

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

APRIL 6, 2023

I. CALL TO ORDER

Chair Wayne Higaki called the meeting to order at 10:57 a.m. on Thursday, April 6, 2023, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822, with regents participating from various locations.

Committee members in attendance: Chair Wayne Higaki; Regent William Haning; and Regent Diane Paloma.

Committee members excused: Vice-Chair Gabriel Lee; Regent Laurel Loo

Others in attendance: Regent Randy Moore; Regent Abigail Mawae; Regent Alapaki Nahale-a; Regent Laurie Tochiki; and Regent Ernest Wilson (ex officio committee members); Vice President (VP) for Administration Jan Gouveia; VP for Academic Affairs Debora Halbert; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Provost Michael Bruno; UH Hilo Chancellor Bonnie Irwin; UH West O'ahu Chancellor Maenette Benham; Interim Executive Administrator and Secretary of the Board of Regents (Interim Board Secretary) Jamie Go; and others as noted.

II. APPROVAL OF MINUTES

Chair Higaki inquired if there were any corrections to the minutes of the December 1, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Interim Board Secretary Go announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Review and Acceptance of the University of Hawai'i Audited Financial Reports for the Year Ended June 30, 2022, including:

1. Internal Control and Business Issues Report

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

Cory Kubota, with Accuity LLP, provided a brief overview of the internal control and business issues report (ICBIR) stating that this report consisted mainly of comments and observations from Accuity that were noted in the course of auditing the university's consolidated financial statements and compliance reports for the year ended June 30, 2022. A total of six comments regarding issues involving either university or board policies were included in this year's ICBIR, none of which were of significance. It was also noted that the administration's corrective action responses to the ICBIR were provided in the committee materials.

Regent Paloma moved to accept the University of Hawai'i audited financial reports for the year ended June 30, 2022, including the ICBIR and corrective action responses for the ICBIR, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

B. Review and Acceptance of Associated Students of the University of Hawai'i at Mānoa (ASUH) Audited Financial Statements – Years Ended June 30, 2021, 2020, and 2019 and Internal Control and Business Issues Report

Cory Kubota, with Accuity LLP, pointed out that, although ASUH Bylaws requires annual financial audits to be conducted, the last formal review of ASUH's financial statements took place in fiscal year 2018. As such, Accuity was commissioned to perform an audit of ASUH's financial statements for the fiscal years ended June 30, 2021, 2020, and 2019. He reviewed financial statement highlights for each of the fiscal years that were audited, underscoring the impact of the COVID-19 pandemic on ASUH's financial activities; noted the existence of the ASUH Stadium Stock Fund, monies from which are primarily used to fund scholarships and student activities at UHM; and referenced required communications contained within Accuity's report.

Citing references to management contained within Accuity's report, Board Chair Moore inquired as to who was considered management with respect to ASUH. Mr. Kubota replied that ASUH student representatives essentially are considered to be management although they are supported by faculty advisors. Dr. Theresa Crichfield, Associate Vice Provost for Student Success and Dean of Students at UHM, confirmed that, while members of the faculty and administration provide oversight and guidance to ASUH, the duly elected students of ASUH's governing board are responsible for making all decisions related to this student governance body and are therefore considered to be the organization's management team.

Given this information and stating that student government organizations frequently experience high turnover rates, Board Chair Moore asked whether it would be more appropriate for faculty advisors and fiscal administrators to respond to directives from an external auditor rather than students. Mr. Kubota agreed that the nature of student government organizations often leads to high membership turnover. While students, faculty advisors, and fiscal administrators could address directives or proposed

corrective actions from an external auditor via a shared responsibility approach, he opined that designating faculty advisors and fiscal administrators as the parties responsible for responding to an external auditor's recommendations would afford greater continuity to the process.

Regent Haning moved to accept the ASUH audited financial statements for the years ended June 30, 2021, 2020, and 2019, and the internal control and business issues report, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

C. Review and Acceptance of the Office of Internal Audit Review of ASUH – Investment Policy Compliance Report

Glenn Shizumura, Director of the Office of Internal Audit (OIA), reviewed the findings of an audit conducted on ASUH's compliance with the requirements of Regents Policy (RP) 8.207 related to procedures and guidelines for the administration of the ASUH Stadium Stock Fund. He stated that OIA identified 10 instances of policy non-compliance noting that the majority of these cases could be attributed to a lack of quarterly meetings held by the ASUH Long-Range Planning and Investments Committee and ASUH's inconsistent participation in meetings of the board's Committee on Budget and Finance. He also spoke about OIA's recommended corrective actions including the development of a checklist to manage and monitor compliance with RP 8.207 and the enhancement of compliance tables included in the quarterly investment statements provided to ASUH by its investment advisor, Graystone Consulting.

Board Chair Moore reiterated that student government organizations often experience high turnover and expressed his belief that this could be an explanation for some of ASUH's non-compliance issues with RP 8.207. He encouraged the university administration to take a more active role in advising ASUH members about the policy's requirements. Internal Auditor Shizumura concurred with this assessment.

Regent Haning asked about the incentive for ASUH representatives to participate in the meetings noted in OIA's report in order to improve compliance with RP 8.207. Internal Auditor Shizumura replied that the creation of compliance checklists and better training of ASUH members with respect to the requirements of RP 8.207 could serve to incentivize meeting participation. Dr. Crichfield added that ASUH representatives take their responsibilities seriously and are working on improving internal processes to ensure meeting attendance, such as the establishment of a calendar noting quarterly and other required meeting dates. Rudy Ramirez, ASUH President, acknowledged the importance of addressing the concerns raised in OIA's audit and emphasized ASUH's ongoing commitment to responsible financial management and oversight. He also stated that ASUH is taking steps to review and revamp internal processes to make any necessary improvements to address the audit's findings.

For the edification of the new regents and members of the public, Board Chair Moore pointed out that the board is responsible for management of the funds contained

within the ASUH Stadium Stock Fund but has delegated operational authority over the Fund to ASUH.

Regent Paloma suggested that OIA increase its communications with ASUH's faculty advisors and fiscal administrators about the requirements of RP 8.207 to further ensure policy compliance going forward.

Chair Higaki inquired as to whether OIA will be conducting a follow-up audit of this matter during the next fiscal year. Internal Auditor Shizumura responded in the affirmative stating that OIA will present a report to the committee next year on the status of ASUH's corrective actions.

Regent Haning moved to accept the report on OIA's review of ASUH investment policy compliance, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

D. Review and Acceptance of the University of Hawai'i Systemwide Financial Reserves Report

Internal Auditor Shizumura presented a report on OIA's audit of the university's systemwide financial reserve policies highlighting the existence of both an Executive Policy (EP) and RP associated with the university's financial reserves. He spoke about the objectives of the compliance report noting that, as of June 30, 2022, the university maintained a balance of approximately \$542.4 million in financial reserves which was well above EP and RP requirements; described the work performed by OIA; and summarized OIA's findings and recommendations, including the clarification of inconsistencies between various terms contained within the two financial reserve policies and giving consideration to identifying and defining additional reserve categories.

Chair Higaki inquired as to whether OIA will be conducting a follow-up audit of this matter during the next fiscal year. Internal Auditor Shizumura responded in the affirmative stating that OIA will present a report to the committee next year on the status of the administration's corrective actions.

Board Chair Moore asked if OIA will be working with VP Young to clarify ambiguities in policy terminology identified in the audit and develop language for any necessary amendments to the EP and RP. Internal Auditor Shizumura replied in the affirmative.

Regent Paloma moved to accept the University of Hawai'i systemwide financial reserves report, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

E. Review and Acceptance of Clery Act Compliance Status of Corrective Action

Internal Auditor Shizumura reported on the status of corrective actions taken by the administration to address improvement opportunities and mitigate risks documented in a

report dated April 27, 2022, titled “Clery Act Compliance Review”. He reviewed several of the objectives of the initial audit, as well as recommended corrective actions contained within the initial audit report, and noted that the administration has implemented all of the suggested corrective actions to the satisfaction of OIA.

Regent Haning moved to accept the Clery Act status of corrective action, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

F. Review and Acceptance of the Follow-Up Report on the University Bookstore System (Bookstore) Status of Corrective Action

Internal Auditor Shizumura explained that, in June 2022, the committee was provided with a report on the status of corrective actions taken by the Bookstore to address improvement opportunities and mitigate risks documented in a report dated January 29, 2021, titled “Review of University Bookstore System”. Although the June 2022 report found that corrective actions to address the risks and challenges of certain financial and operational matters were implemented, it also noted that a plan to address the remaining corrective action recommendations, including the timely preparation of accurate and complete financial information and the analysis of such information for operational purposes, was in the process of being implemented. Accordingly, OIA conducted a follow-up audit to assess the Bookstore’s implementation of the remaining corrective action recommendations. As described in OIA’s follow-up report, the Bookstore has engaged KMH LLP to analyze operations and assist in the implementation of corrective actions to mitigate the remaining risk factors identified in the initial status of corrective action audit. Thus, OIA finds that the implementation of all suggested corrective actions has been completed.

Chair Higaki sought to confirm his understanding that KMH LLP has been assisting the Bookstore for the past six months. Internal Auditor Shizumura replied in the affirmative noting that KMH LLP was engaged by the Bookstore in September 2022.

Regent Paloma inquired as to when the next regularly scheduled audit of the Bookstore would be occurring. Internal Auditor Shizumura explained that university entities are not subjected to regularly scheduled audits conducted by OIA. Rather, OIA works with the administration in developing an annual audit work plan which is then presented to the committee for its approval. However, he stated that the committee, board, OIA, or administration can request additions to the audit work plan at any time.

Regent Paloma moved to accept the follow-up report on the University Bookstore System status of corrective action, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

Regent Mawae arrived at 11:39 a.m.

G. Audit Project Status Update

Internal Auditor Shizumura provided a status update on the projects and audits outlined in the Audit Work Plan and presented a chart indicating new and ongoing carryover projects as well as their current status.

Regent Nahale-a asked for clarification on the meaning of the colors used in the audit project status chart. Internal Auditor Shizumura replied that the colors on the chart are used to indicate the respective audit phase that a project is currently in. Green indicates completion of the phase. Yellow indicates that a phase will be completed shortly, such as in the case of the four reports being presented to the committee for acceptance at the current meeting. Once the reports have been accepted by the committee, the yellow shading will be changed to green. White sections indicate that the audit phase is still in progress or has not yet been initiated.

Given past instances in which OIA has experienced issues with respect to the cooperation of an auditee, Regent Nahale-a inquired about the avenues available to OIA to address this matter. Internal Auditor Shizumura replied that OIA has an internal process that it uses to address instances where an auditee is uncooperative. OIA also has the option of reporting these issues to the Chair of the IA Committee for possible committee action.

H. Whistleblower Report

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports and reviewed some of the specific information contained within these reports noting that incidents involving employment or human resources-related issues constituted the majority of whistleblower cases for the current reporting period.

Chair Higaki asked about the type of individuals encompassed by the non-employee reporter classification. Internal Auditor Shizumura replied that this reporter classification included students and individuals who are not associated with the university.

I. Enterprise Risk Management (ERM) Update

Darren Suzuki, Director of the Office of Risk Management, provided background information on ERM and the development of a risk heat map that identifies the top risk categories for the university. He spoke about a recently completed external review of the university's ERM program which found that the risks faced by the university are comparable to those encountered by other public universities; the program is on the right path; and the risk heat map is an effective tool for managing the university's risk exposure. In late 2022, the administration also initiated a comprehensive review of the risk categories used by the university, which resulted in the updating of risk descriptions and the recalibration of the heat map. Director Suzuki reviewed key risks and risk categories for the university and went over the shifts in impact and probability that have occurred with respect to the identified risks plotted on the heat map since it was last presented to the committee in 2021.

VP Yoshimi discussed the increase in impact and probability with respect to identified risks associated with information technology (IT) stating that a rise in frequency and significance of IT threats experienced by a broad spectrum of entities,

including institutes of higher education, warranted this change. He stressed that cybersecurity has always been a priority for the university and spoke about a comprehensive peer review of the university's systemwide information security program that was begun in early 2022. Fieldwork for this project has been completed and a report on the findings and recommendations of this review is currently being drafted. The administration is expecting the report to contain several security enhancement and response recommendations that will assist the university in improving its management of IT risks going forward.

Regent Nahale-a asked about the rationale for dramatic changes experienced in the construction/facilities and personnel/workforce risk categories. Director Suzuki replied that positive changes in the construction/facilities risk category can be credited to increases in systemwide construction and repair projects which has resulted in a concomitant decrease in deferred maintenance. On the other hand, increases in personnel attrition due to retirement and other factors, as well as difficulties in filling vacant positions, mainly accounted for the negative changes to the personnel/workforce risk category.

In light of these explanations, Regent Nahale-a questioned why the personnel/workforce risk category would not be an area of particular focus or close monitoring by the university as designated by the solid and dashed circles on the risk heat map. VP Gouveia responded that the issues contained within the orange-red portion of the risk heat map are considered to be of higher importance. She also agreed that a circle could be placed around that particular category.

Chair Higaki recognized the late Regent Emeritus Michael McEnerney for his efforts in getting the university's ERM program established stating that this will be his legacy.

J. Update on the Follow-Up Report on the Waikīkī Aquarium (Aquarium) Status of Corrective Action

Provost Bruno acknowledged receipt of the draft follow-up report on the Aquarium status of corrective action but stated that addressing some of the remaining risks and challenges identified in the initial Aquarium status of corrective action report has proven to be difficult. The impacts of the COVID-19 pandemic on Aquarium staffing and revenue generation dealt a devastating blow to Aquarium operations, the effects of which are still being felt today. Despite these challenges, the administration continues its efforts to address the findings and recommendations contained within the status of corrective action follow-up report, which it takes seriously. It was noted that Sandy French, UHM Chief Budget Officer, is working with aquarium personnel to deal with questions concerning financial planning, year-over-year fluctuations in revenues and expenditures, and implementation of procedures for the luau concession, as well as the gift shop operations. Additionally, the administration is actively working on several high-level strategic issues that will have a significant bearing on both the financial picture for, and the operations of, the Aquarium. These matters include restarting of the luau program, fully integrating gift shop and overall Aquarium operations, rebuilding of the Aquarium's management team and staff, and examining how the Aquarium can best be incorporated into the broader UHM education and research activities. Provost Bruno

expressed his gratitude to the committee for taking the extraordinary difficulties being faced by the Aquarium into account and delaying action on this report to a later meeting.

V. ADJOURNMENT

There being no further business, Chair Higaki adjourned the meeting at 12:01 p.m.

Respectfully Submitted,

Jamie Go
Interim Executive Administrator and
Secretary of the Board of Regents

UNIVERSITY OF HAWAI‘I AT MANOĀ

WAIKĪKĪ AQUARIUM

Status of Corrective Actions – Follow up

May 2023



University of Hawai'i
Office of Internal Audit



UNIVERSITY
of HAWAII®
SYSTEM

May 5, 2023

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

In May 2021, the University of Hawai'i Office of Internal Audit (Internal Audit) issued a report titled *University of Hawai'i at Mānoa Review of the Waikīkī Aquarium* dated January 29, 2021. In connection with the audit, Internal Audit identified various financial, operational and compliance risks and challenges. This report and the Waikīkī Aquarium's (Aquarium) response, dated April 28, 2021 were reviewed and accepted by the University of Hawai'i Board of Regents' Committee on Independent Audit (Audit Committee) on May 6, 2021.

In March 2022, Internal Audit issued a Status of Corrective Action report noting that the Aquarium had addressed certain risks and challenges including the segregation of incompatible duties, comparing and reconciling financial information from Aquarium financial systems to the University's Kualī Financial System and the preparation of accurate and complete financial results. However, the risks and challenges associated with the implementation of procedures to gift shop inventory adjustments, recordation of third-party vendor payments on behalf of the Aquarium and ensuring compliance with University policies and procedures were either not implemented or were in process of resolution.

As described in the accompanying report, corrective actions have not been implemented for eight (8) of the 15 identified risks. Internal Audit believes this results in significant risk to the Aquarium and recommends that University of Hawai'i at Mānoa senior leadership manage and monitor the Aquarium's implementation of corrective actions on a monthly basis.

Sincerely,

Glenn Shizumura
Director

I. Background

Founded in 1904 and administered by the University of Hawai‘i (University) at Mānoa (UHM) since 1919, the Waikīkī Aquarium (Aquarium) is located on the shoreline of Waikīkī Beach across from Kapi‘olani Park. According to the Aquarium website, the Aquarium has in excess of 500 exhibits displaying more than 3,500 marine specimens. The Aquarium’s exhibits, education programs, and research focus on the unique aquatic life of Hawai‘i and the tropical Pacific. As a result of the COVID-19 pandemic, the Aquarium closed during March 2020, re-opened in late June 2020, closed for a second time in late August 2020 and re-opened again on July 1, 2021.

As noted in the *University of Hawai‘i at Mānoa Review of the Waikīkī Aquarium* report issued by the Office of Internal Audit (Internal Audit) dated January 2021, Internal Audit identified various financial, operational and compliance risks and challenges including the performance of incompatible financial duties by Aquarium personnel, the lack of comparing and reconciling financial information from Aquarium financial systems to the University’s Kuali Financial System (KFS), inconsistent preparation of accurate and complete financial results, non-compliance with various University policies and procedures and uncertainties regarding the resolution of the Aquarium’s wastewater discharge system.

In March 2022, Internal Audit issued a Status of Corrective Action report noting that the Aquarium had addressed certain risks and challenges including the segregation of incompatible duties, comparing and reconciling financial information from Aquarium financial systems to the University’s KFS and preparation of accurate and complete financial results. However, the risks and challenges associated with the implementation of procedures to gift shop inventory adjustments, recordation of third-party vendor payments on behalf of the Aquarium and ensuring compliance with University policies and procedures were either not implemented or were in process of resolution. In November 2022 and again in December 2022, Internal Audit informed Aquarium personnel that audit procedures in connection with this audit would commence in January 2023. A draft audit report was provided to the Aquarium and UHM financial management personnel on February 3, 2023. As of the date of this report, the Aquarium continues to work on implementing corrective actions.

Condensed text of Internal Audit’s January 2021 and March 2022 reports are included in this report for reference and context purposes. The text in the “2023 Status” sections describe the corrective action status as of May 2023.

II. Corrective Action Status

This section evaluates the 2023 Status of Internal Audit’s recommendations. A condensed summary of Internal Audit’s 2021 observations and recommendations, management’s 2021 response and Internal Audit’s status of corrective actions and conclusions both included in the March 2022 report are described below.

A. Segregation of duties

1. 2021 report:

Internal Audit Observation and Recommendation

The Visitor Services Supervisor and Events Coordinator perform incompatible duties within the admissions and private event rental processes, respectively. Custody of assets (sales proceeds), recording of transactions, and comparing proceeds to recorded transactions performed by a single employee result in a lack of segregation of duties and increase the risk of errors or fraud related to these revenue sources. The gift shop may experience a similar segregation of duties issue upon its re-opening with the Assistant Manager as a result of the dismissal of the Manager.

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Management Response

The Aquarium agrees with Internal Audit’s recommendation and is in the process of formulating a plan to separate two of three duties mentioned to other responsible staff. The plan will be completed for implementation prior to reopening both the Aquarium and gift shop.

2. 2022 Corrective Action Status report:

Status

The Administrative Officer compares sales reports from its admissions and the gift shop systems to sales recorded in KFS on a daily basis. Differences are investigated with accounting adjustments recorded as deemed necessary. Temporary employees (less than 90 days) have been hired in the gift shop in order to improve the segregation of incompatible duties.

Conclusion

Corrective action implemented.

3. **2023 Status**

The Administrative Officer informed Internal Audit in January 2023 that he continues to compare daily sales reports from the Aquarium’s admissions and the gift shop systems to sales recorded in KFS. Internal Audit requested and reviewed sales reports dated May 15, 2022 and compared these reports to KFS noting no differences supporting the Administrative Officer’s representation.

The Administrative Officer also informed Internal Audit that a gift shop manager was hired in December 2022. The hiring of the gift shop manager coupled with the hiring of gift shop employees (two full time and one part time) as well as the Administrative Officer’s additional involvement with gift shop operations should allow for the mitigation of incompatible duties performed by a single employee.

Conclusion

Corrective action remains implemented.

B. Altru POS system (Altru)

1. 2021 report:

Internal Audit Observation and Recommendation

Admission fees recorded in Altru and KFS did not agree. These differences could not be explained by the Administrative Officer and would have been detected if Aquarium personnel compared transactions summarized in Altru and posted in KFS on a monthly basis. The asserted Altru limitations requiring online ticket sales proceeds to be credited to a Friends of the Waikiki Aquarium (FOWA) bank account appear unreasonable. Private event rental fees are also processed by Altru. However, and contrary to the posting of admission fees to KFS, private event rental fees are posted to KFS from a manual spreadsheet.

Internal Audit recommends that the Administrative Officer compare and investigate differences related to transactions summarized in Altru and posted to KFS to ensure accurate recordation of sales proceeds.

Management Response

The Aquarium agrees with Internal Audit’s recommendations. An additional process will be added to end of day balancing to include daily sales reports including private event proceeds for verification purposes.

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2. 2022 Corrective Action Status report:

Status

The Administrative Officer performs a daily comparison of transactions summarized in Altru and posted in KFS. Differences are investigated with accounting adjustments recorded as deemed necessary.

Conclusion

Corrective action implemented with respect to comparing and investigating differences between Altru and KFS. Online ticket sale proceeds deposited to the University’s bank account has been investigated and is expected to be resolved with the implementation of a new POS system.

3. **2023 Status**

The Administrative Officer informed Internal Audit in January 2023 that he continues to compare and investigate differences between Altru and KFS on a daily basis. Internal Audit requested and reviewed an Altru to KFS comparison dated May 15, 2022 noting no differences supporting the Administrative Officer’s representation. The Administrative Officer also stated that the Aquarium expects to implement a new POS system during 2023.

Conclusion

Corrective actions remain implemented.

C. Operating deficit

1. 2021 report:

Internal Audit Observation and Recommendation

The Aquarium projects a cashflow deficit for the year ended June 30, 2021 and has incurred historical operating deficits. However, the Aquarium has not developed a plan to address these deficits and the potential ongoing financial and operational challenges (i.e., restrictions on group size and social distancing requirements) presented by COVID-19. The development of a plan to address the Aquarium’s current and potential ongoing financial and operational challenges is critical. Immediate consultation with University senior leadership is warranted.

Management Response

The Aquarium concurs with the recommendation. The Aquarium apprised University senior leadership of COVID-related financial impacts last Spring, and continues to work with the Office of the Provost, the Office of the Vice Chancellor for Administration, Finance, and Operations, and others to address both financial and operational challenges.

2. 2022 Corrective Action Status report:

Status

Approximately \$3 million in COVID-19 related relief funds were awarded to the University for the Aquarium by the Small Business Association (SBA) (\$2 million) and State of Hawai‘i COVID-19 State Recovery Funds (\$1 million). The \$1 million from the State of Hawai‘i was received in December 2021 and is being used for staffing and utility expenses.

The Aquarium projects revenue in excess of expenses for fiscal year 2022 amounting to approximately \$200,000 inclusive of the receipt of the \$1 million COVID-19 State Recovery Funds.

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Conclusion

Corrective action implemented for the near term as a result of the receipt of COVID-19 relief funds. Internal Audit believes that the Aquarium must still develop a plan to address potential ongoing financial and operational challenges for fiscal years subsequent to 2022.

3. **2023 Status**

Table 1 includes Administrative Officer provided Statements of Revenues and Expenses for the years ended June 30, 2022 and 2021. The Administrative Officer and UHM accounting personnel continued to revise the year ended June 30, 2022 account balances through May 2023. Accordingly, the ability of the Aquarium to properly analyze financial results on a timely basis is negatively impacted by the Aquarium’s inability to finalize account balances until 10 months after year end. The Statements of Revenues and Expenses for the years ended June 30, 2020 and 2019 were included in Internal Audit’s 2021 report.

Table 1: Waikiki Aquarium Financial Results

Waikiki Aquarium					
Statements of Revenues and Expenses (Unaudited)					
Cash Basis					
Years Ended June 30,					
	<i>Ref</i>	2022	2021	2020	2019
Revenues					
Admission fees	1	\$1,564,370	\$ 73,966	\$1,387,345	\$2,077,377
Facility rental (refunds)		1,532	(22,000)	458,168	646,584
Gift shop	1	772,539	60,376	517,604	721,255
State of Hawai‘i general fund appropriations		671,749	729,370	699,349	662,168
FOWA receipts	2	-	195,000	275,486	45,000
Other		286,884	28,414	238,603	271,790
Total revenues		<u>\$ 3,297,074</u>	<u>\$1,065,126</u>	<u>\$3,576,555</u>	<u>\$4,424,174</u>
Expenses					
Personnel	3	\$1,589,515	1,689,486	\$2,334,785	\$2,473,775
Utilities	4	666,478	287,830	750,663	468,578
Gift shop inventory purchases		259,200	11,210	204,970	353,770
Other	5	386,952	252,895	816,701	830,089
Total expenses		<u>2,902,145</u>	<u>2,241,422</u>	<u>4,107,119</u>	<u>4,126,212</u>
Revenues in excess (deficiency) of expenses prior to non-recurring items		394,929	(1,176,296)	(530,564)	297,962
Non-recurring revenues					
COVID 19 relief funds		1,000,000	-	-	-
Revenues in excess (deficiency) of expenses		<u>\$ 1,394,929</u>	<u>\$(1,176,296)</u>	<u>\$ (530,564)</u>	<u>\$ 297,962</u>

1. *Gift Shop and admission fees*

The Administrative Officer could not adequately explain and support the increase in FY 2022 gift shop revenues (\$51,284 or 7%) in comparison to FY 2019 (pre-COVID) while admission fees decreased by \$513,007 or 25% between FY 2022 and FY 2019. In addition, the Aquarium did not reconcile the sales and cost of sales balances from the Aquarium’s gift shop Merchandise Analysis reports generated by the Gift Shop’s NCR POS System to KFS.

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2. *FOWA Receipts*

The Administrative Officer stated that no FOWA receipts were received during fiscal year 2022. As described in Section F. *FOWA and University of Hawai‘i Foundation* below, the Aquarium’s agreement with FOWA requires FOWA to remit 50% of FOWA annual membership fees to the Aquarium annually.

3. *Personnel*

The Administrative Officer stated that the decrease in personnel costs during the years ended June 30, 2022 and 2021 are attributable to a decrease in the number of employees. According to the Administrative Officer, the Aquarium employed 24 employees during the fiscal year ended June 30, 2022, 23 employees during the fiscal year ended June 30, 2021 and 35 employees during the fiscal years ended June 30, 2020 and 2019. The Aquarium stated that the 24 employees are currently sufficient to maintain the Aquarium’s 500 exhibits but is not sustainable. Internal Audit was informed that the Aquarium is currently assessing its staffing needs and updating job descriptions. The Aquarium did not provide an expected completion date for the staffing assessment or an estimate of an acceptable increase to budgeted personnel costs.

4. *Utilities*

Utilities consist of electricity and water/sewer charges. The Administrative Officer stated the significant decrease in FY 2021 is due to the Aquarium not paying or recording its water/sewer fees. The Administrative Officer provided Internal Audit with KFS documents supporting the processing of a \$316,000 payment on September 28, 2022 related to the balance noted on a June 2022 Board of Water Supply statement.

5. *Other expenses*

Other expenses primarily consist of repairs and maintenance, supplies (including feed for the exhibits), freight, and printing. The Administrative Officer stated that the significant decrease during the fiscal year ended June 30, 2021 was the result of the Aquarium’s COVID-19 closure but could not explain the significant decrease for the year ended June 30, 2022 when compared to the years ended June 30, 2020 and 2019.

Conclusion

The Aquarium incurred financial losses during the years ended June 30, 2021 and 2020. Although the Aquarium recognized a financial profit for the year ended June 30, 2022, Internal Audit believes the previous recommendation regarding the need for the Aquarium to develop a plan to address potential ongoing financial and operational challenges remains. In addition, the inability to explain significant year over year financial variances as well as the untimely preparation of financial reports negatively impacts the Aquarium’s ability to effectively manage and monitor its financial results.

D. Financial analysis

1. 2021 report:

Internal Audit Observation and Recommendation

The Aquarium has not evaluated the adequacy of private event rental fees and luau revenues to cover the associated expenses. With respect to the gift shop, the Administrative Officer does not review and analyze financial results including comparing actual to target gross margins on a periodic or annual basis. The Aquarium also does not prepare accurate and complete financial reports as well as monthly budget to actual reports.

The Aquarium must evaluate the adequacy of private event rental fees and luau revenues to cover the associated expenses to determine if the amounts charged provide the Aquarium with sufficient profit or any profit. The Administrative Officer must also prepare periodic and annual financial reports for the gift

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

shop to analyze financial results including comparing actual to target gross margins on a periodic and annual basis.

Management Response

The Aquarium concurs with the recommendations, and a detailed breakeven analysis will be conducted to determine profitability of our private events and luau. This will be completed prior to resuming the luau and private events.

At the conclusion of the annual gift shop inventory, a review and recap of sales pricing and gross margins will be undertaken to include considerations for allocating common expenses such as utilities, security and space. At least quarterly, product sales reports will be reviewed to assess product flow, length of time in inventory and pricing. Additionally, monthly sales/revenue reports will be reviewed and distributed to Department Heads and gift shop personnel.

2. 2022 Corrective Action Status report:

Status

The Aquarium has suspended private event facility rentals and is in the process of soliciting a new luau vendor. The Aquarium is also in the process of evaluating the appropriate pricing for these events.

With respect to the gift shop, the Administrative Officer has not prepared financial results or compared actual gross margins with target gross margins on a periodic or annual basis.

Conclusion

Corrective action in process for private event facility rentals and luau events. Corrective action not implemented related to the gift shop.

3. **2023 Status**

The Administrative Officer informed Internal Audit that the University’s Office of General Counsel (OGC) is currently reviewing a draft contract with a new luau vendor.

The Administrative Officer provided a gross margin analysis for the quarter ended December 31, 2022 compared to the quarter ended September 30, 2022. However, an analysis comparing actual gross margins to target gross margins (periodic or annual) was not performed.

Conclusion

Corrective action remains in process for private event facility rentals and luau events.

Corrective action not implemented with respect to gift shop gross margin analysis.

E. Processes and procedures

1. 2021 report:

Internal Audit Observation and Recommendation

The Aquarium lacks processes and procedures related to the invoicing and recording of luau revenues to KFS. In addition, gift shop inventory adjustments are not required to be reviewed and approved by the Administrative Officer. Accordingly, the risk of potential errors increases with respect to luau revenues and gift shop inventory.

In order to decrease the risk of potential errors with respect to luau revenues, the Aquarium should develop processes and procedures related to the invoicing and recording of luau revenues to KFS. With respect to

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

gift shop inventory, the Administrative Officer should review and approve inventory adjustments to the NCR POS system.

Management Response

We agree with the potential risks identified by Internal Audit. A process and procedure will be developed to require monthly sales reports and appropriate verifications from the vendor. These reports will assist the Events Coordinator in preparing their invoice. The Fiscal Administrative Assistant and/or Administrative Officer will verify the invoices and ensure monies received match the invoice, and will address any differences with the Events Coordinator. The payment will then be posted to KFS.

An additional procedure will be included in the gift shop’s operating manual to include a section on inventory adjustments, requiring an additional person to review and approve.

2. 2022 Corrective Action Status report:

Status

Processes and procedures have not been developed for the invoicing and recording luau revenues to KFS. Additionally, the Aquarium had not implemented a procedure requiring the Administrative Officer to review and approve inventory adjustments to the NCR POS system.

Conclusion

Corrective actions not implemented.

3. **2023 Status**

The Administrative Officer provided Internal Audit with a document with the proposed process for invoicing and recording luau revenues. Internal Audit reviewed the document noting significant gaps and process deficiencies. Examples of these gaps and deficiencies include the following:

- Lack of procedures and controls to validate number of luau guests.
- Inadequate segregation of duties.
- Lack of procedures describing the manner of invoice distribution.
- Lack of procedures to follow-up on unpaid invoices.

With respect to the Aquarium’s gift shop processes including procedures to review and approve inventory adjustments, the Administrative Officer must enhance and accurately describe the gift shop’s overall processes and procedures including the functionality of the NCR POS System.

Conclusion

Corrective actions still not implemented.

F. FOWA and University of Hawai‘i Foundation (UHF)

1. 2021 report:

Internal Audit Observation and Recommendation

Net assets of the FOWA may represent an additional source of funding for the Aquarium. However, the Aquarium has not secured a funding commitment from the FOWA. Additionally, the Aquarium does not monitor the FOWA’s compliance with the terms and conditions of the Aquarium/FOWA Memorandum of Understanding (MOU) or reflect FOWA and UHF payments (capital improvements and expenses) directly to vendors on behalf of the Aquarium in KFS or the Aquarium’s financial reports.

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

The Aquarium should establish processes and procedures to monitor the FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support.

The Administrative Officer should, at minimum, record FOWA and UHF vendor payments made on behalf of the Aquarium in the Aquarium’s internal financial reports to provide a comprehensive representation of the Aquarium’s net position and results of operations. Exclusion of these on behalf payments may result in improper budgeting guidance for subsequent years.

Management Response

The Aquarium concurs with this recommendation, and in October 2020, the Provost formed an Aquarium Renewal Task Force, whose role is to plan, fund and coordinate Aquarium renewal and renovation issues moving forward.

2. 2022 Corrective Action Status report:

Status

The Aquarium has not established processes and procedures to monitor FOWA’s compliance with the terms and conditions of the MOU to ensure the Aquarium is receiving the required financial support. FOWA and UHF vendor payments made on behalf of the Aquarium remain unrecorded in either the Aquarium’s internal financial reports or KFS.

Conclusion

Corrective actions not implemented.

3. **2023 Status**

The Administrative Officer informed Internal Audit that the Aquarium’s Director met with FOWA leadership in January 2023 as a result of Internal Audit inquiry regarding MOU compliance and obtained FOWA’s commitment to remit the 50% of membership revenues as required by the MOU. The Administrative Officer also stated that the Aquarium’s Director and Administrative Officer will commence attending two FOWA board meetings on an annual basis for purposes of managing and monitoring MOU compliance.

FOWA and UHF vendor payments made on behalf of the Aquarium remain unrecorded in either the Aquarium’s internal financial reports or KFS.

Conclusion

Internal Audit believes attending FOWA board meetings will assist in managing and monitoring MOU compliance. However, formalizing the compliance process by creating a document such as a checklist documenting all FOWA requirements will enhance the compliance process.

Corrective actions regarding the recordation of FOWA and UHF vendor payments made on behalf of the Aquarium remain not implemented.

G. Executive Policies and Administrative Procedures

1. 2021 report:

Internal Audit Observation and Recommendation

The Aquarium does not monitor its financial results in accordance with Administrative Procedure (AP) 8.025 or the Aquarium’s functional statement. Monthly internal financial and budgetary statements are not prepared, transactions and accounts are not reconciled from Aquarium sub-systems to KFS on a regular

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

basis and reporting of transactions lack accuracy and completeness. The Aquarium is also in noncompliance with various University policies and procedures with respect to the use of the Aquarium’s facilities for private events, luau and photography services as follows:

- Executive Policy (EP) 8.200 - exclusion of terms and conditions required in the facilities use agreement and insurance coverage templates
- EP 11.202 – no University approval and vendor/customer liquor commission license for the service of alcoholic beverages
- AP 1.200 – facility rental competes with privately owned facilities; no University approval for not utilizing the University’s food and beverage vendor
- AP 8.230 –luau and photography agreements not reviewed and approved by Office of Procurement Management
- AP 8.400 – lack of indemnification clauses and minimum insurance coverage requirements
- AP 8.710 – indefinite retention and storage of credit cardholder data

Noncompliance with University policies and procedures exposes the University to significant financial, operational, and reputational risk that would be mitigated by adherence to these requirements. The prevalence of verbal agreements creates additional issues of enforcing agreed upon terms and conditions.

Preparation of accurate and complete financial reports (financial results and budget to actual) on a monthly and annual basis is critical for financial planning, assessing operations and determining future strategies. These reports should be distributed to appropriate University personnel for review and comment. In addition, transactions and accounts recorded to Aquarium sub-systems must be reconciled to KFS on a monthly and annual basis. Reconciliations will assist in the detection of errors in Aquarium financial reports or transactions posted to KFS.

The Aquarium must become more knowledgeable with respect to University policies and procedures and ensure compliance with all applicable policies and procedures impacting the Aquarium’s operations.

Management Response

The Aquarium projects revenue and expenditure budgets annually in accordance with instructions from the Manoa Budget Office. We examine budget to actual revenues and expenditures on a quarterly basis and provide explanations of variances to Manoa Budget Office as needed, following up with any necessary adjustments to projections for the remainder of the year. Additionally, monthly financial condition reports will be provided to Department Heads for review and in formulating revenue and cost savings strategies.

As discussed above in the “Altru” section, an additional balancing process will be implemented to reconcile Altru sales to the KFS transactions daily. The daily cash/credit card receipt report and sales report derived from Altru will be attached for verification and accuracy. In addition to disseminating the monthly financial condition reports to Department Heads, a monthly sales reconciliation including gift shop sales will be performed to ensure the sub systems are balancing to KFS.

With respect to compliance with University policies and procedures, the Aquarium concurs with the recommendation, and staff has already identified corrective measures.

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

2. 2022 Corrective Action Status report:

Status

Monthly financial results are prepared, reconciled to KFS and distributed to the Aquarium Director and department leaders for review and comment on a monthly basis. Budget to actual results are reviewed monthly by the Administrative Officer.

The Aquarium informed Internal Audit of its intention to comply with all EPs and APs identified in Internal Audit’s recommendation prior to resuming private event facility rentals and luau events. This includes usage of the OGC approved facility use agreement, obtaining appropriate food and alcohol service waivers, consultation with OGC and the Office of Risk Management as required and shredding of facility rental agreements with cardholder data.

Conclusion

Corrective actions for financial results implemented and pending for EP and AP compliance.

