

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

AUGUST 6, 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

Vice-Chair Alapaki Nahale-a called the meeting to order at 9:08 a.m. on Thursday, August 6, 2020. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Vice-Chair Alapaki Nahale-a; Regent Simeon Acoba; Regent Wayne Higaki; Regent Randy Moore; and Regent Ernest Wilson.

Others in attendance: Board Chair Benjamin Kudo; Regent Eugene Bal; Regent Jan Sullivan; Regent Michelle Tagorda; Regent Robert Westerman (ex officio committee members); President David Lassner; Vice President (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 (UHM) Provost Michael Bruno; UH-Hilo (UHH) 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. ELECTION OF COMMITTEE CHAIRPERSON

Pursuant to state law, the Chair of the Committee on Independent Audit is selected by the members of the committee.

Vice-Chair Nahale-a opened the floor for nominations. Regent Wilson nominated Regent Moore to serve as Chair and the motion was seconded by Regent Higaki. There being no other nominations, Vice-Chair Nahale-a declared the nominations closed and he requested that a roll-call vote be conducted. With all members present voting in the affirmative, Regent Moore was elected to serve as the Chair of the Committee on Independent Audit.

Chair Moore proceeded to conduct the remainder of the meeting.

III. APPROVAL OF MINUTES

Regent Wilson moved to approve the minutes of the June 4, 2020, meeting, seconded by Regent Higaki, and the motion carried, with all members present voting in the affirmative.

IV. 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.

V. AGENDA ITEMS

A. Committee Work Plan

Chair Moore referenced the Committee Work Plan (Work Plan) that was provided to committee members in the materials packet noting that the Board Office had prepared the Work Plan based upon what the committee has historically done, as well as work it is required to complete under State law and the board bylaws. Chair Moore stated that it was his intent to use the Work Plan as an outline to guide the work to be performed by the committee during the coming year, update the Work Plan as necessary, and use the Work Plan as a record of the committee's accomplishments at the end of the year.

B. Review of Internal Audit Work Plan for 2020-2021

Chair Moore noted that the Internal Audit Work Plan for 2020-2021 which outlined the work to be performed by the Office of Internal Audit (OIA) during the coming year was presented to, and approved by, the committee at its June 4, 2020, meeting. Issues may need to be added to OIA's Work Plan as the year progresses and the committee will appropriately address those issues should it become necessary.

C. Review and Acceptance of Office of Internal Audit (OIA) Report on the Status of Corrective Action Related to Sodexo Food Service Contracts

Glenn Shizumura, Director of OIA, reported that OIA reviewed the university's monitoring of, and Sodexo's compliance with, the terms and conditions of four separate food service contracts the university has with Sodexo to provide food services for UHM, UHH, the UHM Athletics Department, and the University of Hawaii Maui College during the year ended June 30, 2019. On March 15, 2019, OIA issued a report of its findings and recommendations. OIA identified minimal and insignificant instances of noncompliance for three of the four food service contracts. 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.

Internal Auditor Shizumura added that OIA also compared the terms and conditions among the four Sodexo contracts for consistency noting that monitoring the various contract terms across the four contracts requires substantial effort. OIA suggested that the university give future consideration to the feasibility of entering into a single food services contract to drive efficiencies in contract management and monitoring.

Regent Acoba asked what issues, if any, were preventing the administration from accepting OIA's recommendation for the university to enter into a single food service contract. Internal Auditor Shizumura replied that OIA was simply suggesting that future consideration be given to consolidating all food service contracts into a single food services contract at the appropriate time. It was his understanding that each of the current Sodexo contracts were tailored towards specific needs of each of the contract signatories and that UHM was currently renegotiating its current food service contract.

VP Young added that the administration does not disagree with OIA's recommendation that a single food service contract could improve efficiencies. However, each of the four contracts currently in existence has different termination dates and each is structured in ways to meet the unique needs and dynamics of the campuses or units that hold these contracts. While establishing a single food services contract may be possible in the future, it would currently be difficult to do so given all the variables involved with the existing food services contracts.

Regent Acoba questioned whether it was the intent of the administration to pursue a single food services contract. VP Young replied that the administration will not be pursuing a single food services contract given the current situation but that this does not preclude the administration from pursuing this effort in the future when the circumstances are more optimal.

Given the statement made by VP Young, Regent Acoba asked Internal Auditor Shizumura if OIA still maintained its position regarding a single food services contract. Internal Auditor Shizumura replied in the affirmative but noted that, given the current situation, it was his opinion that the administration was taking a reasonable approach. He reiterated that OIA's recommendation was intended to be for future consideration when contracts are renegotiated.

Regent Acoba stated that he would abstain from approving the Sodexo report because the matter of a single contract or multiple contracts had not been finally resolved especially since the recommendation from the Internal Auditor was that given the extensions to the Sodexo contracts at UHM and UHH, OIA still believed that the university should reevaluate the feasibility and benefits of a single food service contract and the administration had chosen to go with separate contracts.

Regent Acoba stated that it was his recollection that Sodexo had an issue with vermin control in the past and inquired as to whether this issue had been addressed and resolved. Internal Auditor Shizumura replied that he did not recall any issues regarding vermin control with Sodexo. Regent Acoba asked if Internal Auditor Shizumura could review OIA's records and provide follow-up to the committee on this issue. Internal Auditor Shizumura stated that he would research this issue and provide an update to the committee as to whether such an issue existed.

Regent Higaki moved to accept OIA's Report on the Status of Corrective Action Related to Sodexo Food Service Contracts, seconded by Regent Wilson, and noting the abstention of Regent Acoba, the motion carried with all other members present voting in the affirmative.

D. Review and Acceptance of the OIA Report on the Implementation Status of Government Accounting Standards Board Statement No. 87 (GASB 87), Leases

Internal Auditor Shizumura reported that in June of 2017, GASB 87 was issued and replaces the current operating and capital lease categories required by historical governmental accounting rules with a single lease accounting model based on the concept that leases are a means to finance the right to use an asset. Although GASB 87 was issued in 2017, its effective date was deferred until fiscal years beginning after June 15, 2021. He stated that, for the university, GASB 87 must be implemented for the fiscal year ended June 30, 2022, with retroactive accounting application required if practicable. Accordingly, the university will be required to apply GASB 87 to leases for the year ended June 30, 2021, for presentation in the university's Consolidated Financial Statements (CFS) for the year ended June 30, 2022.

Although the university's General Accounting Office (GAO) has yet to develop a formalized written GASB 87 implementation plan, it has created an initial listing of university leases with input from various fiscal administrators. OIA's preliminary review of this list noted a number inconsistencies, errors, and incomplete information. OIA was informed that GAO did not perform a detailed review of the lease listing. OIA's recommendation is that GAO develop a formal GASB 87 implementation plan, including establishment of milestones, and develop processes and procedures to ensure that GASB 87 is adopted by the university in a timely fashion. Subsequent to the completion and issuance of the university's CFS for the year ended June 30, 2020, OIA will evaluate GAO's overall implementation status of GASB 87.

Regent Acoba questioned when OIA would re-evaluate whether the administration's list of leases is complete and accurate. Internal Auditor Shizumura responded that the audited financial statements are generally provided to the committee in December of the year for which the statements are due and OIA anticipates receiving the 2020 statements at the end of this year. Once the statements are received and approved by the committee, OIA will begin evaluating the university's progress towards implementation of GASB 87, including the accuracy of the lease listing. Regent Acoba inquired further as to the importance and necessity of having a complete and accurate listing of the university's leases. Internal Auditor Shizumura replied that GASB 87 eliminates the difference between operating leases and capital leases and that without an accurate listing of all leases entered into by the university, the university's CFS could be materially misstated.

Regent Wilson moved to accept OIA's Report on the Implementation of GASB 87, seconded by Regent Higaki, and the motion carried with all other members present voting in the affirmative.

VI. ADJOURNMENT

There being no further business, Regent Higaki moved to adjourn, seconded by Regent Wilson, and with all members present voting in the affirmative, the meeting was adjourned at 9:34 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents