

MINUTES
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT
MEETING

MARCH 4, 2021

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, Hawai'i 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 Randy Moore called the meeting to order at 8:34 a.m. on Thursday, March 4, 2021. The meeting was conducted virtually with regents participating from various locations.

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

Committee members excused: Regent Wayne Higaki

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 Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; 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 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

Regent Wilson, moved to approve the minutes of the December 3, 2020, meeting, seconded by Regent Acoba, and noting the excused absence Regent Higaki, 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. Review and Acceptance of Status of Corrective Action of UHM Student Housing Services

Glenn Shizumura, Director of the Office of Internal Audit (OIA), explained the background of a 2018 report on the status of corrective actions taken by UHM Student Housing Services and a subsequent review in 2019 which determined that, although some corrective measures had been implemented, a number of these actions were still in the process of being initiated. In a follow-up evaluation of an updated corrective action plan and the status of corrective actions taken, OIA has validated and concluded that all corrective actions have been implemented and specifically noted improvement shown in collection efforts.

Regent Acoba requested further details on efforts by the Office of the Bursar to collect \$1.48 million in unpaid housing balances and asked what the administration's assessment was for collecting this amount. Carolyn Aquino, Fiscal Administrator for Student Housing, provided a brief summary of the process used to collect unpaid housing balances noting that a large portion of the \$1.48 million in unpaid balances cited are older in nature, dating as far back as 2004, and have been referred to the Bursar's Office for collection. As such, UHM Student Housing Services has received approval from the Office of General Counsel (OGC) to write-off much of this amount. Regent Acoba inquired as to what was meant by the debt being "written-off". Ms. Aquino replied that, per university policy, once a housing debt goes to collection, it is written-off even though collection of the debt is still being pursued. Regent Acoba continued asking at what point is the determination made to write-off debt. VP Young replied that the university refers accounts to a collection agency once it has exhausted all internal procedures for debt collection. A determination is then made by the collection agency as to whether collection of this debt is feasible. If the debt is determined to be uncollectable, the account is returned to the university at which time the debt is written-off. He also clarified that the term "write-off" does not mean that the debt is canceled, it is simply an accounting term used to signify that the debt has been removed from the accounts receivable balances of the university's financial statements. VP Okinaga added that Hawai'i Revised Statutes (HRS) contains provisions regarding uncollectable accounts and establishes parameters for State agencies to use in determining when it is permissible to deem an account uncollectable and remove the debt from the accounting records. However, she reiterated that deeming an account uncollectable and "writing it off" does not excuse or forgive the debt which can still be collected at a future date should it become feasible. Regent Acoba commented that the university should develop a process for addressing these unpaid balances that contain specific timelines for resolving these issues. VP Young added that processes are in place to manage debt collection.

Given the previous discussion, Regent Acoba asked whether further evaluation would be conducted on collection efforts by UHM Student Housing Services. Internal Auditor Shizumura replied that, once an account is referred for collection, all possible avenues to collect the unpaid balance have been pursued.

Regent Wilson moved to accept the status of corrective action for UHM Student Housing Services, seconded by Vice-Chair Nahale-a, and noting the abstention of

Regent Acoba and excused absence of Regent Higaki, the motion carried, with all other members present voting in the affirmative.

B. Review and Acceptance of Status of Corrective Action of University Housing Program

Internal Auditor Shizumura stated that audits of the University Housing Program (Program) conducted in 2010 and 2013 identified issues with the Program's processes and procedures, as well as instances of non-compliance with university policies. In its re-evaluation of the Program in 2019, OIA concluded that corrective actions were taken regarding processes and procedures and compliance with applicable university policies was achieved but suggested several additional enhancements to the Program's standard operating procedures manual. OIA has since determined that all additional recommendations have been implemented by the Program.

Regent Wilson moved to accept the status of corrective action for the Program, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

C. Review and Acceptance of the Office of Internal Audit Review of Associated Students of the University of Hawai'i (ASUH) – Recognition Awards for Service (Service Awards) and Graduate Test Preparation Awards (GTPAs)

D. Review and Acceptance of the Status of Corrective Action of ASUH – Service Awards and GTPAs

Chair Moore stated that agenda items C and D were related and that the report and committee discussions and action would occur simultaneously for both agenda items.

Internal Auditor Shizumura explained that, for the fiscal year ended June 30, 2018, ASUH requested an operational audit of Service Awards, also known as stipends, and GTPAs. OIA conducted an audit and issued a report noting its findings, determinations, and recommendations for corrective actions to address identified issues and potential risks. Some delays occurred due to the timing of the issuance of this report and the onset of restrictions and other factors associated with the COVID-19 pandemic, which resulted in the presentation of the initial audit report at the same time as the status of corrective action and ASUH's written response. OIA has determined that issues contained within the original report have been addressed and that all recommendations and corrective actions have been implemented.

Regent Acoba commended the ASUH students for their actions and efforts in addressing the issues contained in OIA's evaluation of the Service Awards and GTPAs.

Regent Wilson moved to accept OIA's review of ASUH Service Awards and GTPAs and the status of corrective action associated with this review, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

E. Professional Development: Review of AICPA Toolkit for Government Organizations: Recap of Topics Covered at the December 2020 Meeting, Evaluating the Independent Auditor, and Single Audits

Cory Kubota, with Accuity LLP, recapped and reviewed topics covered last calendar year including the primary duties, roles, functions, and responsibilities of the committee with respect to ensuring that the administration has appropriate internal controls in place regarding financial reporting requirements, statutory compliance, and regulatory matters; the financial expertise of committee members; the prevention, deterrence, investigation and detection of fraud; the establishment and oversight of a whistleblower policy that contains sufficient protections for whistleblowers; committee meetings held in executive session; and communicating with the independent auditor. Mr. Kubota also reviewed the roles and responsibilities of the committee regarding the hiring, compensation, and evaluation of the university's external auditor, providing specific examples of qualities the committee should be looking for during the evaluation. The issue of single audits, which are federally required audits performed on non-federal entities that expend \$750,000 or more in federal awards during the entity's fiscal year and consist of both financial and compliance reviews regarding federal rules and regulations was also discussed.

Chair Moore asked whether it was customary for an audit committee to specifically indicate the members of the committee who possess financial expertise. Mr. Kubota replied that, in a commercial setting, it is typical for an audit committee to cite the individual serving as the financial expert. While this designation generally does not occur for government auditing entities, he stated that the Independent Audit Committee's charter is very explicit in stating that an individual must serve as the financial expert for the committee and it is a best practice to cite that individual. Chair Moore informed committee members that the committee will address this issue on a future agenda.

Regent Wilson questioned whether any issues or problems have been experienced by Accuity with regard to holding meetings in executive session due to Hawai'i's public meetings law. Mr. Kubota replied that Accuity has not experienced difficulties to date stating that Accuity seeks the advice of OGC to determine whether a private meeting with a Regent or a meeting in executive session is allowable under Hawai'i law. If OGC determines that it is not, the item is brought forward and discussed at a normal meeting. Chair Moore remarked that a bill currently moving forward at the Legislature addresses this issue by allowing the committee to meet in executive session in certain situations.

Regent Acoba requested clarification on the relationship between OIA and Accuity and asked whether Accuity ever evaluates the job performance of OIA. Mr. Kubota responded that, while OIA is a unit within the university that performs both financial and operational audits as directed by the committee and Accuity is an external auditing agency that has no direct ties to the university that only performs financial audits, the two entities generally function as counterparts, often exchanging information to reduce duplicative work. OIA also provides additional support for Accuity when it performs its external audits of the university. He also stated that Accuity does not evaluate the job performance of OIA.

Given the inclusion of Coronavirus Aid, Relief, and Economic Security (CARES) Act funds in some of the university's financial statements, Regent Wilson asked if federal guidance has been provided regarding single audits of financial statements containing these funds. Mr. Kubota replied in the affirmative noting that organizations and auditors are currently reviewing these guidelines and establishing audit procedures to address them in order to meet the federal deadline for completion of the single audits which has been extended by three months due to delays in the provision of this guidance.

Regent Wilson inquired about Accuity's relationship with the federal General Accounting Office (GAO). Mr. Kubota stated that, while Accuity liaises mainly with the university's internal accounting office which manages the university's year-end financial audit processes, it has not experienced any issues in its limited interactions with GAO.

Regent Acoba asked if there are ever instances where an audit conducted by OIA overlaps one conducted by Accuity. Mr. Kubota responded in the affirmative and provided examples of instances where this overlap has occurred.

Referencing a comment that the Office of Research Services (ORS) is responsible for monitoring federal compliance, Regent Acoba asked whether the committee should rely on ORS reports or the external auditor's reports to monitor adherence to federal regulations. Mr. Kubota responded that the committee should rely on the audit conducted by the external auditor to monitor compliance with federal regulations but should also utilize OIA to conduct follow-up audits to ensure that corrective actions are being implemented should the external auditor discover any federal compliance issues.

Chair Kudo opined that while OIA and the external auditor perform similar functions and often work hand-in-hand, their specific roles differ. The external auditor conducts audits that are financial in nature and generally at a high level. Although OIA also conducts financial audits, their audits primarily involve the management and operations of the university usually in response to a complaint or controversy. The enormity of the university requires that both of these entities monitor the university in their respective areas of expertise so that both the board and administration are provided with information and feedback to fully understand the entirety of the financial and operational management of the university. Mr. Kubota concurred with Chair Kudo's assessment stating that the work of the external auditor follows generally accepted auditing standards and is more broad-based and financial in nature. OIA generally conducts audits that are more operational in nature and has the ability to perform audits that are more specific.

Regent Acoba stated that, in his opinion, the administration's policy and process for pursuing uncollected receivables appeared disjointed and that possible statute of limitations issues existed that could impact these processes. He asked whether the external auditor had any ideas on how to approach this issue. Mr. Kubota replied that university already has a formal process and policy with respect to the collection of receivables and the "writing off" of debt noting that these procedures are mainly geared towards how receivables are reported and reflected in financial statements. He reviewed the process used for collecting unpaid balances and stated that the university already appears to be exhausting all avenues available to recoup these funds. Regent

Acoba thanked Mr. Kubota for his explanation but stated that he believes issues with the process remain.

F. Whistleblower Report

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports noting changes in the report format to reflect the expanded collection of information and further breakdown and analysis of data points regarding whistleblower cases in response to requests made by the committee. He reviewed some of the specific information contained within these reports noting that the primary type of whistleblower complaints being made continues to be cases involving employment or human resources related issues.

Regent Acoba remarked that he appreciated the comprehensiveness of the new reporting format. He also asked whether OIA has assessed the effectiveness and impacts of the whistleblower program, as well as whether there was widespread knowledge of the program's existence, by conducting a survey of the university community or some other means. Internal Auditor Shizumura replied that OIA has not conducted a formal survey assessing the impacts, effectiveness, or widespread knowledge of the program but stated that a systemwide email notification regarding the whistleblower hotline is sent to all students, faculty, and staff of the university at the beginning of each semester. In reviewing the data on the numbers and types of cases reported, OIA believes that knowledge of the program is widespread since a large number of cases are reported within the first month of the start of each semester and a number of cases are reported by individuals outside of the university.

Regent Tagorda arrived at 9:56 a.m.

G. Enterprise Risk Management (ERM) Update

VP Gouveia provided an ERM update noting that the administration continually assesses risk exposures to the university as part of its internal control process and the committee's internal control program. She stated that this provides the administration with the opportunity to report to the committee on any areas of concern, from a risk-management standpoint, that it believes should be addressed by the board. Key risks and risk categories were reviewed with VP Gouveia noting that the top risk categories identified by the administration were financial resiliency and the maintenance of health and safety. The risk categories of information technology and governance and compliance are also being closely monitored. VP Gouveia stated that the administration will continue to advance a culture of risk management throughout the organization.

Chair Moore asked what the time horizon was for the assessment of risks and whether the mapping of risk categories change if the horizon was longer versus shorter. VP Gouveia replied that the administration uses a shorter to mid-range horizon on the scale of three to five years. She noted that the ERM is primarily used as a tool to place the administration in the best position to strategically focus its resources in addressing near-term risks. However, she opined that longer timeframes for risk assessment,

perhaps in the range of 10 to 12 years, would be a valuable tool and could be included in the administration's ERM analysis.

Regent Acoba thanked VP Gouveia for the ERM update and stated that having this view of risks that exist for the university from the administration's is helpful.

Regent Sullivan and Regent Bal arrived at 9:59 a.m.

V. EXECUTIVE SESSION

Vice-Chair Nahalea made a motion to convene in executive session, seconded by Regent Wilson, and noting the excused absence of Regent Higaki, and with all members present voting in the affirmative, the committee approved convening in executive session to consider the hire, evaluation, dismissal, or discipline of an officer or employee, where consideration of matters affecting privacy will be involved, pursuant to Section 92-5(a)(2), HRS.

The meeting recessed at 10:10 a.m.

Chair Moore called the meeting back to order at 10:34 a.m. and announced that the board met in executive session to discuss personnel-related matters as stated on the agenda.

VI. ADJOURNMENT

There being no further business, Regent Wilson moved to adjourn, seconded by Regent Nahale-a, and noting the excused absence Regent Higaki, and with all members present voting in the affirmative, the meeting was adjourned at 10:35 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents