

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

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Members: Nahale-a (Vice-Chair), Acoba, Higaki, Moore, and Wilson

Date: Thursday, August 6, 2020

Time: 9:00 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. See the Board of Regents website for information on accessing the livestream: www.hawaii.edu/bor. Mahalo for your consideration.

AGENDA

- I. Call Meeting to Order
- II. Election of Committee Chairperson
- III. Approval of Minutes of the June 4, 2020 Meeting
- IV. 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 through the testimony link provided on the [Meeting Agendas, Minutes and Materials](#) page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail, or facsimile at (808) 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.

V. Agenda Items

A. Committee Work Plan

B. Review of Internal Audit Work Plan for 2020-2021 (*previously approved on June 4, 2020*)

- C. Review and Acceptance of the Office of Internal Audit (OIA) Report on the Status of Corrective Action Related to Sodexo Food Service Contracts
- D. Review and Acceptance of OIA Report on the Implementation Status of Government Accounting Standards Board Statement No. 87, Leases

VI. 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

JUNE 4, 2020

Note: On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a public health emergency of international concern, subsequently declaring it a pandemic on March 11, 2020. On March 16, 2020, Governor David Y. Ige issued a supplementary proclamation that temporarily suspended Chapter 92, Hawaii Revised Statutes, relating to public meetings and records, “to the extent necessary to enable boards to conduct business in person or through remote technology without holding meetings open to the public.”

I. CALL TO ORDER

Chair Michael McEnerney called the meeting to order at 10:37 a.m. on Thursday, June 4, 2020. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Chair Michael McEnerney; Vice-Chair Wayne Higaki; Regent Randy Moore; Regent Robert Westerman; and Regent Ernest Wilson.

Others in attendance: Board Chair Ben Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal; Regent Michelle Tagorda (ex officio committee members); Vice President (VP) for Administration Jan Gouveia; 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 Budget and Finance/Chief Financial Officer Kalbert Young; UH-Mānoa (UHM) Provost Michael Bruno; UH-Hilo (UHH) Chancellor Bonnie Irwin; UH-West O‘ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE FEBRUARY 6, 2020 MEETING

Vice-Chair Higaki moved to approve the minutes of the February 6, 2020, meeting, seconded by Regent Moore, and 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. Approval of Annual Review of Committee Charter

Chair McEnerney explained that the Committee on Independent Audit is the only committee governed by statute, which together with the bylaws comprise the charter of operations for the committee. He asked if committee members had any questions or concerns regarding the committee charter and none were raised.

B. Approval of Proposed Internal Audit Work Plan for 2020-2021

Committee Chair McEnerney noted that the Internal Audit Work Plan (Work Plan) is the outline for the work to be performed by the Office of Internal Audit (OIA) during the coming year.

Glenn Shizumura, Director of OIA, explained that the proposed Work Plan was developed in consultation with the administration and furnished a summary of services provided by OIA, including services to the university's external auditor, Accuity, LLP, and services provided to the committee. He provided a breakdown of new, carryover, and follow-up projects for the 2020-2021 fiscal year noting that some of the new projects included in the proposed Work Plan dealt with revenue-generating operations such as the Warrior Recreation Center and Waikiki Aquarium.

Regent Moore asked whether OIA anticipated receiving information it requested from both the Vietnam Executive MBA Program and the UH Bookstore that it had not yet received by the start of the upcoming fiscal year or if assistance was needed in obtaining the requested information. Internal Auditor Shizumura replied that OIA was aware of circumstances that are delaying the provision of the requested information but anticipated that it would be provided near the start of the upcoming fiscal year. OIA would first seek assistance from the administration in obtaining the requested information. If the situation persisted, OIA would then request board involvement.

Regent Moore moved to approve the proposed Work Plan, seconded by Regent Westerman.

In light of recent correspondence received by the board, Board Chair Kudo requested postponement of the vote on the proposed Work Plan until after discussions occurred on Agenda Item D - the audit of certain Kamehameha Schools funded programs at UHWO pursuant to Senate Resolution 120 (SR120). He stated that this would allow for amendments to be made to the proposed Work Plan should the committee decide to request OIA to perform additional audit work on this issue.

Chair McEnerney suggested that the committee had three courses of action that could be taken in light of the correspondence received regarding SR120. First, the committee could approve the Work Plan as received. Second, the committee could approve the Work Plan as received subject to additional amendments or corrections made by the incoming Committee on Independent Audit. Finally, the committee could defer action on this item until a future date. He then entertained questions and discussions on these three courses of action.

The committee engaged in extensive discussions on certain Kamehameha Schools grant funded programs at UHWO, as well as Title III grant funding, and whether mechanisms were in place at the university level to ensure proper management, efficacy, and oversight of these grants. As OIA's scope of responsibilities and expertise are in the area of financial audits rather than management audits, committee members also offered comments on whether OIA was the proper agency to conduct such audits or whether an external agency would be more appropriate. Deliberations also occurred on whether the Work Plan should be amended to request additional audit work be completed on the Kamehameha Schools issue.

Board Chair Kudo suggested that, should the committee decide to approve the Work Plan as received, it might be prudent to request that the administration create a working group to study this issue with regard to grant funding so that the university can establish a mechanism, as well as the necessary criteria, to properly evaluate grants, particularly with regard to the use of grant funding as it relates to achievement of the goals set forth in the grant proposal.

Chair McEnerney indicated that the evaluation of the management and effectiveness of the use of grant funding was not a financial audit and was beyond the purview of OIA, which audits the policies and procedures that have been adopted by the administration. It was his belief that since this would not be considered a financial audit, the committee could adopt the Work Plan as received and recommend that a working group be formed by the administration to develop a program to evaluate the efficacy of the use of grant funding.

VP Syrmos provided a brief overview of the grant funding process noting that the university does not currently conduct programmatic reviews of the efficacy or efficiency of grant-funded initiatives and that the responsibility for these matters lies with the principal investigator (PI). He added that a mechanism currently exists for a majority of the large institutional grants to ensure the efficacy and efficiency of grant-funded initiatives through the formation of external advisory committees to review and oversee grant funding. If the administration were to become involved with programmatic oversight of grant funded initiatives, it would need to work closely with these external advisory committees to ensure that grant funding was not jeopardized by any possible actions taken.

While larger institutional grants may have mechanisms for grant oversight through external advisory boards, Board Chair Kudo stated that smaller grants may lack this type of oversight. He reiterated that no policy or requirement currently exists that these external advisory committees be formed, even for large institutional grants. VP Syrmos replied that competition for smaller grants is highly competitive and their merits and efficacy are monitored by the program agency and the grant's funding source. If the funder of the grant is not satisfied with the work of the PI, funding will be discontinued and the PI risks funding for any future research projects.

Since SR120 involved grant-funded programs at UHWO, Chair McEnerney inquired as to whether Chancellor Benham had any comments on this issue. Chancellor Benham replied that while she understands the need for proper oversight to ensure the

efficacy of grant-funded programs and that goals and objectives are met, she believed that this oversight responsibility already existed through the grant's funding source. A grantor will typically hold a grantee responsible for failure to meet established research goals and objectives. If these goals and objectives are not met by the grantee, the grantor will withhold funding for the project and oftentimes will require grant funding that has already been expended to be returned. She stated that she was not aware of any other institution or campus that had a system in place to conduct programmatic oversight of any of its researchers.

Regent Westerman concurred with Chancellor Benham noting that in his experience, if problems arise with the work of a grantee, it is the responsibility of the grantor to resolve the problems. If the problems are unable to be resolved, the grantor has the ability to withhold additional funding or demand repayment of grant funds already allocated. He stated that he did not believe the Work Plan needed to be amended and suggested it be approved in its present form.

Chair McEnerney reiterated that the main responsibility of OIA is to focus on reviews that are based on existing rules and regulations and not the development of new rules and regulations. He stated his belief that this issue does not belong in the Committee on Independent Audit and would suggest that the Work Plan be approved as proposed.

There having been a motion that was moved and seconded, and there being no further discussion, the committee voted to approve the Work Plan as received, with all members present voting in the affirmative.

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

Internal Auditor Shizumura explained that the annual report is prepared pursuant to Section 304A-321, Hawai'i Revised Statutes, and the board bylaws. This annual report also includes the OIA's audit results for the fiscal year ended June 30, 2020, which summarizes the services provided during the past fiscal year and projects included in last year's audit plan with current status, findings, and recommendations. He noted that the committee met all statutory and bylaw requirements.

Regent Moore moved to accept the draft Committee on Independent Audit Annual Report to the Board, seconded by Regent Westerman, and the motion carried, with all members present voting in the affirmative.

D. Review and Acceptance of Certain Kamehameha Schools Funded Programs Pursuant to Senate Resolution 120 (2019)

Internal Auditor Shizumura, provided background on SR120 noting that it requested an audit of eight programs at UHWO that received extramural funding, six of which were Title III Program grants, and two of which were grants from Kamehameha Schools not related to the Title III Program. While the university's external auditor conducted an audit on the Title III Program grants, no audit was conducted on the grants funded by Kamehameha Schools.

At its December 5, 2019, committee meeting, the committee directed OIA to conduct a review of the two non-Title III Program grants identified in SR120. Internal Auditor Shizumura gave a brief report on the findings of the requested review noting OIA's suggested improvements to UHWO's policies, processes, and procedures regarding these programs. However, it was stated that OIA was in receipt of both written and verbal correspondence from Kamehameha Schools indicating satisfaction with UHWO's management of the Kamehameha Schools funded programs on an overall basis.

Chair McEnerney suggested possible deferral of this agenda item pending further deliberations on solutions to address issues raised in earlier discussions regarding the establishment of policies and mechanisms to ensure proper management and oversight, as well as efficacy, of grant-funded programs.

Regent Moore moved to accept the report on Certain Kamehameha Schools Funded Programs Pursuant to SR120 noting that it would be more appropriate for Chancellor Benham to formulate a response to the correspondence received on this issue. He also stated that he concurred with the earlier statements made that grantors have the responsibility to address issues with a grantee and already have the ability to withhold or require repayment of funding if the goals and objectives of a grant-funded program are not met. As such, he believed that no further action by the committee was necessary. The motion was seconded by Regent Westerman, and the motion carried with all members present voting in the affirmative.

E. Review and Acceptance of the OIA Report on the Status of Corrective Action Related to the Cash Receipts Process

Internal Auditor Shizumura reported that OIA evaluated the university's cash receipts process and compliance with Administrative Procedure (AP) 8.701, Receipting and Depositing of Funds Received by the University for certain University Cash Collection Locations (CCLs). Additionally, OIA reviewed the Treasury Office's process to assess the university's compliance with the Payment Card Industry's (PCI) Data Security Standard (DSS). OIA's report dated March 29, 2019 identified issues and opportunities for improvements regarding the cash receipts process. He stated that all the issues identified in the evaluation have been addressed and that all suggested corrective actions have been implemented to the satisfaction of OIA.

Regent Moore moved to accept the OIA Report on the Status of Corrective Action Related to the Cash Receipts Process, seconded by Vice-Chair Higaki, and the motion carried with all members present voting in the affirmative.

F. Review and Acceptance of the OIA Report on the Status of Corrective Action Related to Student Fees for Professional Programs

Internal Auditor Shizumura provided a brief overview of an OIA review of student professional fees conducted in 2018 that evaluated the establishment, administration, monitoring, and utilization of professional fees assessed by a variety of programs at UHM. OIA's report of its review, dated March 31, 2018, identified issues and opportunities for improvements regarding the assessment of these fees. As a result of

this report, the administration formulated a corrective action plan which was reviewed and accepted by the committee in August 2018. He noted that in December 2019 and January 2020, OIA discussed the status of corrective actions with personnel of the Office of the Vice Chancellor for Academic Affairs at UHM and the UHM Interim Vice Chancellor for Administration, Finance, and Operations. This report is an evaluation of UHM's written representations regarding the updated status of its corrective action plan to address improvement opportunities and mitigate risks documented in OIA's initial report. Internal Auditor Shizumura stated that, after meeting with the deans and other senior personnel at each of the professional programs and examining relevant documents to support and corroborate the status of corrective actions taken, OIA has concluded that all suggested corrective actions have been implemented to the satisfaction of OIA.

Regent Moore noted that one recommendation concerning the posting of professional fees on the website of the School of Architecture at UHM had not been implemented as of April 2020, and inquired if this remained an issue. Internal Auditor Shizumura replied that OIA confirmed that the School of Architecture had taken corrective actions and posted the professional fees on its website in May.

Regent Moore moved to accept OIA's Report on the Status of Corrective Action Related to Student Fees for Professional Programs, seconded by Regent Wilson, and the motion carried with all members present voting in the affirmative.

G. Review and Acceptance of the OIA Report on the Status of Corrective Action for Outreach College

Internal Auditor Shizumura noted that a routine audit of the Outreach College conducted in 2018 discovered a number of deficiencies that posed significant financial and operational risks to the university. He stated that this report is on OIA's evaluation of corrective actions taken by the Outreach College in response to recommendations contained in the audit. OIA noted that all corrective actions for the most significant financial and operational risks to the university have been implemented to the satisfaction of OIA. While the Outreach College is currently in the process of implementing some of the minor initiatives and corrective actions recommended in the initial audit report, OIA does not foresee any issues with completing these corrective actions.

Regent Moore moved to accept OIA's Report on the Status of Corrective Action for the Outreach College and requested that OIA provide an update to the committee at its next meeting on the status of corrective actions currently in the process of being implemented, seconded by Regent Westerman, and the motion carried with all members present voting in the affirmative.

Regent Acoba posed a general question to OIA with respect to audits asking whether deadlines were imposed for the receipt of requested information. Internal Auditor Shizumura replied that OIA establishes an agreed-upon deadline for the receipt of requested information with respect to audits and regularly follows-up with the auditee on these requests. He stated that for the most part, OIA receives requested information

in a timely manner. Regent Acoba further questioned whether OIA takes any action against an auditee when responses are not obtained. Internal Auditor Shizumura responded that OIA does not take action other than reporting the inaction of the auditee to appropriate individuals in the administration. Board Chair Kudo added that OIA does not have any leverage or authority to force compliance with requests for information when conducting an audit. However, as a former chair of the Committee on Independent Audit, he stated that the committee has the authority to call a department of the university before the board to inquire as to why they have not been responsive to the requests made by OIA and that usually served as an effective tool to acquire the necessary responses.

H. Review of the OIA Emergency Response Plan

Internal Auditor Shizumura reviewed OIA's Emergency Response Plan (Plan) stating that the purpose of the Plan was to document OIA's process in evaluating and formulating a response to manmade and natural disasters and emergency situations and provide a roadmap for implementation of this response.

Chair McEnerney suggested that regents review this document as it is a very good blueprint for emergency response should this type of action become necessary in the future.

Board Chair Kudo remarked that there are two divisions that report directly to the board, the Office of the Board of Regents and OIA. Both divisions were asked to prepare emergency response plans that outlined their operational abilities and staffing and equipment needs that would address the COVID-19 situation but also serve as a roadmap for each division's response to disaster and emergency situations in such a way as to preserve their primary functions and mission to serve the university and the board. Chair McEnerney asked whether there was any overlap or conflicts between the emergency response plans of each division. Board Secretary Oishi responded that the Office of the Board of Regents (Board Office) and OIA worked closely in developing each plan so as to address any conflicts or possible overlap with the plans.

Vice-Chair Higaki left at 11:35 a.m.

I. Enterprise Risk Management (ERM) Update

VP Gouveia provided an ERM update noting that the administration annually conducts an enterprise-wide risk assessment of the university system that evaluates its risk exposure from a compliance, financial, operational, reputational, and strategic perspective. While the annual ERM report which reviewed the top risk categories identified by the administration, as well as those risk categories that were being closely monitored, was delivered to the board in February 2020, the disruption and impacts of the COVID-19 pandemic required a reassessment of the university's risk exposure. The university's vulnerabilities in areas such as enrollment, financial resiliency, and health and safety, which were already identified in its risk assessment, were brought to the forefront by the COVID-19 pandemic as it escalated and spread to Hawai'i. However, the ERM process of continually assessing risk exposures to the university served to

better prepare the university to rapidly respond at the operational level and quickly adapt to the impacts of a very dynamic situation caused by COVID-19.

Response efforts already undertaken by the university to ensure, among other things, the maintenance of the health and safety of students, faculty, and staff, and the continuation of the educational mission of the university that would allow for students to complete the spring semester were highlighted. It was also stressed that efforts are currently underway to prepare for the reopening of campuses in the fall and VP Gouveia reviewed a number of measures that are being taken including the development of flexible instructional methods that are able to nimbly adapt to changes including continued efforts to conduct online education if necessary; rearrangement of classroom, student housing, and office layouts; modifications to teaching and research laboratories; development of a formal telework policy; and operational changes to cleaning and sanitizing efforts. Through these efforts, the university continues its work towards the goal of maintaining the capabilities that it has developed to operate remotely and continue to deliver its core mission in the areas of education and research.

VP Gouveia stated that the university also continues to work with other entities such as the State Department of Health and the City and County of Honolulu to assist the state in preventing the spread of COVID-19 through measures such as testing and contact tracing.

Regent Moore asked how the university would operate in a disaster situation that resulted in the lack of a power source for days or weeks. President Lassner replied that the university operates under the assumption that a catastrophic event will happen. In such an instance, the university would cease operations and shift from an operational mode to an asset protection mode.

J. Committee Annual Review

Chair McEnerney referenced the committee annual review matrix provided in the materials packet. He noted that questions were provided to committee members and asked that responses those questions be submitted to the Board Office for compilation and provision to the next committee chair. He also expressed his thanks to the committee members for their hard work and support over the past year.

V. ADJOURNMENT

There being no further business, Regent Westerman moved to adjourn, seconded by Regent Wilson, and noting the excused absence of Vice-Chair Higaki, and with all members present voting in the affirmative, the meeting was adjourned at 11:50 a.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents

Committee on Independent Audit
Work Plan for the 2020-2021 Academic Year

	Committee duties per bylaws	2020-2021 Committee Goals and Objectives	Projected Timeline			
			1 st Q	2 nd Q	3 rd Q	4 th Q
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;	Review and accept intercollegiate athletics audit reports		X		
		Internal Control and Business Issues Report			X	
	(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	Review and acceptance of the annual report to the Legislature on Material Weaknesses and Fraud		X		
		Whistleblower report	X	X	X	X
		Enterprise Risk Management update	X	X	X	X
		Review and acceptance of the report on the status of corrective action related to Sodexo Food Service Contracts	X			
		Review and acceptance of report on the implementation status of GASB No. 87, Leases	X			
		Review and acceptance of report on Revenue Bond Covenant and Policy Compliance		X		
		Review and acceptance of ASUH report on Recognition Awards for Service and Graduate Test Preparation Awards		X		
		ASUH – Status of Corrective Action		X		
		Clearing Accounts corrective action			X	
		UHH Student Housing corrective action		X		
		UHM Student Housing corrective action		X		

	Committee duties per bylaws	2020-2021 Committee Goals and Objectives	Projected Timeline			
			1 st Q	2 nd Q	3 rd Q	4 th Q
		Student Accounts Receivable corrective action		X		
		Check Disbursements Less than \$2,500 corrective action			X	
		Maunakea corrective action				X
		UHM Warrior Recreation Center audit				X
		Waikīkī Aquarium Audit			X	
		Conflict of Interest Management				X
		Vietnam Executive MBA audit			X	
		UH Bookstore audit			X	
	(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.	Approval of proposed Internal Audit Work Plan for 2021 – 2022				X
3	Review the annual report of the internal audit department and discuss significant issues of internal controls with the Internal Auditor and management.	Review and acceptance of draft Committee on Independent Audit Annual Report to the Board				X
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.		X	X		
5	Receive and review the annual certified financial reports with the independent certified public accountants and management.	Review and accepted audited financial and compliance reports		X		

	Committee duties per bylaws	2020-2021 Committee Goals and Objectives	Projected Timeline			
			1 st Q	2 nd Q	3 rd Q	4 th Q
6	Recommend to the Board the certified public accountants to serve as the independent auditor, and their fees.	External auditor contract		X		
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.					X
9	<i>Committee Governance</i>	Elect committee chair	X			
		Review and adopt committee work plan	X			
		Review committee's work for the year				X
		Evaluation of the Internal Auditor	X			

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

OFFICE OF INTERNAL AUDIT

Audit Plan
For the Fiscal Year Ended June 30, 2021



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 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.

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 15th. 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:	Financial, Operational, Compliance
Period under audit:	Various depending on audit

UNIVERSITY OF HAWAI'I
SODEXO FOOD SERVICE CONTRACTS

Status of Corrective Action

July 2020

DRAFT



University of Hawai'i
Office of Internal Audit



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July 28, 2020

To the University of Hawai'i Board of Regents
and

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

During the year ended June 30, 2019, Internal Audit issued a report titled "Review of Sodexo Food Service Contracts" dated March 15, 2019. The report reviewed University monitoring of and Sodexo compliance with the terms and conditions under the University's four Sodexo food service contracts (Sodexo contracts) as follows:

1. University of Hawai'i at Mānoa (UHM)
2. University of Hawai'i at Hilo (UHH)
3. UHM Athletics Department (UHM Athletics)
4. University of Hawai'i Maui College (UHMC)

The report also compared the terms and conditions between the four Sodexo contracts for consistency. The purpose of this report is to update the status of the Sodexo contracts and evaluate the status of corrective actions to address improvement opportunities and mitigate risks noted in the prior report.

As of the date of this report, Internal Audit understands that UHM is in the process of procuring a new food services contract which will be structured as a concessions contract similar to UHH. This new contract is anticipated to provide improved financial benefits to UHM when compared to the historical management contract that Internal Audit noted provided Sodexo with substantial rewards (reimbursement of all operating expenses exceeding retail sales plus management fees) with minimal risks and incentives to manage the food program efficiently and effectively. According to the UHM Contract Administrator, the current contract was extended through August 15, 2020. In addition, awarding of the new food services contract has been delayed due to COVID-19. Internal Audit also noted that the UHH Sodexo contract which expired on June 30, 2020 was extended until May 31, 2021. Internal Audit was informed that UHH Student Housing plans to issue a Request For Proposal (RFP) for future food services.

On an overall basis, the prior report concluded that monitoring the various contract terms across the four Sodexo contracts requires substantial effort. Thus, the University should investigate and consider the feasibility of entering into a single food services contract to drive efficiencies in contract management and monitoring. The Vice President of Budget and Finance/CFO determined that the differing food service requirements of each of the campuses/departments are best met by separate food service contracts that are tailored to meet those requirements. However, given the aforementioned extensions to the Sodexo contracts at UHM and UHH, Internal Audit believes that the University should re-evaluate the feasibility and benefits of a single food services contract to drive efficiencies.

Additionally, the prior report noted no significant instances of Sodexo noncompliance (minimal and insignificant instances of noncompliance were noted for three of the four Sodexo contracts (none noted in regards to the UHM Athletics Sodexo contract)). In February 2020, Internal Audit met with personnel responsible for monitoring each Sodexo contract to discuss the status of corrective actions. Internal Audit then performed audit procedures to evaluate and corroborate the verbal update. Attachment A lists Internal Audit's prior recommendations, the status of corrective actions, and Internal Audit's observations/conclusions. Overall, Internal Audit noted that UHH, UHM and UHMC personnel have made significant progress in implementing corrective actions in response to Internal Audit's recommendations.

Sincerely,

Glenn Shizumura
Director

Attachment A
University of Hawai'i Sodexo Food Service Contracts
Status of Corrective Actions

Internal Audit Recommendation	Internal Audit Observations/ Status of Corrective Action	Conclusions
UHM		
<p>Obtain and review Sodexo's schedule for major repair and replacement of all facility and equipment assets, which should then be updated annually.</p>	<p>Internal Audit reviewed Sodexo's March 2020 schedule for major repair and replacement of all facility equipment assets. This schedule is reviewed by the UHM Contract Administrator and lists equipment (refrigerators, ovens, ice machines, etc.) and the following information:</p> <ul style="list-style-type: none"> • Equipment installation date • Status (working, requires replacement, etc.) • The planned year for replacement <p>Internal Audit was informed that the UHM Contract Administrator has requested Sodexo to update the repair and replacement schedule on an annual basis.</p>	<p>Corrective action implemented.</p>
UHH		
<p>Share cash passes to evaluate food services at Hale Kehau (residential dining room)</p>	<p>Internal Audit was informed that cash passes are being shared, but have not yet been utilized to evaluate food services at Hale Kehau. The UHH Contract Administrator plans to begin using cash passes during the Fall 2020 semester.</p>	<p>Corrective action in process with full implementation planned for Fall 2020.</p>
<p>Monitor utility meters periodically to detect technical issues timely</p>	<p>Internal Audit was informed that utility meters are being monitored periodically to detect technical issues timely.</p>	<p>Corrective action implemented.</p>
<p>The UHH Contract Administrator should:</p> <ul style="list-style-type: none"> • Reestablish periodic (e.g., monthly) meetings with Sodexo personnel. Prior to these meetings, financial information should be reviewed and analyzed such that questions/concerns can be discussed during the meetings. 	<p>Internal Audit reviewed UHH Student Housing and Sodexo e-mails indicating that meetings were conducted on a periodic basis (at least monthly) between July 2019 and December 2019. Internal Audit was informed that discussion topics included financial results, semi-annual business plans, marketing initiatives, etc. Internal Audit also reviewed monthly Sodexo Operating Statements from July 2019 through December 2019 (revenues in excess of expenses of approximately \$300,000 for the 6 month period ended December 2019) and Sodexo's Fall 2019 and Spring 2020 Semi-Annual Business Plans (customer survey results, past and new promotions and initiatives, and summarized financial and customer data).</p>	<p>Corrective action implemented.</p>

Attachment A
University of Hawai'i Sodexo Food Service Contracts
Status of Corrective Actions

Internal Audit Recommendation	Internal Audit Observations/ Status of Corrective Action	Conclusions
<ul style="list-style-type: none"> Determine whether an initial inventory count of expendable and nonexpendable supplies and equipment was performed at the contract's inception. If so, annual inventory counts should be conducted to ensure inventory levels do not fall below the initial inventory. 	<p>UHH determined that no initial inventory of expendable and nonexpendable supplies and equipment was performed at the contract's inception.</p>	<p>Given that an initial inventory was not performed, the contractual requirement that Sodexo maintain expendable and nonexpendable supplies and equipment inventory levels cannot be monitored/enforced.</p>
<ul style="list-style-type: none"> Periodically review the preventative maintenance schedule to ensure equipment is properly maintained. 	<p>Internal Audit reviewed the Sodexo Cleaning and Maintenance Schedule monitored by the UHH Contract Administrators, noting a list of cleaning and maintenance activities required to be performed bi-annually, bi-monthly, monthly, weekly and daily. Internal Audit also reviewed the fiscal year 2020 invoice for hood and exhaust system cleaning.</p>	<p>Corrective action implemented.</p>
UHMC		
<p>Compare the annual budget to the staffing plan for consistency prior to approval.</p>	<p>Internal Audit reviewed the fiscal year 2020 approved budget and related staffing plan noting the total labor costs projected per the staffing plan agreed to the labor costs per the approved budget.</p>	<p>Corrective action implemented.</p>
<p>Develop a plan to improve response rates to the annual survey or determine an alternative approach to soliciting feedback.</p>	<p>Internal Audit reviewed the proposed customer service survey, which will be administered by UHMC rather than Sodexo, noting six categories (including taste/quality of food, value of the food/beverages for money, and overall cleanliness of the facility) for customers to evaluate. The UHMC Contract Administrator believes the new survey will receive a higher response rate than the previous Sodexo administered survey. The new survey is planned to be implemented during Fall 2020.</p>	<p>Corrective action in process with full implementation planned for Fall 2020.</p>

UNIVERSITY OF HAWAI‘I
GOVERNMENT ACCOUNTING STANDARDS BOARD
NO. 87, LEASES

Implementation Status

May 2020



University of Hawai'i
Office of Internal Audit



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SYSTEM

May 8, 2020

To the University of Hawai'i Board of Regents
and
University of Hawai'i Associate Vice President of Budget and Finance / Controller

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87 (GASB 87), *Leases*. GASB 87 supersedes the current operating and capital lease categories required by historical governmental accounting rules with a single lease accounting model based on the concept that leases are a means to finance the right to use an asset. On May 8, 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB 95 deferred the effective date for GASB 87 to fiscal years beginning after June 15, 2021. For the University of Hawai'i (University), GASB 87 must be implemented for the fiscal year ended June 30, 2022 with retroactive accounting application required if practicable. Accordingly, the University will be required to apply GASB 87 to leases for the year ended June 30, 2021 for presentation in the University's Consolidated Financial Statements for the year ended June 30, 2022.

Internal Audit noted that the University's General Accounting Office (GAO) has not yet developed a formalized written GASB 87 implementation plan including the planned timeline to achieve significant milestones, but has communicated an informal implementation plan to fiscal administrators (FAs). Additionally, GAO has created a listing of University leases with input from the FAs. However, Internal Audit noted a number of inconsistencies, errors and incomplete information included in the lease listing and was informed that GAO did not perform a detailed review of the listing or provide feedback to the FAs.

Internal Audit was informed by the University's Associate Vice President of Finance/Controller that during the first half of fiscal year 2021 GAO plans to develop a formal GASB 87 implementation plan, develop processes and procedures and participate in training conducted by the National Association of College and University Business Officers (NACUBO). Subsequent to the completion and issuance of the University's Consolidated Financial Statements for the year ended June 30, 2020, Internal Audit will evaluate GAO's overall implementation status of GASB 87.

Sincerely,

Glenn Shizumura
Director

I. Background

Authoritative guidance

In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87 (GASB 87), *Leases*. GASB 87 supersedes the current operating and capital lease categories required by historical governmental accounting rules (National Committee on Government Accounting Statement 5, GASB 62, et.al.) with a single lease accounting model based on the concept that leases are a means to finance the right to use an asset. Under the new rules, a lessee will generally recognize a lease liability and an intangible asset while the lessor will recognize a lease receivable and a deferred inflow of resources. On May 8, 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB 95 deferred the effective date for GASB 87 to fiscal years beginning after June 15, 2021. For the University of Hawai‘i (University), GASB 87 must be implemented for the fiscal year ended June 30, 2022.

Prior to the issuance of GASB 87, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02 in February 2016 resulting in Accounting Standards Codification (ASC) 842, *Leases*. Similar to GASB 87, ASC 842 requires substantially all leases to be presented on the Statement of Net Position (SNP)/Balance Sheet. Public business entities adopted ASC 842 for annual reporting periods (including interim periods therein) beginning after December 15, 2018. On October 17, 2019, the FASB deferred the effective date of ASC 842 for non-public entities by one year from annual reporting periods beginning after December 15, 2019 to annual reporting periods beginning after December 15, 2020 as a result of implementation challenges due to the complexities of the new lease standard. Due to COVID-19, on April 8, 2020, the FASB further deferred the ASC 842 effective date for non-public entities to December 15, 2021.

A comparison of GASB 87 to ASC 842 shows the following significant similarities and differences:

Table 1: Comparison of GASB 87 to ASC 842

Requirement	GASB 87	ASC 842
Lessees will generally record a right-of-use asset and a corresponding lease liability on the SNP/Balance Sheet	Yes	Yes
Excludes short-term (less than 12 months) leases	Yes	Yes
All leases (other than certain exclusions) are classified as financing leases	Yes	No
Leases are classified as either operating or financing (previously called capital) leases	No	Yes
Lessee lease liabilities (other than certain exclusions) are reported as long-term debt (which may impact debt covenants and debt to equity ratios)	Yes	No
Operating lease liabilities are reported as long-term operating payables	No	Yes
All lease payments (other than certain exclusions) are classified as capital financing outflows	Yes	No
Lease payments are classified as operating outflows	No	Yes

University leases

The University’s lease footnotes (Notes 10 and 12) included in the University’s Consolidated Financial Statements for the years ended June 30, 2019 and 2018 disclose the following (amounts in thousands):

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Table 2: University Leases

Year ending June 30,	Equipment leases ¹		Real property ²
	Principal	Interest	
2020	\$ 1,425	\$ 724	\$ 1,701
2021	1,539	688	1,428
2022	1,565	649	1,372
2023	1,709	609	1,069
2024	1,838	566	229
2025 – 2029	11,691	2,039	624
2030 – 2034	8,661	439	392
Thereafter	-	-	1,468
Total	<u>\$ 28,428</u>	<u>\$ 5,714</u>	<u>\$ 8,283</u>

¹Relates to two tax-exempt lease purchase (TELP) agreements to acquire energy conservation equipment for the University’s O’ahu community college campuses and Maui College, and does not include leases for other equipment, such as copiers.

²Includes but is not limited to office space, lab space and parking.

Although the University is primarily a lessee, the University is also the lessor for real property leases. The University leases building space to food vendors (e.g., Subway), and financial service institutions (e.g., UH Federal Credit Union). The University also leases housing units to faculty and staff and has issued land permits to agricultural organizations for land owned and controlled by UHWO. Accounting for leases, whether as lessee or lessor, is the responsibility of the University’s General Accounting Office (GAO). GAO is a department within the University’s Financial Management Office (FMO).

Purpose

The purpose of this audit is to evaluate the University’s readiness in adopting GASB 87 given the similar complexities of the new FASB and GASB lease standards described in the authoritative guidance section and the difficulties encountered in the private sector in connection with the adoption of ASC 842. Accordingly, Internal Audit will assess GAO’s GASB 87 implementation plan and the status of implementation.

II. Overview of GASB 87

GASB 62 is the current authoritative guidance applicable to the University with respect to lease accounting. GASB 62 classifies leases as either operating or capital leases similar to the FASB guidance prior to ASC 842. Accordingly, a capital lease is recorded as a capital asset and capital lease obligation (liability) on the SNP. Operating leases are not recorded on the SNP (off balance sheet) with periodic payments associated with operating leases recorded as an operating expense on the Statement of Revenues and Expenses (SR&E).

Under GASB 87, leases are defined as a contract that conveys control of the right to use an asset for a period of time. GASB 87 reflects GASB’s belief that all leases are financing transactions and thus created a single, symmetrical model for lessees and lessors. As noted in **Table 1**, GASB 87 eliminates distinctions between operating and capital leases and treats all leases as financing transactions. Certain exceptions apply under GASB 87, including the exclusion of short-term leases (leases with a maximum term of 12 months at inception, including any options to extend), which will be accounted for similar to the GASB 62 rules for operating leases. GASB 87 describes accounting treatment for three categories of leases: short-term leases, leases that transfer ownership of the leased asset, and all other leases.

Short-term leases

A lease agreement with a noncancelable lease term of 12 months or less is deemed a short-term lease. The accounting for short-term leases is identical to the current accounting for operating leases under GASB 62. If the University is the lessee, contractual lease payments will be recognized as rent expense on the SR&E. If the University is the lessor, rental income will be recognized on the SR&E.

Leases that transfer ownership of the leased asset

Leases that transfer ownership of the leased asset to the lessee by the end of the lease term and that do not contain termination options are treated as a sale of the asset by the lessor and a purchase of the asset on credit by the lessee. If the University is the lessee, a capital asset and long-term debt will be recognized on the SNP. In subsequent years, the capital asset will be depreciated (depreciation expense on the SR&E) over its estimated useful life. Principal (reduction of long-term debt) and interest expense (SR&E) will be recognized over the lease term.

The University as lessor would recognize a sale of the capital asset (with related gain or loss on the sale on the SR&E) and a long-term receivable (SNP). In subsequent years, payments received on the sale will be recognized as a principal reduction of the long-term receivable (SNP) and interest income (SR&E).

All other leases

All other leases are accounted for under the new single-model approach. If the lessee, the University will recognize a right-of-use asset (intangible asset) and the related lease obligation on the SNP. The lease obligation will be measured at the present value of the fixed minimum lease payments (similar to GASB 62). The right-of-use asset's balance at the commencement of the lease will equal the lease obligation plus additional payments for initial direct costs made to the lessor on or before the start of the lease term. In subsequent years, the lessee will amortize (SR&E) the right-of-use asset over the shorter period of the lease term or the useful life of the asset. Lease payments over the lease term will be recognized as a reduction of the lease obligation (SNP) and interest expense (SR&E).

If the lessor, the University will recognize a lease receivable and a corresponding deferred inflow of resources while continuing to report the capital asset on the SNP. In subsequent years, lease payments received will be recognized as a reduction of the lease receivable (SNP) and interest income (SR&E). Lease revenue (SR&E) will be recognized from amortizing the deferred inflow of resources over the lease term.

Year of adoption accounting

Retroactive application to all prior periods presented is required if practicable, using the facts and circumstances that exist at the beginning of the period of implementation or earliest year presented. Accordingly, the University will be required to retroactively apply GASB 87 to leases as of July 1, 2020 for presentation in the University’s Consolidated Financial Statements for the years ended June 30, 2022 and 2021. If, after reasonable efforts are employed, it is determined that retroactive application to July 1, 2020 is not practicable, the cumulative effect, if any, of applying GASB 87 should be reported as a restatement of net position as of July 1, 2021 and the notes to the financial statements for the year ended June 30, 2022 should disclose the reason for not restating prior periods, the nature of the restatement of beginning net position and its effect.

III. Work Performed

The Office of Internal Audit (Internal Audit) read GASB 87 and assessed GAO’s GASB 87 implementation plan and the status of implementation by performing the following:

- A. Reviewing GAO’s GASB 87 implementation plan (including the timeline for achieving significant milestones).
- B. Evaluating the status of GASB 87 implementation and assessing overall readiness for GASB 87 adoption by the University.
- C. Comparing GAO’s GASB 87 implementation plan to published GASB 87 implementation plan leading practices.

IV. Observations and Analysis

A. GASB 87 implementation plan

Internal Audit requested GAO’s GASB 87 implementation plan, including the planned timing of achieving significant milestones, but was informed that no formal implementation plan has been developed to date. However, at the quarterly FMO Fiscal Administrators (FA) meeting on September 25, 2019, the Director of GAO described the University’s GASB 87 implementation plan, which includes:

- 1. Identifying all potential University leases by
 - a. Generating various reports (e.g., rent expense and rent income reports) from the University’s general ledger
 - b. Enlisting assistance from various University offices (including but not limited to the Office of Procurement Management (OPM) and Office of Strategic Development and Partnership)
 - c. Requiring FAs to provide specific information for all leases
- 2. Develop new Administrative Procedures (AP) for leases including
 - a. Creating a definition of terms
 - b. Developing processes to collect lease data when the University enters into new leases
- 3. Ongoing communication with FAs to identify new leases or significant changes to lease terms that may require remeasurement, including
 - a. Renewals and increases in rental charges
 - b. Terminations
 - c. Contractions, expansions or impairments
 - d. Unexpected rent charges

Conclusions and recommendations

Internal Audit noted that GAO has not yet developed a formalized written GASB 87 implementation plan including a timeline to achieve significant milestones. Thus, the informal implementation plan communicated during the September 25, 2019 FA meeting should be expanded to include specific tasks to be completed and the timing of achieving significant milestones. (Refer to section C. *GASB 87 implementation plan leading practices* for additional information.)

B. Status of GASB 87 implementation

1. Identifying all potential leases

Internal Audit was informed that a complete listing of leases is not maintained by GAO. Internal Audit was also informed that the University lacks a lease process to ensure the lease accounting and related disclosures in its year-end financial statements conform with generally accepted accounting principles. For year-end lease disclosure purposes (an excerpt of the June 30, 2019 disclosure is included in **Table 2**), GAO personnel utilize the prior year’s listing of leases and request that the OPM Director review that listing for any changes.

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Internal Audit was further informed by the GAO Director that requesting FAs to provide specific information for all leases will be the primary method of identifying all University leases to create a comprehensive Lease Listing for GASB 87 implementation purposes. A link to the requested lease information (an Excel spreadsheet) on the FMO website was also provided during the September 25, 2019 meeting. Internal Audit reviewed the spreadsheet and noted instructions for FAs to provide information for each lease.

Internal Audit noted that the instructions were not sufficiently clear or specific to ensure consistency of information inputted by FAs. For example, for “Lease Payment Amount”, the instructions do not state whether both base (fixed) amounts as well as variable amounts (e.g., for a copier, the variable cost based on the number of black and white / color pages printed) should be included. There is also no restriction noted for inclusion of non-numerical information, which could lead to FAs inputting non-numerical information (i.e., information that cannot be aggregated using formulas within the spreadsheet) in an attempt to explain the complexities of their leases. This could lead to inconsistent input of information and inefficiencies when trying to aggregate financial information.

During the September 25, 2019 FMO meeting, FAs were requested to provide all requested lease information by October 31, 2019. Additionally, in FMO’s October 2019 edition of “What’s New in Financial Management” a reminder was provided to all FAs to provide all requested lease information by October 31, 2019. In mid-December, Internal Audit was informed that the majority, but not all, of FAs had provided all requested lease information. In early February 2020, Internal Audit was informed that all leases had been added to the Lease Listing and that the GAO Director believes the Lease Listing is complete but could not comment on its accuracy. Internal Audit reviewed the Lease Listing and noted 350 leases that can be categorized as follows:

Table 3: Number of University Leases by Category

Nature of Lease	Lessee	Lessor	Total
Equipment	284	-	284
Property	12	43	55
Other	6	5	11
Total	302	48	350

Of the equipment leases, 259 were noted as being for printers/copiers. Internal Audit reviewed the Lease Listing, noting the following:

- There were 25 duplicated leases. The inclusion of duplicated leases could result in the double-counting of leases in financial statement reporting and disclosures.
- There were numerous instances of missing information without explanation, including contractually required number of payments, interest rates, and lease commencement and end dates.
- There was inconsistency in the format of the input of the lease payment amount (e.g., input as text rather than a number, inclusion of additional information that should have been included in fields for “Additional Comments” or “Notes”), resulting in an inability to sum the amounts and calculate the total annual lease payments by year.

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- Vague information included in “Additional Comments” or “Notes” making it unclear as to whether it is anticipated that leases will be extended.
- Internal Audit utilized the “Lease Payment” information included in the Lease Listing to calculate the University’s expected annual lease expense and compared the amounts to the June 30, 2019 amounts recorded in the University’s general ledger for reasonableness, noting the amount calculated per the Lease Listing was approximately \$25 million greater than the amount recorded in the general ledger. Internal Audit believes the difference is primarily due to inconsistencies in lease payment information entered into the Lease Listing (i.e., inputting annual vs. monthly payment amounts, year to date lease expense amount, etc.).

Internal Audit believes the issues with the information input into the Lease Listing is a result of the instructions not being sufficiently clear and specific. Additionally, it did not appear that lease information inputted by the FAs had been reviewed by GAO to identify incorrect, incomplete, duplicated entries, etc. Internal Audit was informed by the GAO Director that a detailed review was not performed on the listing as it had not yet been determined which department would be responsible for creating and maintaining the list on an ongoing basis.

2. Developing new Administrative Procedures

The University’s policy concerning lease accounting is included in AP 8.635, *Accounting For Leases*. Internal Audit was informed that AP 8.635 will be revised to ensure compliance with GASB 87, but that revisions have not yet been drafted.

3. Ongoing communication

Internal Audit noted that FMO periodically includes information on the requirements of GASB 87 in its monthly “What’s New in Financial Management” newsletter. Additionally, GASB 87 has been included on the agenda for two of FMO’s quarterly Fiscal Administrator meetings. However, Internal Audit was informed that GAO has not yet determined the processes and procedures for the Lease Listing to be updated subsequent to establishment of the initial listing.

Conclusions and recommendations

Compiling a comprehensive listing of all University leases is an important first step in implementing GASB 87. Internal Audit noted, however, a number of inconsistencies, errors and incomplete information included in the Lease Listing. Thus, Internal Audit recommends the following for GAO’s consideration:

- Improve and clarify the instructions for input of lease information by providing specific examples and detailed guidance for each required piece of information.
- Perform a detailed review of the current Lease Listing and provide feedback to FAs including, where necessary, the requirement that FAs revise/re-input lease information. On a go forward basis, GAO personnel should review each new lease input into the Lease Listing as soon as possible and provide feedback to ensure completeness and consistency.
- Once revised instructions have been developed and detailed feedback has been provided to FAs, GAO should request that FAs revise information in the Least Listing as necessary.

Additionally, management should consider including the following in the revised AP 8.635:

- Process for maintaining/monitoring the Lease Listing
- Roles and responsibilities of personnel and University departments/offices
- Training requirements

C. GASB 87 implementation plan leading practices

Internal Audit researched industry guidance (national and regional public accounting firms, Government Finance Officers Association (GFOA), etc.) and noted the following leading practices that can be tailored for relevance and inclusion in a GASB 87 implementation plan:

1. Obtain an understanding of current lease processes, procedures and controls
 - a) Identify departments and personnel that currently maintain lease information
 - b) Determine whether agreements are maintained in one central location or decentralized
 - c) Review the records in each location in which leases are approved
2. Develop a process for determining lease inventory
 - a) Search for leases not currently being recognized or disclosed as leases to ensure completeness
 - b) Review the details of lease contracts and input lease information into a template or software (details should include lease start and end dates, monthly lease payments, borrowing costs associated with the lease, optional lease extension clauses and the likelihood that leases might be extended, optional asset purchase clauses)
 - c) Calculate the beginning balance (July 1, 2020 for the University) of lease liabilities and assets
 - d) Develop a process for maintaining (for new leases, lease expirations/terminations, changes to existing leases, etc.) lease inventory
3. Determine the required accounting for the University’s leases under GASB 87
 - a) Retroactive application
 - b) Prospective application
4. Communicate with external auditors
 - a) Receive advice/guidance
 - b) Receive feedback on implementation plan
 - c) Receive training
5. Draft revised policies, processes and procedures
 - a) Establish a lease capitalization threshold (lease amounts, individually or in the aggregate, considered to be significant to an entity thus requiring recordation on the SNP)
 - b) Establish roles and responsibilities

Internal Audit compared GAO’s verbally communicated implementation plan to published GASB 87 implementation plan leading practices and noted several similarities, including determining the lease inventory and drafting revised policies, processes and procedures. However, the verbally communicated plan did not include obtaining an understanding of current lease processes, procedures and controls or communicating with the University’s external auditors.

Conclusions and recommendations

As stated earlier, Internal Audit noted that GAO has not yet developed a formalized written GASB 87 implementation plan including the planned timeline with significant milestones to monitor and manage implementation. Without a written implementation plan, there is a greater risk that the University will be unable to properly and accurately implement GASB 87 prior to June 30, 2022 with required retroactive accounting for leases during the year ended June 30, 2021. Developing, executing and monitoring a GASB 87 implementation plan will substantially reduce this risk.

Accordingly, Internal Audit recommends GAO develop a written implementation plan with consideration given to including the leading practices noted above. The implementation plan should include key

implementation milestones with deadlines for completion. Progress in completing key milestones should be tracked/monitored periodically to ensure the University is meeting implementation plan deadlines.

V. Overall Conclusions and Recommendations

Internal Audit noted that GAO has created a Lease Listing with input from the FAs. Internal Audit also noted that GAO has not yet developed a formalized written GASB 87 implementation plan including a timeline to achieve significant milestones. Thus, the informal implementation plan communicated during the September 25, 2019 FA meeting should be formalized and enhanced to include significant milestones/tasks that must be completed (including leading practices listed in section C. *GASB 87 implementation plan leading practices*) by specific dates. Internal Audit was informed by the University’s Associate Vice President of Finance/Controller that prior to calendar year end 2020, GAO plans to develop a formal GASB 87 implementation plan, develop processes and procedures and participate in training conducted by the National Association of College and University Business Officers (NACUBO). Given the previously noted deferral of the GASB 87 effective date, Internal Audit believes GAO has sufficient time to complete GASB 87 implementation. However, Internal Audit recommends that GAO continue to develop a formal implementation plan prior to calendar year end 2020 due to the complexities of GASB 87. Additionally, Internal Audit recommends the following:

1. Prepare an accurate and complete Lease Listing:
 - Improve the instructions for input of lease information by providing specific examples and detailed guidance for each required piece of information.
 - Perform a detailed review of the current Lease Listing and provide feedback to FAs including, where necessary, the requirement that FAs revise/re-input lease information. On a go forward basis, GAO personnel should review each new lease input into the Lease Listing as soon as possible and provide feedback to ensure completeness and consistency.
 - Once improved instructions have been developed and detailed feedback has been provided to FAs, GAO should request that FAs revise information in the Lease Listing as necessary.
2. Revise AP 8.635 to include, at a minimum, the following:
 - Process for maintaining/monitoring Lease Listing
 - Roles and responsibilities
 - Training requirements
3. Develop a process for updating the Lease Listing on an ongoing basis, including determining the University office responsible for maintaining/updating the Lease Listing. This process should be included in the revised AP 8.635.

Subsequent to the completion and issuance of the University’s Consolidated Financial Statements for the year ended June 30, 2020, Internal Audit will evaluate GAO’s overall implementation status of GASB 87.