

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

MAY 6, 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 10:19 a.m. on Thursday, May 6, 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; Regent Wayne Higaki; and Regent Ernest Wilson.

Others in attendance: Board Chair Benjamin Kudo; Regent Eugene Bal; Regent Michelle Tagorda; Regent Robert Westerman (ex officio committee members); 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 Higaki moved to approve the minutes of the March 4, 2021, meeting, seconded by Regent Wilson, and the motion carried, with all members present voting in the affirmative.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that written comments requesting an audit of Hawai'i Community College was submitted by Helen Nishimoto and Jeff Yamauchi and that one individual signed up to provide oral testimony but was not present.

Chair Moore stated that inquiries have been made regarding the complaints raised in testimony submitted by Helen Nishimoto and that he has received notification that the administration is reviewing these complaints. However, as the issues raised involve personnel and student matters, a public response cannot be provided.

IV. AGENDA ITEMS

A. Review and Acceptance of Revenue Bond Covenant and Policy Compliance Status of Corrective Action

Glenn Shizumura, Director of the Office of Internal Audit (OIA), reported on the status of corrective actions taken by the University Bond System Office (UBSO) to address improvement opportunities and mitigate risks documented in a revenue bond covenant and policy compliance report dated April 28, 2020. He noted some of the improvement opportunities and recommendations included in the report such as finalizing draft written policies and procedures regarding revenue bond pre-issuance planning, issuance, and post-issuance compliance processes and ensuring that these policies include procedures with respect to compliance with all applicable requirements for the respective revenue bond, including debt covenant requirements. He also noted that OIA recommended that UBSO either perform all post-issuance compliance accounting and tax advisory reviews internally or continue to engage a third-party to conduct these services. OIA has concluded that all corrective actions have been implemented with the exception of a minor revision to one of the executive policies. However, follow-up discussions with UBSO staff, as well as VP Young, indicate that the revision to the executive policy has been completed and will be formally amended prior to the end of the calendar year.

Regent Acoba asked whether UBSO met the anticipated completion date of December 2020 for its written policies and procedures regarding revenue bonds. Internal Auditor Shizumura replied that, while UBSO anticipated it would complete its corrective action regarding the written policies and procedures by December 2020, the necessity of addressing more pressing matters, including the finalization of audited statements for the year ended June 30, 2020, resulted in a delay for completing this corrective action. However, OIA has determined that the corrective action was completed by March 2021.

Referencing the minor revisions to executive policies previously noted, Regent Acoba requested more specific information about these revisions. Amy Kunz, Associate Vice President of Budget and Finance and University Controller replied that revisions to the executive policies mainly involved specifying and formally delineating responsibilities and tasks associated with the issuance of revenue bonds and the follow-up for post-issuance compliance. She noted that a review of these tasks and responsibilities occurs every two years with adjustments being made accordingly. Specific changes will be noted in a redline version of the executive policy that will be submitted through the administrative approval process. VP Young added that the main issue is making the process for the issuance of revenue bonds and the follow-up for post-issuance compliance contained within Executive Policy align with contemporary standards.

Regent Acoba requested clarification on the issue of the administration's engagement of an external, third-party to provide post-issuance compliance accounting and tax advisory services for non-taxable revenue bonds. Internal Auditor Shizumura explained that between 2014 and 2018, the university engaged BLX Group LLC (BLX)

to provide external, third-party post-issuance compliance accounting and tax advisory services for non-taxable revenue bonds. However, the contract for the provision of these services expired at the end of calendar year 2018. The university then reengaged BLX for the provision of these services in November 2020. As such, there was a one-year period where an annual bond compliance review for private activity through an external third-party did not occur thereby creating the potential for issues of noncompliance being realized with respect to revenue bonds. However, he emphasized that UBSO conducted the annual bond compliance review for private activity during this gap year and did not discover any issues with regard to noncompliance during that time. Additionally, OIA did not discover any compliance issues regarding revenue bonds in its initial review.

Regent Wilson moved to accept the report on the status of corrective action for revenue bond covenant and policy compliance, seconded by Regent Higaki, and the motion carried, with all members present voting in the affirmative.

B. Review and Acceptance of Status of Review of Clearing Accounts Status of Corrective Action

Internal Auditor Shizumura reported on the status of corrective action taken to address recommendations to improve the processes and controls associated with university clearing accounts which were documented in an audit report issued by OIA in September 2019 and briefly reviewed some of the recommended corrective actions. OIA has concluded that all corrective actions have been implemented and that no significant matters remain unresolved.

Regent Wilson moved to accept the report on status of review of clearing accounts status of corrective action, seconded by Regent Higaki, and the motion carried, with all members present voting in the affirmative.

C. Review and Acceptance of Review of Waikīkī Aquarium (Aquarium)

Internal Auditor Shizumura provided a summary of an initial audit of the Aquarium noting that the audit examined various compliance, operational, and financial aspects of the Aquarium. He highlighted several associated risks and challenges facing the Aquarium that were identified in the audit including the performance of incompatible financial duties by Aquarium personnel; the lack of comparing and reconciling financial information from Aquarium financial systems to the university's Kualī Financial System (KFS) in addition to the inconsistent preparation of accurate and complete financial reports; non-compliance with certain university policies; minimal management and monitoring of the operations of the Aquarium's gift shop; and uncertainties regarding the resolution of a matter regarding wastewater discharge at the Aquarium, as well as the corrective actions recommended by OIA. Based upon management's response to the audit report, OIA anticipates that all recommended corrective actions will be completed within the next year with the exception of the wastewater discharge matter which is still being negotiated between the university, the Department of Environmental Services of the City and County of Honolulu, and the State Department of Health. OIA will provide a status of corrective action report to the committee in the future.

Regent Wilson asked if there were any specific reasons identified in the audit that accounted for the Aquarium's failure in utilizing KFS. Internal Auditor Shizumura replied that the Aquarium has its own internal financial system that is used to monitor various fiscal transactions such as admission ticket and gift shop sales. While these transactions are posted to KFS, which serves as the university's general accounting ledger, OIA noted that the Aquarium does not reconcile these transactions with KFS on a regular basis. In order to ensure a complete and accurate reflection of all of the financial transactions of the Aquarium, OIA is recommending that a comparison of, and reconciliation between, the internal financial system and KFS occur on a monthly basis.

Chair Moore pointed out that this is a report on the initial audit of the Aquarium and not a report on the status of corrective action to address concerns and recommendations made by OIA. He stated that, in as much as the management's response concurred with the audit report and indicated that all recommendations for corrective action will be implemented, specific questions regarding the operations and actions of the Aquarium in relation to the audit might be better suited for the follow-up audit report.

Regent Acoba asked if the Aquarium was a unit of UHM and under the jurisdiction of the UHM Provost. Internal Auditor Shizumura responded in the affirmative. Provost Bruno stated that the Aquarium is formally recognized by the board as an organized research unit and the Aquarium's executive director reports directly to the UHM Provost.

Citing a reference to revenues received from the Friends of the Waikīkī Aquarium (FOWA), Regent Acoba requested clarification on the role of FOWA with respect to the financial matters of the Aquarium. Provost Bruno explained that FOWA exists solely for the purpose of supporting the Aquarium with additional revenue streams such as through annual membership fees and donations. Revenues from FOWA are received by the Aquarium through a process by which funds are provided for specific projects and needs identified by the Aquarium's executive director. He stated that, until recently, FOWA also operated the Aquarium's gift shop and served as a pass-through entity for additional revenues from this operation. However, this arrangement has been changed and the gift shop is currently managed and operated by the Aquarium to allow for the direct receipt of revenues. It was underscored that FOWA was extremely responsive to the needs of the Aquarium during the pandemic and provided necessary funding to maintain Aquarium operations.

Regent Acoba asked if a pending loan of \$500,000 that was recently requested by the Aquarium's executive director would have any impact on its addressing of the corrective actions recommended by OIA and whether current Aquarium staff had the abilities necessary to execute these corrective actions. Provost Bruno replied that the request for a loan from the Research and Training Revolving Fund was made in response to concerns that the lengthy closure of the Aquarium facility as a result of the pandemic would impact its ability to retain staff necessary to maintain the facility and care for the animals within the facility. After the request was initiated, the Aquarium was able to secure other sources of funding for this purpose from FOWA, the federal government, and the Legislature. He also noted that, under normal circumstances, the Aquarium is a viable and sustainable operation. Dr. Andrew Rossiter, the Aquarium's

executive director, added that \$1 million has been allocated to the Aquarium in the recently passed State budget and that an application for a \$1.5 million grant available to shuttered venues such as museums, zoos, and aquariums has been submitted to help offset some of the costs and lost revenues experienced over the past 15 months.

Vice-Chair Nahale-a moved to accept OIA's review of the Aquarium, seconded by Regent Wilson, and the motion carried, with all members present voting in the affirmative.

D. Update on Reviews of University Housing Program (Program)

VP Gouveia presented an overview and history of the Program, which offers rental housing to university personnel, stating that the Program was initiated as a method of attracting, recruiting, and retaining university faculty. She noted that the Program operates three housing complexes consisting of 237 studio, one-, two-, and three-bedroom rental units; provided a historical background for each of the complexes; and reviewed the current eligibility requirements, application priorities, term limits, and rental rates for the various units contained in each complex.

An initial audit of the Program in 2010, and follow-up audits in 2013 and 2019, conducted by OIA revealed several issues with the Program that focused on three areas of concern including issues regarding waitlist and total duration of tenant occupancy; tax considerations due to rents less than five percent of appraised value; and the Mortgage Assistance Guaranty Program initiated by the university that was discontinued in 2014. VP Gouveia reviewed each area of concern in detail and highlighted that a status of corrective action report issued by OIA in 2021 found that the Program has addressed all issues noted in prior audits.

Regent Higaki thanked VP Gouveia for her extensive and comprehensive report on the Program.

Regent Acoba questioned how the rents charged by the university of Program units compared to the market rates for rental units. VP Gouveia replied that rental rates charged by the Program are comparable to, albeit slightly lower than, current market rental rates.

E. Audit Project Status Update

Internal Auditor Shizumura provided a status update on all of the projects and audits outlined in OIA's 2020-2021 work plan which was approved by the committee at its June 4, 2020, meeting and presented a chart indicating both completed and ongoing projects, as well as the noting the current stage of the ongoing projects.

Chair Moore noted that audit project status reports will be provided regularly going forward.

F. Professional Development: Review of AICPA Toolkit for Government Organizations: Recap of Topics Covered at the March 2021 Meeting,

Evaluating the Internal Audit Function, Conducting an Audit Committee Self-Evaluation, and Enterprise Risk Management

Cory Kubota, with Accuity LLP, delivered the last of a series of professional development sessions planned for the committee, in compliance with statutory requirements that the committee undertake professional development to ensure the financial expertise of the committee as a whole. He recapped and reviewed topics covered at the March 2021 committee meeting including the evaluation of the independent auditor and the issue of single audits. Mr. Kubota also reviewed the roles and responsibilities of the committee regarding oversight and evaluation of OIA; conducting an annual self-evaluation to determine the committee's performance and effectiveness; and enterprise risk management.

Citing that audit reports presented to the committee are often complex, Regent Acoba inquired as to whether there were different styles for presenting these reports that could provide information in a simpler format. Mr. Kubota replied that there is no prescribed formatting style for the presentation of an audit's findings and recommendations and that the methodology used to report this information is at the discretion of the committee. In the case of the annual external audits conducted on the university's consolidated financial and compliance reports however, there is a specific format that is followed due to the necessity of communicating certain required information to those charged with governance over these audits.

Referencing the reasons for the creation of the committee and noting the size of the university, Board Chair Kudo opined that the role of the committee could be organized in such a way that audits are conducted on a regular basis through a holistic approach with regard to function and risk levels. He asked if this approach was consistent with the role and function of the committee. Mr. Kubota replied that establishing a regular schedule for certain types of audits or for certain units of the university based upon risk categorization and prioritization would fall within the scope and role of the committee. Discussions ensued on the types of audits that might be conducted on a regular basis.

G. Designation of Committee Member Financial Expertise

Chair Moore stated that action on this agenda item would be deferred until the next committee meeting to provide Regents with an opportunity to submit statements highlighting the financial qualifications they possessed that would allow for their designation as the financial expert of the committee in accordance with statutory requirements. He noted that both he and Regent Wilson have submitted statements to the Board Office and invited other Regents to do the same if they so choose.

V. ADJOURNMENT

There being no further business, Regent Wilson moved to adjourn, seconded by Regent Nahale-a, and with all members present voting in the affirmative, the meeting was adjourned at 11:44 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents