outreach is in the process of implementing corrective action to address several financial and operational opportunities. The implemented and in process corrective actions are more fully described in the accompanying report.

Sincerely,

Glenn Shizumura  
Director

## I. BACKGROUND AND WORK PERFORMED

### Overview

The Outreach College at the University of Hawai‘i (University) at Mānoa (UHM) was established on June 1, 1998 as a result of UHM combining the operations of the College of Continuing Education and Community Service (CCECS) and Summer Session. Outreach College provides year-round learning opportunities during the day, evenings and weekends. The courses offered by Outreach College are categorized by Credit Programs, Summer Session, International Programs, Professional Programs or Community Programs (collectively “Programs”). Credit Program, Summer Session and the majority of Professional Program courses are developed and instructed with faculty from a UHM College, School or Department (UHM Unit).

### Historical audit

The Office of Internal Audit (Internal Audit) performed an audit and issued a report for Outreach College dated December 21, 2017. In connection with the audit, Internal Audit reviewed financial reports, narratives prepared by Program Directors describing significant financial and operational processes and related documents (course establishment forms, registration forms, financial schedules, contracts, memorandum of agreements (MOAs), memorandums, emails, etc.) supporting these narratives. Internal Audit also held multiple meetings with Outreach College management (Dean, Associate Dean, Program Directors, Fiscal Administrator) and other Outreach College fiscal personnel to discuss significant financial and operational processes. Internal Audit’s report identified opportunities for improvement, including the following:

#### Financial

1. Consult with UHM and University System management to develop policies and procedures, including documentation and approval requirements related to the handling and disposition of future Outreach College transfers of surplus cash.
2. Prepare annual cash forecasts to estimate Outreach College’s operational cash requirements.
3. Analyze budgeted to actual revenues and expenses on a quarterly basis.

#### Operational

1. Develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses in order to minimize the preparation and monitoring of approximately 100 MOAs per academic term.
2. Develop a written strategic or business plan to document Outreach College’s financial and operational goals and objectives.
3. Perform an evaluation to determine whether the tuition policy related to Credit Programs for full-time UHM students should be modified.
4. Consult with Hawai‘i English Language Program (HELP) management to minimize or eliminate overlap with Outreach College’s “New Intensive Courses in English” (NICE) program.
5. Utilize a single database system for International and Professional Programs (Outreach College was utilizing three different systems).

Both Internal Audit’s report and management’s response (dated January 31, 2018) were reviewed and accepted by the Audit Committee on February 7, 2018.

### Follow-up audit

The purpose of this report is to evaluate the implementation status of Internal Audit’s recommendations. The report is organized as follows: 1) a summary of observations and recommendations presented in

Internal Audit’s originally issued reports, 2) a condensed overview of management’s response, and 3) an evaluation of the implementation status of corrective action.

Throughout the course of this follow up audit, Internal Audit met with relevant personnel at Outreach College to determine the implementation status of Internal Audit’s recommendations. For purposes of assessing implementation status, Internal Audit examined relevant financial reports, policies and other documents. During fiscal years 2019 and 2020, Outreach College continued to implement the improvement opportunities identified above. Internal Audit received updates from Outreach personnel throughout fiscal years 2019 and 2020. During fiscal year 2020, Internal Audit determined that corrective actions were implemented for the significant financial and operational risks and obtained persuasive and verifiable evidence supporting Outreach College’s planned implementation of the in process corrective actions during fiscal 2021.

## **II. EVALUATION OF RECOMMENDATIONS**

### **FINANCIAL RECOMMENDATIONS**

#### **1. Disposition of Surplus Cash**

##### Prior Internal Audit Observation and Recommendation:

Although surplus cash transfers are significant, there are no written policies or any consistent or formalized process to determine and approve the disposition of Outreach College’s surplus cash. Internal Audit recommends that Outreach College management consult with UHM and University System management to develop policies and procedures, including documentation and approval requirements related to the handling and disposition of future Outreach College transfers of surplus cash.

##### Management Response (January 2018):

Outreach College will work with the UHM Vice Chancellor for Academic Affairs and UHM Vice Chancellor for Administration, Finance and Operations to formalize and document the distribution of the funds during fiscal year 2019.

##### Status

Internal Audit reviewed the fiscal year 2019 surplus cash memo sent to the UHM Provost in Fall 2019 noting that the memo listed the various UHM Units to receive a portion of the surplus cash and the amount to be received. The UHM Provost approved/signed the memo in January 2020.

##### Conclusion

Corrective action implemented.

#### **2. Quarterly Budgeted to Actual Revenues and Expenses Analysis**

##### Prior Internal Audit Observation and Recommendation:

Outreach College management should analyze a schedule comparing quarterly budgeted to actual revenues and expenses to identify significant (amounts exceeding a dollar and/or percentage threshold established by management) and/or unexpected variances. The identified variances should be evaluated and investigated to determine if operational strategies should be modified.

##### Management Response (January 2018):

Outreach College will produce a summary report of the quarterly variations in budgeted to actual revenues and expenses by unit and consolidated up to the college-level beginning in fiscal year 2019.

Status

Internal Audit was informed that Outreach College delayed the implementation of this recommendation as a result of the challenges encountered in populating these summary reports with actual revenues and expenses from KFS. During fiscal year 2020, Outreach College initiated the implementation of a new system to manage and monitor quarterly variations in budgeted to actual revenues and expenses by unit. This new system will consist of a series of spreadsheets by unit populated with budgeted revenues and expenses with the associated actual revenues and expenses imported from Kualii Financial System (KFS) on a quarterly basis via the University’s KFS financial reporting software e-Ethority. The spreadsheets are designed to identify budget to actual variances greater than 10% requiring investigation with explanations documented. Internal Audit reviewed the budget to actual template and noted areas to record budgeted and actual amounts for various revenue and expense categories, as well as by each Program. The Dean of Outreach College informed Internal Audit that he has scheduled meetings with Program Directors to discuss the new budgeting system with planned implementation in mid-2020.

Conclusion

Corrective action in process with implementation expected in fiscal year 2021.

**3. Annual Cash Forecasts**

Prior Internal Audit Observation and Recommendation:

Consider preparing annual cash forecasts to estimate Outreach College’s operational cash requirements. Cash that exceeds Outreach College operational requirements should be available for other University requirements.

Management Response (January 2018):

Outreach College will document estimates of operational cash requirements in a summary report beginning in fiscal year 2019.

Status

Internal Audit was informed that the development of a summary report documenting estimates of operational cash requirements is no longer necessary due to the planned implementation of the new budget to actual revenue and expense analysis described above. Since this analysis will be prepared on a cash basis, Outreach College believes this analysis will provide sufficient information on with respect to operational cash inflows/outflows that will be used to project operational cash requirements.

Conclusion

Corrective action in process with implementation expected in fiscal year 2021.

**OPERATIONAL RECOMMENDATIONS**

**1. MOA Policies**

Prior Internal Audit Observation and Recommendation:

Consider limiting or eliminating the preparation of separate MOAs for each course given the substantial time incurred in preparing, negotiating, monitoring and managing each separate MOA. As an alternative, Outreach College should develop a policy incorporating terms and conditions included in current MOAs that would be applicable and consistently applied to all Credit and Professional Program courses. The development and implementation of this policy would minimize the time input incurred by Outreach College personnel in connection with administering the 100 plus MOAs as well as mitigate the risk of financial and operational non-compliance resulting from the various inconsistent terms and conditions noted in various MOAs.

Management Response (January 2018):

Outreach College agrees completely. By the Fall 2018 semester, Outreach College will develop, document, and distribute a standardized policy that will cover the vast majority of programs. The policy will specify standard terms and conditions, but also specify procedures for handling exceptions to the standard program, such as, programs that are fully funded by external funds.

Status

Internal Audit noted that Outreach College has developed policies related to MOAs and was informed that the new policy has replaced 11 Professional Program MOAs and 70 Credit Program MOAs. Internal Audit reviewed the policies and noted the inclusion of standard terms (e.g., responsibilities, financial arrangements, etc.) that apply to all programs by type (e.g., Professional, Credit, etc.).

Conclusion

Corrective action implemented.

## **2. Strategic Plan**

Prior Internal Audit Observation and Recommendation:

Consider developing a written strategic or business plan to document Outreach College’s financial and operational goals and objectives. The plan should include a project plan (including an activity/work schedule, milestones, expected completion dates for specific milestones, identification of Outreach College personnel responsible to attain the milestones, etc.) for achieving those goals and objectives. Additionally, the goals and objectives should be measured and monitored on a periodic basis.

Management Response (January 2018):

Outreach College agrees that a more formal plan with specific goals for each unit would be beneficial. Outreach College will begin a process to develop a strategic/business plan. The initial plan will be completed by Spring 2019.

Status

The Dean of Outreach College informed Internal Audit that a formal strategic plan will be developed through consultation with a 12-member Dean’s Advisory Council consisting of both UHM deans and senior executives of Hawai‘i based companies. The Dean stated that he convened the inaugural meeting of its 12-member Dean’s Advisory Council in July 2019. At the February 14, 2020 Dean’s Advisory Council meeting, the Dean stated that it was determined that a retreat should be planned for early Fall 2020 to discuss the preparation of a formal strategic plan.

Conclusion

Corrective action in process.

## **3. Tuition Policy for Full-Time Students**

Prior Internal Audit Observation and Recommendation:

Full-time UHM students attending the regular day program pay a fixed rate for 12 or more credits. However, these students are required to pay an additional amount (based on number of credit hours) for Credit Program courses taken while enrolled as a full-time student. As this policy appears to place an additional financial burden on full-time students, Internal Audit recommends that Outreach College perform an evaluation to determine whether this tuition policy related to Credit Programs should be modified.

Management Response (January 2018):

In cooperation with the UHM Chancellor’s Office, Outreach College will finalize a policy for handling full-time UHM students and implement the policy by the Spring 2019 semester.

Status

The Dean of Outreach College stated that he verbally agreed with the UHM Provost that starting in Fall 2020, Outreach College will no longer offer Credit Program courses that are identical to the courses offered to fulltime UHM students attending the regular day program.

Conclusion

Corrective action implemented.

**4. Overlap Between HELP and NICE**

Prior Internal Audit Observation and Recommendation:

Internal Audit noted that the 10-week NICE program overlaps with courses offered by HELP also located at UHM. With the decline in enrollment of International Program courses, International Programs should consult and collaborate with HELP management (and other international programs located within the University system, as applicable) to ensure that each of their respective programs are sufficiently diversified to eliminate the risk of offering similar courses.

Management Response (January 2018):

In conjunction with the campus reorganization efforts, Outreach College will work to eliminate overlaps between the NICE and HELP programs. The implementation date is subject to progress on the campus reorganization efforts.

Status

Internal Audit was informed that preliminary discussions have occurred between the Dean of Outreach College and the Interim Dean of Language, Linguistics and Literature (LLL) regarding the elimination of overlapping NICE and HELP courses. These discussions included reconsidering a 2012 proposed solution. Internal Audit reviewed the 2012 proposal, which described a repurposing of each program to eliminate their overlap. According to the Dean of Outreach College, further discussions have been postponed until the planned merger of the College of Languages, Linguistics and Literature (LLL), College of Arts and Humanities and School of Pacific and Asian Studies (SPAS) is completed. At the February 20, 2020 Board of Regents meeting, the University President stated that the reorganization is ongoing and is proceeding as planned.

Conclusion

Corrective action in process. Internal Audit recommends that Outreach College continue to collaborate with HELP management to determine whether the 2012 proposed solution to the overlap between NICE and HELP is a viable solution going forward.

**5. Database Systems**

Prior Internal Audit Observation and Recommendation:

International and Professional Programs utilize three different databases/programs (Classware, Filemaker and Excel) outside of Banner to maintain class registration and student payment information. The use of multiple databases to maintain course and student information results in possible internal control gaps and operational inefficiencies due to the different processes and personnel involved in updating each database. Accordingly, Internal Audit recommends Outreach College consider utilizing a single database system for its International and Professional Programs.

Management Response (January 2018):

Outreach College agrees and has been working on developing or purchasing a single system for all noncredit programs. Outreach College will complete the procurement or development of a new noncredit system, with a goal of having a new system in place by January 1, 2019.

Status

Internal Audit was informed that Outreach College implemented the Destiny One system in November 2018 for Professional Programs and in February 2019 for International Programs. Destiny One (also used by the University’s Community Colleges) is a customer management software designed specifically for higher education administrators serving non-traditional students (meeting one or more of the characteristics deemed to be non-traditional, including delayed enrollment in postsecondary education, part-time students, financially independent, has dependents other than a spouse, etc.).

According to the Dean of Outreach College, all course scheduling, registration and payments are made through Destiny One. Additionally, instructor and student information is stored in Destiny One, allowing instructors to manage course enrollment through the system. Furthermore, Destiny One is fully integrated with KFS via an automated nightly feed process. Internal Audit was provided reports from the Destiny One system confirming these assertions. These reports included accounts receivable reports, deposit detail reports, enrollment lists and general ledger reports.

Conclusion

Corrective action implemented.

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# **University of Hawai‘i Office of Internal Audit Emergency Response Plan**

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Date of plan:

**April 2020**

## **I. Mission and organization of the Office of Internal Audit**

The mission of the Office of Internal Audit (Internal Audit) is to assist the University’s Board of Regents (BOR) and University Management (President, Senior Management Team, Chancellors, etc.) fulfill their oversight, management, and operating responsibilities. This is accomplished through providing independent and objective assurance and consulting services conducted in a systematic and disciplined approach to evaluate, add value, and improve the University’s operations.

Internal Audit reports directly to the Committee on Independent Audit of the BOR and is supported administratively by the Vice President for Budget and Finance/Chief Financial Officer.

## **II. Purpose**

The purpose of this Emergency Response Plan is to document Internal Audit’s process in evaluating and implementing a response to a significant business disruption (emergency situation) including but not limited to the following:

- Severe weather (hurricane, flood, etc.)
- Fire
- Hazardous material spills
- Building/structure collapse
- Biological hazards (pandemic/infectious/communicable disease)
- Terrorism
- Workplace violence
- Etc.

### **III. Process to evaluate and implement a response**

The following describes Internal Audit's process in evaluating and implementing a response to a business disruption. The response will vary depending upon the type and duration of the business disruption.

#### **A. Revisit Internal Audit's objectives**

The mission of Internal Audit is to assist the BOR and University Management in fulfilling their oversight, management, and operating responsibilities. Accordingly, business continuance is an objective which Internal Audit can perform both "in office" and "remotely".

##### **1) Effectiveness and efficiency of working remotely**

The nature of Internal Audit's work entails gathering, analyzing and evaluating audit evidence then preparing the associated report. Efficient and effective analysis and review of this audit evidence generally requires face to face meetings by Internal Audit staff (Director and staff auditors) as well as face to face meetings with auditee personnel. Preparation of the associated report requires significant collaboration amongst Internal Audit staff and is most effectively accomplished via face to face meetings. Working remotely, while possible is not preferable as it negatively impacts the efficiency and effectiveness of Internal Audit's work.

##### **2) Remote access to server is essential**

A substantial portion of Internal Audit's documents and working papers associated with its audit projects are stored on a computer server historically only accessible by Internal Audit staff while in the office. Working remotely for business continuance purposes requires readily available access to this computer server. With the assistance of personnel from the University's Information Technology Services department, Internal Audit is able to obtain remote access to this server in the event of a business disruption requiring Internal Audit staff to work remotely.

##### **3) Safety is a priority**

While business continuance is an objective, it is not a priority. The first priority is life safety. Accordingly, ensuring the safety of Internal Audit personnel is a top priority which may include such actions as evacuation, shelter-in-place, lockdown, etc.

#### **B. Identify employees that are "necessary and essential"**

Internal Audit personnel currently consist of the following:

- Director
- Three staff auditors
- One administrative assistant
- Four student employees

##### **1) Director and staff auditors**

For purposes of meeting Internal Audit's business continuance objective, the Director and staff auditors are deemed "necessary and essential" employees. If

required, the Director and staff auditors have the ability to work remotely via an Internal Audit issued laptop computer or a computer owned by the auditor. However, working remotely will negatively impact Internal Audit's ability to complete its work efficiently and effectively due to the lack of face to face meetings.

2) Administrative assistant

The administrative assistant is also deemed "necessary and essential" but can primarily work remotely during a business disruption but must be available to return to Internal Audit with short notice. The primary duties of the administrative assistant are as follows:

- a. Provide information technology support.
- b. Manage the storage, back-up and security of Internal Audit's computer server.
- c. Maintain office supplies and equipment.
- d. Prepare and issue fiscal related documentation for procuring goods and processing payments.
- e. Coordinate work orders and auxiliary services for the office.
- f. Manage office information flow including the review and submission of student employee timesheets.

Duties a – c must be performed in office while duties d – f can be performed remotely. The administrative assistant also has the ability to work remotely with a computer owned by the administrative assistant.

3) Student employees

Internal Audit employs University students majoring in accounting to provide the students with the opportunity to experience auditing from an internal audit perspective in addition to an external audit perspective. In addition to providing audit assistance to Internal Audit staff, student employees assist the administrative assistant with duties a - f. Student employees are **not** deemed "necessary and essential" and would not need to work in connection with a business disruption. In their absence, Internal Audit staff and the administrative assistant would perform the duties assigned to student employees.

C. Assess Internal Audit assets

Internal Audit's most significant asset after its personnel is its audit files. These audit files are maintained both electronically (on Internal Audit's computer server) and in hard copy. The contents of Internal Audit's computer server primarily consist of documents supporting Internal Audit projects (audit working papers), documents associated with the University's external audits (primarily audit reports, Internal Audit created working papers to support the external auditors), timesheets of Internal Audit personnel, and administrative files (supply inventory lists, student auditor tasks, student auditor presentations, etc.). Copies of the electronic files may also be maintained on Internal Audit staff assigned computers. The hard copy files are stored in a locked file cabinet and include a copy of the electronic files on a CD/DVD.

Audit working paper files associated with active audit projects are updated daily. Active audit projects are defined as audit projects that are currently undergoing audit procedures. Generally, three to five audit projects are deemed active during any work week. Historical audit projects for which the audit deliverable was issued are deemed archived. The audit working paper files associated with archived projects are not updated and revised. Administrative files (supply inventory lists, student auditor tasks, etc.) may be updated and revised monthly. External audit file information is revised in connection with the year-end University financial statement audit.

Given that frequent revisions generally only occur to a minimal number of electronic files coupled with multiple copies of these files stored on different media (Internal Audit staff computers, CD/DVD, e-mail attachments, hard copy documents, etc.), Internal Audit has determined that backup of the Internal Audit server on a weekly basis is sufficient to mitigate a significant disruption to operations. The weekly backup is conducted on two separate encrypted devices. One device is held on-site and stored in a portable fire and waterproof safe that is kept in a locked file cabinet. The other device is held by the Director to conform with off-site recommended storage practices.

All computers have University required anti-malware software installed and updated. Laptops are secured in a locked file cabinet. All Internal Audit computers are password protected.

Internal Audit's maintains minimal office supplies and re-orders inventory in connection with our periodic inventory counts. Inadequate office supplies would not be an issue as a result of a business disruption.

D. Coordinate with emergency services personnel

Internal Audit will adhere to University instructions regarding the actions to be taken in the event of a business disruption such as evacuation, shelter-in-place, etc. In the event of an evacuation, there are no logistical problems for disabled individuals as the building housing Internal Audit includes wheelchair ramps. Internal Audit can easily secure all doors and has minimal glass windows such that a lockdown or sheltering-in-place would pose no issues.

E. Other issues

Operational and financial impacts to Internal Audit resulting from a business disruption include the following:

1) Financial

A short-term (several days to a few weeks) business disruption should have minimal financial impact. Full-time staff would remain intact with the possibility of furloughing student employees. A long-term (excess of one month) business disruption may have significant financial impact if accompanied with a decrease in State of Hawai'i funding. In addition to possible student employee layoffs, cost cutting measures would include reduced or no purchases (unless absolutely

necessary) of office supplies and computer equipment and the non-renewal of Internal Audit's electronic subscription to accounting/auditing reference materials.

Internal Audit's staff auditors and administrative assistant are HGEA Bargaining Unit 8 employees. Accordingly, consultation with HGEA would be required with respect to any pay cuts or layoffs. If layoffs are required, the Director will make that determination taking into consideration job function, performance and seniority.

2) Insurance

Internal Audit's office and equipment are insured by the University's property coverages (self-insurance reserves, University insurance policy then State of Hawai'i policy). As previously noted, Internal Audit's most significant and important asset is their personnel.

3) Communication

A business disruption will have minimal impact to communication. All Internal Audit personnel can communicate via their personal cell phones (voice or text) or through e-mail. However and as noted previously, face to face communication is preferable. Accordingly, the lack of face to face communication may negatively impact Internal Audit's ability to efficiently and effectively complete audit projects.

F. Recovery strategy

Internal Audit has planned for the possible damage to its computer server (fire, severe weather, etc.) with multiple external back up portable hard drives. Accordingly, should damage to the computer server occur, Internal Audit could resume operations within a day by downloading information from the back up hard drives to a new/different computer server.

#### **IV. Assessment**

As described in the prior section, Internal Audit has the capability to continue its operations either "in office" or "remotely" in response to a business disruption. A long term business disruption lasting several months may create financial issues resulting in employee layoffs and other cost cutting measures. However, Internal Audit would still be able to continue to operate in order to meet its objectives.

In the event of a business disruption, a separate memorandum will be prepared describing Internal Audit's planned actions in response to the business disruption. The response must consider the type and duration of the business disruption as well as guidance provided by University leadership.

#### **V. Operations during a business disruption**

The Director would be in constant and continuous contact with staff auditors and administrative assistant through e-mails, phone calls and text message. A daily conference call and periodic video conferencing will be scheduled. The Director will also be in contact with the Board Secretary during these business disruptions.

Item IV.I.

Enterprise Risk  
Management Update

**NO MATERIALS  
ORAL REPORT**

## Committee on Independent Audit

Annual Review for the 2019-2020 Academic Year

	Committee duties per bylaws	2019-2020 Committee Goals and Objectives per the October 3, 2019 Meeting (based on section 304A-321, HRS)	2019-2020 Accomplishments
1	<p>Advise the Board regarding the Board’s responsibilities to oversee:</p> <p>(a) The quality and integrity of the University’s compliance with legal, regulatory and policy requirements, financial reporting and financial statements, and internal controls related to risks;</p> <p>(b) The function, disclosures, and performance of the University’s compliance, internal control, and risk management systems regarding ethics and compliance, risk, finance, and accounting, and the adequacy of such systems; and</p> <p>(c) The independent certified public accountant’s qualification, independence and performance, as well as performance of the internal audit function.</p>	<p>(e) Professional development:</p> <p>(1) Seminars and conferences;</p> <p>(2) Educational sessions; and</p> <p>(3) Study of analytical tools for audit committees.</p> <p>(f) Enterprise risk management (ERM):</p> <p>(1) Oversight of risk management;</p> <p>(2) Inquiring of the president of the University of Hawaii, the chief financial officer of the university, and external auditors about significant risks or exposures;</p> <p>(3) Assess steps that the president of the University of Hawaii has taken or proposes to take to minimize those risks and periodically review those steps; and</p> <p>(4) Review with the general counsel of UH, external auditors, external counsel, and the chief financial officer legal and regulatory matters that may have a material impact on the financial statements, organization compliance policies, and programs</p> <p>(g) Meet not less than twice a year.</p> <p>(j) Review matters affecting internal control and internal audit, including:</p> <p>(1) Adequacy of internal control including computer systems; and</p> <p>(2) Any related significant findings and recommendations of internal and external auditors.</p> <p>(l) Antifraud programs and controls and aid in discovering and remedying incidences of fraud.</p> <p>(m) Notwithstanding part V of chapter 378:</p> <p>(1) Procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, auditing matters, or suspected fraud; and</p> <p>(2) Complaints that may have been received,</p>	<ul style="list-style-type: none"> <li>• Whistleblower Report (12/05/19)</li> <li>• FY19 Whistleblower Hotline Annual Report (02/06/20)</li> <li>• RP2.205, Whistleblower Reports Involving the President; Approval of Amendments (10/03/19)</li> <li>• ERM update (02/06/20; <i>Pending 06/04/20</i>)</li> <li>• Annual Report to the Legislature on Material Weaknesses and Fraud (12/05/19)</li> <li>• Review and Acceptance of the Office of Internal Audit Report on the Status of Corrective Action Related to Capital Improvement Projects and Repairs and Maintenance (10/03/19)</li> <li>• <i>Review of Office of Internal Audit (OIA) Emergency Response Plan (Pending 06/04/20)</i></li> </ul>

		<p>current status, and resolution of such complaints.</p> <p>(v) Independent Audit Committee may hire external auditors, legal counsel, or other consultants as necessary to address:</p> <ol style="list-style-type: none"> <li>(1) Execution of the whistleblower protection procedures subject to (m) above;</li> <li>(2) Statutory or contractual procedures when engaging external resources; and</li> <li>(3) Detection of fraud.</li> </ol>	
2	<p>Review the annual internal audit plan and the extent to which it addresses high risk areas.</p>	<p>(n) Internal control:</p> <ol style="list-style-type: none"> <li>(1) Review the scope and plan of the internal auditor;</li> <li>(2) Coordination of audit efforts to ensure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources; and</li> <li>(3) Discuss opportunities for reliance by the external auditor on the audit activities of the internal auditor.</li> </ol> <p>(o) Internal audits:</p> <ol style="list-style-type: none"> <li>(1) Significant findings of internal audits conducted;</li> <li>(2) Whether the internal auditor encountered difficulties in discharging their responsibilities;</li> <li>(3) Any changes in scope of internal audits;</li> <li>(4) Budget and staffing of internal audit operations;</li> <li>(5) Audit plan to govern internal audits; and</li> <li>(6) Compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.</li> </ol> <p>(q) Annually evaluate the internal audit:</p> <ol style="list-style-type: none"> <li>(1) Adequacy of the audit plan;</li> <li>(2) Management of the execution of the audit plan;</li> <li>(3) Adequacy of human resources available;</li> <li>(4) Ability of the external auditor to rely on the internal audit work plan; and</li> <li>(5) Nature of findings or results of any internal audits.</li> </ol>	<ul style="list-style-type: none"> <li>• Review and Acceptance of Internal Audit Review of Clearing Accounts (12/05/19)</li> <li>• Review and Acceptance of Internal Control and Business Issues Report (02/06/20)</li> <li>• Review of Corrective Action Responses for the Internal Control and Business Report (02/06/20)</li> <li>• Review and Acceptance of Internal Audit Review of the University Housing Program (02/06/20)</li> <li>• <i>Approval of Proposed Internal Audit Work Plan for 2012-2021 (Pending 06/04/20)</i></li> <li>• Approval of Amendment to Internal Audit Work Plan for 2019-2020 (02/06/20)</li> <li>• Report in Response to Senate Resolution 120 – Audit of Title III Program Grants (10/03/19; 12/05/19)</li> <li>• Review and Acceptance of the Status of Corrective Acton Related to Capital Improvement Projects and Repair and Maintenance (10/03/19)</li> <li>• <i>Review and Acceptance of Certain Kamehameha Schools Funded Programs Pursuant to Senate Resolution 120 (2019) (Pending</i></li> </ul>



			<p>06/04/20)</p> <ul style="list-style-type: none"> <li>• <i>Review and Acceptance of the OIA Report on the Status of Corrective Action Related to the Cash Receipts Process (Pending 06/04/20)</i></li> <li>• <i>Review and Acceptance of the OIA Report on the Status of Corrective Action Related to Student Fees for Professional Programs (Pending 06/04/20)</i></li> <li>• <i>Review and Acceptance of the OIA Report on the Status of Corrective Action for Outreach College (Pending 06/04/20)</i></li> </ul>
3	<p>Review the annual report of the internal audit department and discuss significant issues of internal controls with the Internal Auditor and management.</p>	<p>(h) Review the committee's effectiveness annually and provide an annual report.</p> <p>(i) The annual report shall address:</p> <p>(1) Review with the president and external auditor the effect of any regulatory and accounting initiatives and unique transactions for accounting best practices;</p> <p>(2) Review significant related party transactions;</p> <p>(3) Review any interim financial reports on internal control; and</p> <p>(4) Review with the external auditor:</p> <p>(A) Alternative treatments of financial information within generally accepted accounting principles have been discussed with the president of the University of Hawaii;</p> <p>(B) Consultation with audit firms other than the external auditor including reasons for and results of the consultation; and</p> <p>(C) Any other information relating to significant estimates and judgments.</p> <p>(w) Submit an annual report:</p> <p>(1) All instances of material weakness in internal controls including university responses; and</p> <p>(2) All instances of fraud including university responses.</p>	<ul style="list-style-type: none"> <li>• <i>Acceptance of Draft Annual Report to the Board (Pending 06/04/20)</i></li> </ul>
4	<p>Discuss the planned scope of the</p>	<p>(p) Internal auditors shall meet separately with any</p>	

	annual independent audit with the independent certified public accountants and review the results of the audit with the independent certified public accountants and management.	external auditor to coordinate audit plans.	
5	Receive and review the annual certified financial reports with the independent certified public accountants and management.	(s) Review all written communications between any external auditor and the university. (u) Review: (1) Annual financial statements and footnotes; (2) The audit of the financial statements and the external auditor's report; (3) External auditor's judgments about the quality of the university's accounting principles as applied to the financial reporting; (4) Any significant changes realized in the external auditor's audit plan; (5) Any serious difficulties or disputes encountered in the course of the audit; and (6) Statement on Auditing Standards No. 114 relating to conduct of the audit.	<ul style="list-style-type: none"> <li>• Audited Financial and Compliance Reports for Year Ended June 30, 2019 (12/05/19)</li> <li>• UHM Intercollegiate Athletics Audit Reports for Year Ended June 30, 2019 (12/05/19)</li> <li>• Follow-up Report on the Audited Financial Reports for Year Ended June 30, 2019 – Supplemental Information for UHM, UHH, UHWO, UHMC, and UHCC (02/06/20)</li> <li>• UHM Intercollegiate Report on Agreed Upon Procedures – 2019 Football Season (02/06/20)</li> </ul>
6	Recommend to the Board the certified public accountants to serve as the independent auditor, and their fees.	(r) Subject to board approval, the selection of one or more external auditors and: (1) Approve the audit plan; (2) Establish the fee for the external audit; (3) Pre-approve any non-audit services provided by the external auditor; (4) Review with the president the significance of contracting out audit services; and (5) Ensure single audit obligations are incorporated into an annual audit plan. (t) Annually evaluate the external auditor.	
7	Revise the scope of the annual audit, and approve any services other than audit and audit related services provided by the certified public accountants.		
8	Provide recommendations to the	(k) Review matters affecting accounting policies and	• <i>Annual Review of Committee Charter</i>

	<p>Board regarding approval of the internal audit mission statement, the committee's charter, and other governance documents related to both internal and external compliance and auditing activities at the University.</p>	<p>procedures:</p> <ul style="list-style-type: none"> <li>(1) Ensure policies, procedures, and related controls are documented;</li> <li>(2) Review accounting controls annually;</li> <li>(3) Review policies and procedures with respect to key persons under IRC section 4958; and</li> <li>(4) Inquire regarding the financial health of the university.</li> </ul>	<p><i>(Pending 06/04/20)</i></p>
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BYLAWS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAII 2/28/19

e. Committee on Independent Audit

(1) Advise the Board regarding the Board's responsibilities to oversee:

(a) the quality and integrity of the University's compliance with legal, regulatory and policy requirements, financial reporting and financial statements, and internal controls related to risks;

(b) the function, disclosures, and performance of the University's compliance, internal control, and risk management systems regarding ethics and compliance, risk, finance, and accounting, and the adequacy of such systems; and

(c) the independent certified public accountant's qualification, independence and performance, as well as performance of the internal audit function.

(2) Review the annual internal audit plan and the extent to which it addresses high risk areas.

(3) Review the annual report of the internal audit department and discuss significant issues of internal controls with the Internal Auditor and management.

(4) Discuss the planned scope of the annual independent audit with the independent certified public accountants and review the results of the audit with the independent certified public accountants and management.

(5) Receive and review the annual certified financial reports with the independent certified public accountants and management.

(6) Recommend to the Board the certified public accountants to serve as the independent auditor, and their fees.

(7) Revise the scope of the annual audit, and approve any services other than audit and audit related services provided by the certified public accountants.

(8) Provide recommendations to the Board regarding approval of the internal audit mission statement, the committee's charter, and other governance documents related to both internal and external compliance and auditing activities at the University

## [D.] Independent Audit Committee

**[§304A-321] Independent audit committee; established; powers; duties.** (a) There is established within the board of regents of the University of Hawaii an advisory body to be known as the independent audit committee.

(b) The independent audit committee shall consist of at least three members but not more than five members who shall be appointed by the chairperson of the board of regents, from among the members of the board of regents, except as provided in this subsection. The chair of the independent audit committee shall be selected by and from among its members.

The independent audit committee shall include one or more individuals with financial expertise. If no member of the board of regents has the requisite skills, the board of regents shall execute other arrangements, which may include the appointment of members of the general public who possess the requisite financial expertise to the independent audit committee to ensure that the independent audit committee has the capacity to carry out its duties.

(c) The board of regents shall generally:

(1) Establish the charter of the independent audit committee and set forth its members' roles and responsibilities;

(2) Consider changes to the independent audit committee's charter that are necessary in response to new laws, regulations, and best practices; and

(3) Conduct an annual review of the independent audit committee's charter to reassess its adequacy and adopt any proposed and necessary changes to the charter.

(d) The independent audit committee shall be exempt from chapter 91 and part I of chapter 92 to the extent that the independent audit committee is engaging in discussions or proceedings arising from an investigation by the independent audit committee relating to potentially actionable civil or criminal conduct, whether or not the investigation is pending or outstanding.

(e) The independent audit committee shall undertake professional development to improve the financial expertise of the independent audit committee as a whole, including:

(1) Attendance at seminars and conferences;

(2) Attendance at educational sessions including special speakers; and

(3) The study of analytical tools for audit committees.

(f) The independent audit committee shall engage in operations relating to enterprise risk management including:

(1) Providing oversight of risk management, which shall include determining overall strategy and influencing the university's risk philosophy;

(2) Inquiring of the president of the University of Hawaii, the chief financial officer of the university, and external auditors about significant risks or exposures faced by the university;

(3) Assessing steps that the president of the University of Hawaii has taken or proposes to take to minimize those risks to the university and periodically reviewing compliance with those steps; and

(4) Reviewing with the general counsel of the University of Hawaii, external auditors, external counsel, and the chief financial officer of the university legal and regulatory matters that, in the opinion of the president of the University of Hawaii, may have a material impact upon the financial statements, related organization compliance policies, and programs and reports received from regulators.

(g) The independent audit committee shall hold meetings as needed to address matters on its agenda, not less frequently than twice per year. The independent audit committee may request the president of the University of Hawaii or others to attend its meetings or to provide pertinent information as necessary. The board of regents shall provide in the charter of the independent audit committee for the independent audit committee to take action between meetings by unanimous consent.

(h) The independent audit committee shall review its effectiveness annually and shall prepare, or oversee the preparation of, an annual report to the board of regents.

(i) The annual report of the independent audit committee shall address other matters affecting the management and organization of the University of Hawaii by engaging in functions, including:

(1) Reviewing with the president of the University of Hawaii and an external auditor retained pursuant to subsection (r) the effect of any regulatory and accounting initiatives and unique transactions, including relationships with legally separate entities, to determine whether the accounting for those transactions applied best practices;

(2) Reviewing significant related party transactions;

(3) Reviewing with the president of the University of Hawaii and the chief financial officer of the university, any interim financial reports or reports on internal control issued with respect to the university since the last meeting of the independent audit committee; and

(4) Reviewing with an external auditor who performs an audit the following:

- (A) All critical accounting policies and practices used by the external auditor; provided that:
  - (i) All alternative treatments of financial information within generally accepted accounting principles have been discussed with the president of the University of Hawaii;
  - (ii) The ramifications of each alternative are discussed; and
  - (iii) The treatment preferred by the university is discussed;
- (B) Any consultation with audit firms other than the external auditor, including the reasons for, and results of, the consultation; and
- (C) Any other information relating to significant estimates and judgments.

(j) The independent audit committee shall also review with any external auditor and the chief financial officer of the university matters affecting internal control and an internal audit, including:

(1) The adequacy of the University of Hawaii's internal control, including computerized information system controls and security; and

(2) Any related significant findings and recommendations of the internal and external auditors, together with the responses of the president of the University of Hawaii.

(k) The independent audit committee shall also review matters affecting the accounting policies and procedures of the University of Hawaii by:

(1) Ensuring that accounting policies, procedures, and related controls are documented and reviewed with the independent audit committee;

(2) Reviewing accounting controls annually;

(3) Reviewing with the president of the University of Hawaii policies and procedures with respect to officers, key employees, and disqualified persons as defined under section 4958 of the Internal Revenue Code of 1986, as amended; and

(4) Inquiring of the president of the University of Hawaii and the chief financial officer regarding the financial health of the university.

(l) The independent audit committee shall review the University of Hawaii's antifraud programs and controls and aid in discovering and remedying incidences of fraud.

(m) Notwithstanding part V of chapter 378, the independent audit committee shall review:

(1) Procedures for the receipt, retention, and treatment of complaints received by the University of Hawaii regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the university; and

(2) As the independent audit committee deems necessary, complaints that may have been received, the current status of such complaints, and the resolution of such complaints, if any resolution has been reached;

provided that any person who makes a complaint covered by this section shall be accorded the same protections as under part V of chapter 378.

(n) With regard to internal control and any internal audit, the independent audit committee shall also:

(1) Review with any external auditor, the chief financial officer of the university, and the comptroller the audit scope and plan of the internal auditors;

(2) Address the coordination of audit efforts to ensure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources; and

(3) Discuss with the chief financial officer of the university and the external auditor opportunities for reliance by the external auditor on the audit activities of any internal audit.

(o) For internal audits, the independent audit committee shall review the following with the president of the University of Hawaii and the chief financial officer of the university:

(1) Significant findings of internal audits conducted during the university's previous and current fiscal year and the president's responses;

(2) Whether internal auditors have encountered difficulties in discharging their responsibilities in the course of their audits, such as any restrictions on the scope of their work or access to required information;

- (3) Any changes required in the scope of internal audits;
- (4) The budget and staffing of internal audit operations;
- (5) An audit plan to govern internal audits; and

(6) The compliance of internal audits with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

(p) Internal auditors shall meet separately with any external auditor to coordinate audit plans to optimize the ability of the external auditor to rely upon the results of the internal audit team.

(q) The independent audit committee shall annually evaluate the performance of any internal audit, including:

- (1) The adequacy of the audit plan;
- (2) The management of the execution of the audit plan;
- (3) The adequacy of human and other resources available to execute the audit plan;
- (4) The ability of any external auditor to rely upon the internal audit work product in the annual audit performed by an external auditor retained pursuant to subsection (r); and
- (5) The nature of the findings or results of any internal audits.

(r) Subject to approval by the board of regents, the independent audit committee shall select one or more external auditors to be retained by the University of Hawaii. The independent audit committee shall:

- (1) Approve an audit plan;
- (2) Establish the audit fees of any external auditor;
- (3) Pre-approve any non-audit services provided by the external auditor, including tax services, before such services are rendered;
- (4) Review with the president of the University of Hawaii the significance of contracting out audit services; and
- (5) Ensure that single audit obligations are incorporated into an annual audit plan.

(s) The independent audit committee shall review all material written communications between any external auditor and the president of the University of Hawaii, including any management letter or schedule of unadjusted differences.

(t) The independent audit committee shall annually evaluate any external auditor; provided that communications with the external auditor in the evaluation shall be done so as to maintain the open flow of communication between the external auditor and the independent audit committee.

(u) The independent audit committee shall review the following matters relating to any annual audit with the president of the University of Hawaii and any external auditor:

- (1) The university's annual financial statements and related footnotes;



- (2) The external auditor's audit of the financial statements and the external auditor's report;
- (3) The external auditor's judgments about the quality of the university's accounting principles as applied in the university's financial reporting;
- (4) Any significant changes required in the external auditor's audit plan;
- (5) Any serious difficulties or disputes with the president of the University of Hawaii encountered during the audit; and
- (6) Matters to be discussed by the Statement on Auditing Standards No. 114, The Auditor's Communication with those Charged with Governance (AICPA, Professional Standards), related to the conduct of any annual audit.

(v) The independent audit committee may hire external auditors, legal counsel, or other consultants as necessary, to address any issues arising from:

- (1) The execution of the whistleblower protection procedures subject to subsection (m);
- (2) Any statutory or contractual procedures when engaging external resources; and
- (3) The detection of fraud.

(w) The independent audit committee shall submit an annual report to the board of regents and the legislature no later than twenty days prior to the convening of each regular session of the legislature on matters that include the following:

- (1) All instances of material weakness in internal control, including the responses of university management; and
- (2) All instances of fraud, including the responses of university management. [L 2013, c 87, §5]

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Independent audit committee fiscal year 2019-2020 annual review.

Considering the HRS Statute and Bylaws attached, please list up to 5 areas where the committee may not have fulfilled its duties under these provisions.

1.

2.

3.

4.

5.

Was there sufficient committee meetings and/or time to fulfil its responsibilities in the past fiscal year. If not, how many additional committee meetings should be held next fiscal year.

In the past fiscal year the board moved from in person to virtual meetings. Is this a positive or a negative for meeting the committee's obligations?

Please submit your responses to the Board Secretary for compilation and submission to the next fiscal year committee.