3. **2023 Status**

The Administrative Officer informed Internal Audit that he continues to prepare and distribute monthly financial results and monthly budget to actual results to the Aquarium Director and department leaders for review and comment. The Administrative Office stated that the financial results are compared to KFS monthly.

Internal Audit requested and reviewed financial and budget to actual results dated May 2022. Internal Audit determined that the May 2022 financial results and May 2022 budget to actual results were distributed to the Aquarium Director and department leaders during the June 2022 monthly meeting. Internal Audit compared the actual financial results to KFS noting no differences. The following table illustrates the Aquarium’s June 30, 2022 actual to budget comparison.

Table 2: Waikiki Aquarium Actual to Budget Comparison

Waikiki Aquarium		
Statements of Revenues and Expenses (Unaudited)		
Actual to Budget Comparison – Cash Basis		
Years Ended June 30, 2022		
	Actual	Budget
Revenues		
Admission fees	\$1,564,370	\$2,420,000
Facility rental	1,532	-
Gift shop	772,539	2,300,000
State of Hawai‘i general fund appropriations	671,749	671,749
FOWA receipts	-	-
Other	286,884	32,340
Total revenues	\$ 3,297,074	\$5,424,089
Expenses		
Personnel	\$1,589,515	761,000
Utilities	666,478	859,700
Gift shop inventory purchases	259,200	650,000
Other	386,952	324,700
Total expenses	\$2,902,145	\$2,595,400

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

Revenues in excess (deficiency) of expenses prior to non-recurring items	394,929	2,828,689
Non-recurring revenues		
COVID-19 relief funds	<u>1,000,000</u>	<u>1,000,000</u>
Revenues in excess (deficiency) of expenses	<u>\$1,394,929</u>	<u>\$3,828,689</u>

The Administrative Officer stated that the implementation of all other EPs and APs identified in Internal Audit’s recommendation will occur with the resumption of private event facility rentals and luau events.

Conclusion

Corrective actions remain implemented for the distribution of monthly financial results and monthly budget to actual results to the Aquarium Director and department leaders. However, Internal Audit questions whether the Aquarium can effectively utilize these reports to manage its operations given the Aquarium’s difficulty in providing explanations and supporting information regarding the significant budget to actual variances for the fiscal year ended June 30, 2022 related to admission fees, gift shop revenues, personnel costs, utilities and gift shop purchases in addition to the year over year financial variances described above in **Section II.C. Operating deficit.**

H. Wastewater discharge

1. 2021 report:

Internal Audit Observation and Recommendation

The Aquarium has incurred a significant financial obligation with respect to its discharge of salt water. Current financial results indicate an inability to pay these obligations. The Aquarium must determine its total financial obligation and identify a source of funding. Consultation with University leadership and OGC is essential.

Management Response

Regulatory issues regarding wastewater discharge at the Aquarium has been the subject of numerous meetings with the City and County Department of Environmental Services and the State Department of Health involving the Aquarium, UH Environmental Health and Safety Office, the UH Office of Project Delivery and OGC.

Planning already underway includes the design and planning components of wastewater system modifications to better measure water flow.

2. 2022 Corrective Action Status report:

Status

University leadership was consulted as evidenced by the Vice President of Administration’s FY 2022-2023 6-Year Capital Improvement Project (CIP) Supplemental Budget Request requesting \$11.5 million to remediate the salt water discharge issue. The Board of Regents (BOR) Committee on Planning and Facilities reviewed and recommended BOR approval of this CIP Supplemental Budget Request at its November 4, 2021 meeting. The CIP Supplemental Budget Request was approved by the BOR at its November 18, 2021 meeting. The Vice President of Administration informed the Committee on Planning and Facilities at the November 4, 2021 meeting that the University anticipates receiving the \$11.5 million during the fiscal year ended June 30, 2023. These funds would supplement \$1.5 million and \$600,000 appropriated by the State of Hawai‘i Legislature in FY22 and FY21, respectively.

University of Hawai‘i at Manoa
Waikiki Aquarium Status of Corrective Actions
May 2023

Conclusion

Corrective action implemented.

3. **2023 Status**

Internal Audit reviewed the *FY 2022-2023 First Quarter CIP Status Report (as of 9/30/22)* presented at the November 3, 2022 BOR Committee on Planning and Facilities Committee meeting. This report stated that the design phase of the upgrade to Aquarium’s system wastewater discharge system was 61% completed with expected award date for the construction contract in March 2024.

Corrective action remains implemented.

DRAFT



'23 MAY 24 P3:24

May 23, 2023

MEMORANDUM

TO: Wayne Higaki
Chair, Committee on Internal Audit

VIA: David Lassner *David Lassner*
President

VIA: Michael Bruno *Michael Bruno*
Provost

FROM: Sandy French *S. French*
Chief Business Officer

SUBJECT: Response to May 2023 Office of Internal Audit Status of Corrective Actions Report, Waikīkī Aquarium

The Office of Internal Audit May 2023 Status of Corrective Actions – Follow Up Report regarding the Waikīkī Aquarium finds that a number of recommended corrective actions have not been fully implemented.

The auditee acknowledges that additional steps are necessary to fully implement the recommended corrective actions. Timely progress on implementing Internal Audit recommendations has been severely hampered by the shortage of administrative personnel that is being experienced across UH and government, coupled with the need for current Aquarium personnel to dedicate their focus to the complex daily operations of the program involving thousands of visitors and the health and safety of delicate collections. The substantive new approaches to financial management, analysis, and reporting recommended are beyond current Aquarium staff capacity, which has been especially challenged both during the pandemic closure and since the Aquarium re-opened to visitors in 2022.

With the intent to advance the recommendations of the audit, the Mānoa Office of Business and Finance has already begun to provide support to Waikīkī Aquarium personnel in addressing the recommended corrective actions and related areas. Planning is proceeding at the campus level to provide additional ongoing assistance to Waikīkī Aquarium personnel in the areas of financial management, analysis, and reporting.



UNIVERSITY
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BOARD OF REGENTS

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23 MAY 24 P3:47

May 17, 2023

MEMORANDUM

TO: Wayne Higaki
Chair, Committee on Internal Audit

VIA: David Lassner
President
University of Hawai'i *David Lassner*

VIA: Michael Bruno
Provost
University of Hawai'i at Mānoa *Michael Bruno*

VIA: Lori M. Ideta *Lori M. Ideta*
Vice Provost for Student Success
University of Hawai'i at Mānoa

FROM: Theresa Crichfield *Theresa Crichfield*
Associate Vice Provost for Student Success and Dean of Students
University of Hawai'i at Mānoa

SUBJECT: Follow Up Response to Office of Internal Audit Review of the Warrior
Recreation Center

At the August 2022 Board of Regents Committee on Internal Audit, the audit of the Warrior Recreation Center (WRC) was presented and unanimously accepted by the Committee. This document serves as a follow up to recommendations made by the Office of Internal Audit.

Internal Audit Recommendation

SLD leadership evaluate and consider the cost/benefit of carving out and analyzing the financial results of the WRC on a stand alone basis or at minimum evaluate the sufficiency of opt-in membership fees and service/rental fees to cover its associated costs.

Updated Response

The auditee acknowledges that Student Life and Development (SLD) currently does not generate separate financial statements for the Warrior Recreation Center. The Office of the Vice Provost for Student Success will undertake the exercise to construct stand alone financial reports for the WRC before December 31, 2023. The guidance of OIA in regards to the format and appropriate components will be requested.

UNIVERSITY OF HAWAII
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OFFICE OF INTERNAL AUDIT

Audit Plan

For the Fiscal Year Ended June 30, 2024

For the Committee on Independent Audit of the Board of Regents

May 2023



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, 2024 (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 contribute to the University's continued success.

Pursuant to the Bylaws of the BOR (Article II, Section D, 2.) and Hawai'i Revised Statutes (HRS) §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 implementing corrective actions to address Internal Audit recommendations. Internal Audit is always available 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, the Director of Internal Audit consults and obtains feedback from the University President, CFO and the University Vice President of Administration with respect to potential audit projects to be included in the annual Audit Plan. Criteria used in selecting audit projects include providing coverage of higher risk departments/units/functions including revenue generating operations (University Housing, student housing, parking operations, , Bookstore operations, etc.) and a University campus, school or department (University Unit) with identified cash receipts internal control matters (Bookstore operations, Vietnam Executive Masters of Business Administration program). Other audit projects result from areas of concern identified by the BOR and University management (Waikiki Aquarium, Maunakea, Maunakea Restructuring Plan, University of Hawai'i at West O'ahu – Review of Certain Kamehameha Schools Funded Programs, etc.). The following are also considered:

- Matters discussed at periodic Audit Committee meetings.
- Observations and findings contained in historical reports issued by Internal Audit. In addition, certain University departments and/or functions may be reviewed as a result of:
 - audit issues identified in connection with fiscal 2021 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, complete, reliable and timely.
- Employee actions comply 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.

This Audit Plan is a living document requiring continual monitoring and revision as conditions warrant. Flexibility is an inherently accepted part of the Audit Plan to accommodate audit requests from the Audit Committee and management 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 Maunakea Restructuring Plan audit approved by the Audit Committee in April 2022 and 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) or at the discretion of the BOR. All revisions to the approved Audit Plan require Audit Committee concurrence.



Proposed Audit Projects

July 1, 2023 to June 30, 2024

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 with an option to extend the contract for an additional year. Accuity was re-selected as the University's external auditor through the year ended June 30, 2024 with extension options. Accuity is scheduled to perform the following audits for the year ended June 30, 2023:

- Single Audit – University of Hawai'i
 - 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

The University consistently issues its 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 provides up to 1,000 hours of external audit assistance to decrease Accuity's audit hours and related audit fees. The audit services provided to the University by Accuity's are described below. Internal Audit provides external audit assistance in various audit areas pursuant to Accuity's request.

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, 2022 noted approximately \$664 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. Single Audit reports are generally required to be submitted to the federal government within nine (9) months after the organization's year-end (March 31 for the University).

The University is responsible for preparing the Management Discussion and Analysis, financial statements and related notes, supplementary information accompanying the financial statements, and the Schedule of Expenditures of Federal Awards (SEFA) and related notes. The University's external auditor is required to audit the University's 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, 2022 – June 30, 2023
Est. time of performance:	August 2023 – December 2023



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, 2022 – June 30, 2023
Est. time of performance:	July 2023 – December 2023

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 HRS §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

New:

1. University child care centers

The University provides day-care services for children of students, faculty and staff at various campus child care centers. The child care centers consist of the following:

- University of Hawai'i at Mānoa Children's Center
- Hawai'i Community College Children's Center
- Honolulu Community College – Keiki Hauoli Children's Center
- Kapi'olani Community College – Alani Children's Center
- Kaua'i Community College Children's Center
- Leeward Community College Children's Center
- Maui College Children's Center
- Windward Community College – Hanaiaulu Child Care Center

These Mānoa child care center provides day-care services for children ranging in age from two (2) years through five (5) years. The Community College child care centers generally provide day-care services for infants through five (5) years of age. Maximum enrollment differs by campus with preference given to students.

Tuition differs by child care center. The Mānoa child care center charges tuition based on the income level of the parent(s). For the Spring 2023 semester, tuition ranged from \$2,745 - \$4,290 for 8 a.m. to 5 p.m. day care depending upon income level. Community College child care tuition is not based on the income level of the parent(s). For the Spring 2023 semester, tuition for the Honolulu Community College child care center ranged from \$3,600 (children aged two and one-half (2.5) years to five (5) years) to \$4,900 (infants and toddlers) for 8 a.m. to 5 p.m. day care. The child care centers generally reserve 75% of their enrollment for children of University students.

Applicable University policies include BOR Regent Policy (RP) 10.206, *Child Care Programs* and EP 10.401, *Child Care Programs and the Use of Such Facilities* and EP 10.201, *Use of University-Owned Facilities*.

Anticipated audit procedures may consist of the following:

- a) Read relevant University policies.
- b) Obtain relevant operational and financial information including tuition, number of children enrolled by age and parent affiliation to the University (student, faculty or staff), number of teachers/aides, financial results, methodology to determine tuition, etc.
- c) Evaluate University policy compliance by day-care center (and primary and secondary school if applicable) including documents authorizing the use of University facilities.
- d) Compare University policies to leading practices to evaluate potential revisions and updates.
- e) Other relevant procedures.

Type:
Period under audit:
Est. time of performance:

Compliance, Financial
Three years ended June 30, 2023
December 2023 - April 2024



2. Charter schools utilizing University facilities

The University provides the use of its facilities to certain State of Hawai'i Department of Education (SOH DOE) Charter Schools. The University campus, name of the Charter School and grades instructed include:

- Windward CC - **Hakipuu Learning Academy**, grades 4-12
- Kaua'i CC - **Kawaikini New Century Public Charter School**, grades K-12
- UH Mānoa - **University Laboratory School**, grades K-12
- UH West O'ahu - **DreamHouse Ewa Beach**, grade 9 presently with expansion to grades 6-12

SOH DOE charter schools are state-legislated, legally independent, outcome-based public schools operating under contract with the State Public Charter School Commission (SPCSC) funded on a "per-pupil" allocation. Each Charter School is directly overseen by its own governing board that has a performance contract with the SPCSC.

The use of University facilities by external parties in addition to the presence of non-University students on University campuses presents various risks to the University. These risks include the safety and protection of minors on a University campus in addition to the financial and reputational risks associated with allowing third parties the use of University facilities.

Anticipated audit procedures may consist of the following:

- a) Read and evaluate compliance with applicable University policies.
- b) Determine if the Charter Schools listed above represents a complete listing of all Charter Schools utilizing University facilities.
- c) Determine and evaluate the University's process (by campus) to manage and monitor the Charter School's use of University facilities.
- d) Compare University policies to leading practices to evaluate potential revisions and updates.
- e) Other relevant procedures.

Type:	Compliance, Financial
Period under audit:	Three years ended June 30, 2023
Est. time of performance:	October 2023 - March 2024

3. UH Manoa Student Health Services operations

The University Health Services Mānoa (UHSM) is a unit within the Division of Student Success under the Vice Provost for Student Success. The UHSM is staffed by physicians, nurse practitioners, nurses, nutritionists, pharmacists, laboratory technicians, and other support staff. A wide range of medical services and programs are offered. These include general medical care by appointment or on a walk-in basis; women's health, sports medicine, psychiatry, dermatology, and nutrition clinics by appointment; pharmacy and clinical laboratory; and student training, employment and volunteer opportunities.



Although the primary service population are students of UH Mānoa (UHM), many services also are available to UHM faculty and staff and students from other University campuses.

Anticipated audit procedures may consist of the following:

- a) Read relevant University policies, including policies associated with the Healthcare Health Insurance Portability and Accountability Act of 1996 (HIPAA), and evaluate compliance.
- b) Obtain and analyze UHSM financial reports for the three years ended June 30, 2023.
- c) Evaluate UHSM’s significant financial processes including its billing and cash collection process.
- d) Review and evaluate UHSM’s pharmacy operations and inventory policies and practices.
- e) Other relevant procedures.

Type:	Compliance, operational and financial
Period under audit:	Three years ended June 30, 2023
Est. time of performance:	August 2023 – December 2023

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.

4. 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 2023. 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 2022 audits are anticipated to include the following:

- Systemwide Financial Reserves
- ASUH Investment Compliance
- Outreach College
- Waikīkī Aquarium (3rd follow up)
- Warrior Recreation Center

Type:	Financial, Operational, Compliance
Period under audit:	Through December 31, 2023
Est. time of performance:	January 2024 – May 2024

Carryover:

5. Tuition Waivers

Tuition waivers reduce a student’s cost of attending a higher education institution. Section 304A-502, HRS, authorizes the BOR to grant tuition waivers. From a higher education institution’s standpoint, tuition waivers decrease revenue earned per enrolled student but should increase total enrollment and



thus total tuition collected. Section 304A-502, HRS, identifies the broad parameters for which the Regents may grant waivers. A complete inventory of waivers will be cataloged to ascertain the types, volume, and financial impact of tuition waivers offered by the University. The process to grant and determine the amount of the tuition waiver will also be documented in connection with this audit.

Internal Audit has determined that tuition waivers associated with full-time graduate assistants approximated \$18 million to \$24 million for the three years ended June 30, 2022. Other tuition waivers include Special Talent Athlete, International Student Exchange, Hawaiian, employee, non-residents charged resident rate tuition, etc. These tuition waivers are recorded at the gross tuition amount then offset by a contra revenue account equal to the waiver. Others tuition waivers such as military and Hawaiian exemptions are recorded at net. Tuition waivers provided to employees are recorded as payroll expense and approximated \$3 million to \$4 million for the three years ended June 30, 2022.

Internal Audit is finalizing its review and analysis of tuition waiver information (type, number, value, etc.) by campus in addition to finalizing its evaluation of the tuition waiver process and monitoring of policy compliance by campus.

Type:	Compliance, operational and financial
Period under audit:	Three years ended June 30, 2022

6. Public-Private Partnership (P3) Policy Compliance

The University's two active P3 projects consist of:

- A. NOAA Project - Multi-Family Mixed-Use Rental Project located at the former NOAA project site on the UHM campus.
- B. Atherton Project - Mixed-Use Student Housing/Innovation and Entrepreneurship Center located at the former site of the Atherton House. The University of Hawai'i Foundation (UHF) is the owner of the land underlying the Atherton Project.

EP 10.204, *Public Private Partnerships*, is the University's primary guidance with respect to P3 projects. Internal Audit also reviewed other relevant policies consisting of EP 4.201 *Integrated Long-Range Planning Framework*, and EP 10.103 *Responsibilities for Oversight & Management of Capital Improvement & Repair Maintenance Projects*. Based on the procedures performed to date, Internal Audit has determined that the University has complied with these policies.

Internal Audit's evaluation of the University's process (actual and anticipated) to identify, manage and monitor its P3 projects appear appropriate and ensures compliance with applicable University policies. No significant process gaps or deficiencies were identified.

Internal Audit believes that the University's P3 practices are consistent with those of other higher education institutions as well as those described in P3 publications issued by the American Association of State Colleges and Universities, the California Debt & Investment Advisory Commission and Harvard Business Review among others. However, Internal Audit believes additional leading practices research is warranted. Accordingly, finalizing our higher education institutions leading practice research is the last audit area pending completion.

Type:	Compliance and operational
Period under audit:	Years ended June 30, 2022 and 2021



7. Gifts to the University

The University’s policies and guidance with respect to gifts consist of i) BOR RP 8.209 *Gifts*, ii) Administrative Procedure (AP) 8.620, *Gifts* and iii) Memorandum of Agreement (MOA) between the University and UHF dated November 2021 and effective for the period January 1, 2022 through December 31, 2024.

Internal Audit was informed that cash gifts are included in the *Nonoperating Revenues* section of the University’s financial statements and classified as *Private Gifts*. Kuali Financial System (KFS) lists the source of cash gifts in the following amounts for the three years ended June 30, 2022:

<u>Source</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Total</u>
UHF	\$3,188,000	\$2,675,000	\$3,710,000	\$9,573,000
Individuals	15,000	15,000	1,000	31,000
Other	(2,000)	3,000	162,000	163,000
Total	<u>\$3,201,000</u>	<u>\$2,693,000</u>	<u>\$3,873,000</u>	<u>\$9,767,000</u>

For gifts of capital assets, UHF forwards a UHF transmittal form and supporting documents (including a valuation of the capital asset) to the University’s Capital Asset Accounting Office in Financial Management Office for recordation to KFS. Capital assets gifts are also included in the *Nonoperating Revenues* section of the University’s financial statements and are included in the *Capital – gifts and grants* line item. Capital asset gifts primarily consists of several vehicles donated on an annual basis.

Internal Audit has determined that the University’s processes to accept and record gifts are sufficient to ensure compliance with AP 8.620 and appropriate recordation in KFS. Internal Audit has not identified any significant gaps and/or deficiencies in these processes. Internal Audit has researched and compared the University’s gift acceptance policy (AP 8.620) with those of other higher education institutions noting that the University’s policy requiring gifts to be received by UHF is consistent with other higher education institutions.

From an income tax perspective, the University’s Tax Manager informed Internal Audit that he is unaware of any scenario in which the University would be subject to any income tax exposure including if the University received gifts directly from donors and provided an acknowledgement letter. The Tax Manager stated that all gifts to an educational organization (i.e., maintains faculty, curriculum and enrolled students) such as the University are deductible to the donor under Internal Revenue Code Section 170.

Internal Audit continues to research and compare gift acceptance policies of other higher education institutions with that of the University to identify potential enhancements, determine if the terms and conditions of the University/UHF MOA are consistent with or has any impact on AP 8.620, determine if the University is recording capital asset gifts in accordance with GASB 72, *Fair Value Measurement and Application* and continue to evaluate the University’s gift acceptance process for potential improvements.

Type: Compliance, operational, financial
Period under audit: Two years ended June 30, 2022



8. Conflict of Interest Management

University Conflict of Interest (COI) policies consist of:

- AP 5.504, *Procedures for Disclosing and Addressing Conflicts of Interest and Commitment*;
- AP 12.304, *Procedures for Disclosing and Addressing Conflicts of Interest Related with Extramurally-Funded Activities*; and
- EP 12.214, *Conflicts of Interest and Commitment*.

The University's policies listed above do not specifically identify personnel required to submit an annual COI disclosure form. Accordingly, the preparation of COI disclosure forms is subject to employee policy interpretation or determination by Senior Administrators (as defined in AP 5.504) of a Unit (University College, School or Department). A review of the COI policies at other higher education institutions appear to identify personnel required to complete a COI disclosure form by position/title or role.

Internal Audit has determined that the University's COI management and compliance process is decentralized and enhancements should be considered (including appropriate management review) to account for the collection of all COI disclosure forms distributed. Internal Audit has also determined that COI training materials (including foreign influence matters) are sufficient for University personnel to comply with University COI policies.

The University has both manual (non-researchers) and automated (researchers) processes to distribute and collect COI disclosure forms. The vast majority of higher education institutions researched have a fully automated process. The University plans to automate the process for non-researchers in the next few years.

Consistent with leading practices, the University does not have a specific policy to manage the risk of undue foreign influence and relies on directives provided by the funding agency (e.g., National Institutes of Health, National Science Foundation, etc.) and guidance provided in various EPs and APs such as export controls.

In January 2021, the President of the United States issued National Security Presidential Memorandum 33 (NSPM 33) requiring federal research funding agencies to standardize COI and foreign affiliation disclosure information amongst all federal funding agencies for organizations receiving federal awards. Compliance with NSPM 33 is pending the issuance of standardized disclosure information requirements and research security program guidance.

Internal Audit is finalizing our evaluation of the University's process and policy compliance related to COI, continuing to evaluate leading practices for managing the risk of undue foreign influence, determining the status of the University's migration to an automated COI disclosure form process and evaluating of the impact to University policy of implementing NSPM 33.

Type:	Compliance
Period under audit:	July 1, 2019 – June 30, 2022