

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

MARCH 8, 2018

I. CALL TO ORDER

Committee Chair Michael McEnerney, called the meeting to order at 9:02 a.m. on Thursday, March 8, 2018, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Michael McEnerney, Committee Vice Chair Randy Moore; Regent Wayne Higaki.

Committee members excused: Regent Jeffrey Portnoy.

Others in attendance: Regent Brandon Marc Higa; Regent Lee Putnam; Regent Douglas Shinsato; Regent Stanford Yuen (ex officio committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Administration Jan Gouveia; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Academic Planning & Policy Donald Straney; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; Executive Administrator and Secretary to the Board of Regents Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE FEBRUARY 7, 2018 MEETING

Regent Higaki moved to approve the minutes of the February 7, 2018 meeting, seconded by Committee Vice Chair Moore and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary to the Board Kendra Oishi announced that the Board Office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

A. For Action

1. Review & Acceptance of Audit Plan Supplement: Financial Management Audit of Maunakea Activities

Internal auditor Glenn Shizumura presented for approval a supplement to the FY18 Audit Plan to include an audit of relevant university-related activities engaged in Maunakea stewardship and management as indicated in a resolution adopted by the

board at its February 22, 2018 special board meeting. Committee Vice Chair Moore added that the board adopted the resolution directing the Office of Internal Audit to perform the audit at the request of both the president and the board, and this is a pro forma matter to formally amend the internal audit work plan for the year to incorporate this work.

Internal audit will meet with leadership of the Independent Audit Committee and relevant UH personnel to define the scope and objectives of this audit, which may include contracting with an external auditor for services.

Committee Vice Chair Moore moved to accept the financial management audit of Maunakea activities audit plan supplement, seconded by Regent Higaki, and the motion carried unanimously.

2. Review & Acceptance of Check Disbursements Less Than \$2,500

Internal auditor Glenn Shizumura presented for acceptance the review of check disbursements less than \$2,500, the objective being to assess the efficient and effective use of university resources with respect to purchases less than \$2,500. He reported that during the year ended June 30, 2017, over 8,000 checks were issued for amounts less than \$100. To understand the reasons for potential PCard underutilization, a survey was sent to a sample of fiscal administrators and vice chancellors of administration across the various campuses, colleges, schools and departments/units.

Based on responses from the survey and interviews with respondents, internal audit determined that PCards may have been underutilized due to the following:

- A perceived administrative burden of reviewing and approving PCard transactions
- Inability to obtain PCards due to infrequent PCard training
- Restrictions on travel-related purchases
- Uncertainty regarding the allowability of using PCards to pay for previously received goods and services
- PCard moratoriums may have been too severe

Internal auditor Shizumura noted that the restrictions on travel-related purchases had come up during the September 2017 Review of Travel Policy Compliance report, and that the effective controls implemented by the disbursing office coupled with the controls over PCard are more than sufficient so administration could consider relaxing certain restrictions on PCards for acquisition of goods and services.

Comments and questions were raised regarding sanctioning noncompliant PCard holders instead of the whole unit; the need to clarify procurement procedures so employees can base purchasing decisions on facts rather than beliefs; and the possibility of having a minimum dollar threshold for cutting a reimbursement check to reduce the number of checks being issued for less than \$1.

Administration noted that PCard transactions can come with a lot of administrative burden. PCard transactions are the most efficient for the disbursing office, but that does not mean it is the most efficient process for other central offices that cut checks.

Efficiency can vary by nature of the purchase and also by the individual purchaser, and with the high level of compliance required in PCard transactions it can sometimes be easier to go through the traditional procurement process.

The committee requested that the processes for PCard, purchase order, and check transactions be mapped out to determine which processes are actually more efficient, and if rebates on PCard purchases could be part of the cost-benefit analysis. Administration agreed to map out processes and will also review business operations procedures because factors such as collective bargaining contracts may need to be taken into consideration. It was noted that administrative procedure changes may be required, and administration is willing to look into that.

Committee Vice Chair Moore moved to accept the review of check disbursements less than \$2,500, seconded by Regent Higaki, and the motion carried unanimously.

3. Review & Acceptance of Review of Capital Improvement Projects and Repairs & Maintenance

Internal auditor Glenn Shizumura presented for acceptance the review of capital improvement projects (CIP) and repairs and maintenance (R&M). The report includes a review of management, on-time completion, and work orders not being performed timely or not meeting expectations. Although some areas still need further improvement, a substantial amount of the previous risks have been mitigated as a result of administration's efforts.

Administration noted that the audit captured the significant risk areas, and showed how changes in one area affect other areas. CIP and R&M can be complicated, and the audit team did a good job in spending time with the administrative staff and team in understanding the operational elements were and reflecting that accurately in the audit.

Comments and questions were raised regarding the need to align CIP and R&M with strategic plans, long-range goals, and academic plans; the thoroughness of both the audit and management's response; the observation in the report that the university does not typically chase design professionals when errors are made that result in negative cost consequences for the university; and commending administration for the improvements that have been made in both CIP and R&M.

Regent Acoba arrived at 9:27 a.m.

Administration explained that the term errors and omissions (E&O) can be misleading, because more often than not it is an omission. Any omissions get processed as an E&O change order, those change orders are looked at on a case-by-case basis to determine if there was an egregious error and to analyze whether the university team may have contributed to the error. Administration is working on raising the bar for how projects are executed from the design phase through construction, and has adopted a more stringent process in pursuing contractors or consultants that have caused an egregious omission, but there is always room for improvement.

Committee Vice Chair Moore moved to accept the review of capital improvement projects and repairs & maintenance, seconded by Regent Higaki, and the motion carried unanimously.

V. ADJOURNMENT

There being no further business, Regent Higaki moved to adjourn, and Committee Vice Chair Moore seconded, and with unanimous approval, the meeting was adjourned at 9:30 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
to the Board of Regents