Minutes of the Meeting of the Audit Committee

May 16, 2008

Bachman Hall 203

The meeting of the BOR Committee on Audits was called to order on May 16, 2008 at 12:35 pm. Regents in attendance were Committee Chair James J.C. Haynes, II, and Committee member Regents Michael A. Dahilig and Ronald K. Migita.

Others in attendance included VP Howard Todo, Russell Miyake, Internal Audit staff Wayne Kido, David Sakamoto, and Elaine Chun.

Approval of Minutes

Upon motion by Regent Dahilig and second by Regent Migita, the minutes of the Audit Committee meeting of February 22, 2008 were approved.

Review and Acceptance of Consolidated Financial Statements and Internal Control and business Issues Report, for year ending June 30, 2007

Cory Kubota, lead auditor for Accuity, presented a draft report on the audit of the University’s consolidated financial statements for the year ending June 30, 2007. Accuity is prepared to issue an unqualified clean opinion for the fiscal year ending June 30, 2007.

With the aid of a “power point” presentation, Kubota reviewed the auditors’ “required communications”. Kubota noted that the UH Foundation’s auditor KPMG did not meet its report deadline, due to issues regarding the valuation of certain investments. KPMG did, however, issue a report that allowed Accuity to finish its work for the University.

Kubota noted that the “unadjusted differences” noted in the proposed financial statements are not “material.”

Kubota did point out, however, explanatory Note 4, regarding “the establishment of an allowance for doubtful accounts and reverse over billing related to JABSOM for approximately $1,240,000 and $1,385,000 respectively at June 30, 2007.”

Regent Haynes asked for more detail on this account. Kubota replied that this is the UCERA organization affiliated with JABSOM. The amount owed by UCERA to JABSOM rose from $2.6 million at June 30, 2007, to approximately $7 or $8 million by March 2008. UCERA is an independent “501(c)( 3)” entity that houses the faculty practice plan for JABSOM. JABSOM pays for the faculty salaries. UCERA should collect payments
for the services these faculty have been providing, but UCERA has not been collecting the funds. Therefore, UCERA has not been able to reimburse JABSOM for the faculty salaries.

Regent Haynes asked the administration to keep close watch over this issue.

Kubota reviewed the “Internal Control and Business Issues Report” commonly referred to as the “management letter.” He noted that conditions related to prior year’s Finding Nos. 06-03 and 06-04 (reported at page 6 of his Letter) have deteriorated, which will result in being included in this year’s OMB Circular A-133 report in Finding No. 07-02 and 07-05.

Kubota also reviewed his Finding No. 05-07 (“Human Resource and Personnel Development”) at page 10. That finding recommends that the University identify competent personnel to replace key vacant positions as quickly as possible. These positions are in the financial management office, the general accounting and loan collections office, the property and fund management office, the University Bond system and the office of Research Services.

Kubota also reviewed his Finding No. 04-03, at page 12 of his report, recommending expanding and strengthening the Internal Audit functions. This finding is carried forward from findings during the audits of fiscal year 2003 and 2004.

Upon motion by Regent Dahilig and second by Regent Migita, the Audit Committee unanimously decided to recommend that the full Board of Regents accept Accuity’s Reports.

Discussion of Internal Audit proposed Audit Plan for FY 2008-2009

Pang in his capacity as informal supervisor over the Office of Internal Audit reviewed the Audit Plan proposed by that Office for the fiscal year commencing July 1, 2008. Pang highlighted the proposed “agreed upon” audit of the athletics department at UH Manoa.

Regent Haynes asked how many auditors were staffing the Office. Wayne Kido responded that by June 2008, the Office is expected to have 4 auditors, to augment its existing staff of 2 auditors, with a plan to reach 8-10 auditors in 2-3 years. There is a need for 2 persons experienced in information technology. The office envisions a compliance group and a financial group. With increased staff, there will be a larger presence on neighbor island operations. The director’s position should be “executive level” and filled by a person with 7–15 years of internal audit experience. There are currently 6 “G-funded” positions comprising 5 staff auditors and one director. Not many applicants apply for these positions. Russell Miyake added that many do not qualify, and he has been advertising several times to fill a single position. Miyake’s group must compete with Office of Research Services and the Internal Office for qualified applicants.
Upon motion by regent Dahilig and second by Regent Migita, the Audit Committee decided to recommend presentation of the proposed Internal Audit plan to the full Board.

The Audit Committee will also propose that an audit of the Travel Industry Management School be added to the proposed Internal Audit Plan.

The Audit Committee meeting adjourned at 1:55 pm.

Respectfully Submitted,

Presley W. Pang, Esq.
Interim Executive Administrator
and Secretary of the Board