

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

FEBRUARY 6, 2020

I. CALL TO ORDER

Chair Michael McEnerney called the meeting to order at 9:05 a.m. on Thursday, February 6, 2020, at the University of Hawai'i at Mānoa Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

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

Committee members excused: Regent Robert Westerman.

Others in attendance: Board Chair Ben Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Academic Planning and Policy Donald Straney; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Mānoa Provost Michael Bruno; UH-Hilo Chancellor Bonnie Irwin; UH-West O'ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE DECEMBER 5, 2019 MEETING

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

III. PUBLIC COMMENT PERIOD

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

IV. AGENDA ITEMS

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

Ms. Jamie Asato, with Accuity LLP, noted that Accuity conducted an audit of the consolidated financial statements and compliance reports of UH for the years ended

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glenn Shizumura, Director of the UH Office of Internal Audit (Office), summarized the amendments to the Work Plan stating that SR120 requested an audit of eight programs at UHWO that received extramural funding, six of which were Title III Program grants. He noted that while the Title III Program grants were subject to an audit already performed by Accuity, the results of which were already reported to the committee at its December meeting, SR 120 requested a review of two grants from Kamehameha Schools that were not related to the Title III Program. Internal Auditor Shizumura stated that the amendments made to the Work Plan were to address the directive from the committee that the Office review the two non-Title III Program grants contained within

SR 120 and noted that this review would begin immediately upon approval of the amendments to the Work Plan.

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

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

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

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

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

Regent Moore inquired as to whether garbage collection and landscaping services were covered under the property management fee. Mr. Lachman replied that garbage collection and landscaping services were covered under the property management fee.

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

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

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

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

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

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

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

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

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

Regent Acopan arrived at 9:54 a.m.

Regent Bal arrived at 9:56 a.m.

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

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

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

Regent Acoba questioned whether complaints regarding employment and human resources issues would be more appropriately dealt with through a collective bargaining process rather than addressed by the whistleblower hotline. Interim Director Suzuki

replied that the whistleblower hotline was in place to allow any individual the opportunity to submit any type of grievance or complaint and that it was often used as a sounding board for complaints. Internal Auditor Shizumura added that if a complaint received is a human resources complaint, it is directed to the appropriate human resources individual at the appropriate campus to address. VP Gouveia further added that it was not uncommon for grievances to come in via a variety of methods, including the whistleblower hotline, that may overlap.

H. Enterprise Risk Management (ERM) Update

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

I. Discussion on the Future of the Independent Audit Committee

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

V. ADJOURNMENT

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

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents