

MINUTES
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT
MEETING

JUNE 4, 2020

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

I. CALL TO ORDER

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

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

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

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

Vice-Chair Higaki moved to approve the minutes of the February 6, 2020, meeting, seconded by Regent Moore, and the motion carried, with all members present voting in the affirmative.

III. PUBLIC COMMENT PERIOD

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

IV. AGENDA ITEMS

A. Approval of Annual Review of Committee Charter

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

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

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

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

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

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

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

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

The committee engaged in extensive discussions on certain Kamehameha Schools grant funded programs at UHWO, as well as Title III grant funding, and whether mechanisms were in place at the university level to ensure proper management,

efficacy, and oversight of these grants. As OIA's scope of responsibilities and expertise are in the area of financial audits rather than management audits, committee members also offered comments on whether OIA was the proper agency to conduct such audits or whether an external agency would be more appropriate. Deliberations also occurred on whether the Work Plan should be amended to request additional audit work be completed on the Kamehameha Schools issue.

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

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

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

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

Since SR120 involved grant-funded programs at UHWO, Chair McEnerney inquired as to whether Chancellor Benham had any comments on this issue. Chancellor Benham replied that while she understands the need for proper oversight to ensure the efficacy of grant-funded programs and that goals and objectives are met, she believed that this oversight responsibility already existed through the grant's funding source. A grantor will typically hold a grantee responsible for failure to meet established research

goals and objectives. If these goals and objectives are not met by the grantee, the grantor will withhold funding for the project and oftentimes will require grant funding that has already been expended to be returned. She stated that she was not aware of any other institution or campus that had a system in place to conduct programmatic oversight of any of its researchers.

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

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

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

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

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

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

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

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

At its December 5, 2019, committee meeting, the committee directed OIA to conduct a review of the two non-Title III Program grants identified in SR120. Internal Auditor Shizumura gave a brief report on the findings of the requested review noting OIA's

suggested improvements to UHWO's policies, processes, and procedures regarding these programs. However, it was stated that OIA was in receipt of both written and verbal correspondence from Kamehameha Schools indicating satisfaction with UHWO's management of the Kamehameha Schools funded programs on an overall basis.

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

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

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

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

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

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

Internal Auditor Shizumura provided a brief overview of an OIA review of student professional fees conducted in 2018 that evaluated the establishment, administration, monitoring, and utilization of professional fees assessed by a variety of programs at UHM. OIA's report of its review, dated March 31, 2018, identified issues and opportunities for improvements regarding the assessment of these fees. As a result of this report, the administration formulated a corrective action plan which was reviewed and accepted by the committee in August 2018. He noted that in December 2019 and January 2020, OIA discussed the status of corrective actions with personnel of the

Office of the Vice Chancellor for Academic Affairs at UHM and the UHM Interim Vice Chancellor for Administration, Finance, and Operations. This report is an evaluation of UHM's written representations regarding the updated status of its corrective action plan to address improvement opportunities and mitigate risks documented in OIA's initial report. Internal Auditor Shizumura stated that, after meeting with the deans and other senior personnel at each of the professional programs and examining relevant documents to support and corroborate the status of corrective actions taken, OIA has concluded that all suggested corrective actions have been implemented to the satisfaction of OIA.

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

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

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

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

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

Regent Acoba posed a general question to OIA with respect to audits asking whether deadlines were imposed for the receipt of requested information. Internal Auditor Shizumura replied that OIA establishes an agreed-upon deadline for the receipt of requested information with respect to audits and regularly follows-up with the auditee on these requests. He stated that for the most part, OIA receives requested information in a timely manner. Regent Acoba further questioned whether OIA takes any action against an auditee when responses are not obtained. Internal Auditor Shizumura responded that OIA does not take action other than reporting the inaction of the auditee

to appropriate individuals in the administration. Board Chair Kudo added that OIA does not have any leverage or authority to force compliance with requests for information when conducting an audit. However, as a former chair of the Committee on Independent Audit, he stated that the committee has the authority to call a department of the university before the board to inquire as to why they have not been responsive to the requests made by OIA and that usually served as an effective tool to acquire the necessary responses.

H. Review of the OIA Emergency Response Plan

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

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

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

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

I. Enterprise Risk Management (ERM) Update

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

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

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

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

J. Committee Annual Review

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

V. ADJOURNMENT

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

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents