

## **MINUTES**

### **BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING**

**JUNE 2, 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 (HRS), 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 10:16 a.m. on Wednesday, June 2, 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 Robert Westerman (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; 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 May 6, 2021, meeting, seconded by Vice-Chair Nahale-a, and noting the excused absence of Regent Higaki, 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 (HawCC) was submitted by Helen Nishimoto and Jeff Yamauchi and that no individuals signed up to provide oral testimony.

#### **IV. AGENDA ITEMS**

**A. Review and Acceptance of the University of Hawai'i Audited Financial and Compliance Report for the Year Ended June 30, 2020**

Ms. Jamie Asato, with Accuity LLP, provided an overview of Accuity's compliance reports in connection with the audit of the university's consolidated financial statements for the year ended June 30, 2020, highlighting that these reports addressed the single audit conducted by Accuity, which is a federally required audit 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. She reviewed the various components of the single audit report including compliance reports; schedule of expenditures of federal awards; schedule of findings and questioned costs; financial statements; and a summary schedule of prior audit findings and associated corrective action plans prepared by management. While the 2020 audit did not find significant risks, exposures, weaknesses, difficulties, material uncertainties, acts of fraud, or illegal activities, it was noted that five compliance findings regarding federal award expenditure requirements were discovered, a decrease from eight discovered in the 2019 audit. Although two of the findings noted were repeat findings, Accuity has determined that none of these findings were material or significant and were deemed to be associated with minor internal control deficiencies. Management has also addressed the majority of the findings contained within the 2019 audit and has submitted a corrective action plan in response to the five findings associated with the 2020 audit.

Regent Wilson moved to accept the University of Hawai'i audited financial and compliance report for the year ended June 30, 2020, seconded by Vice-Chair Nahale-a, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

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

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

Ms. Asato summarized 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 the university. She stated that in 2020 there were four comments regarding issues involving either university or Board of Regents (board) policies but that these issues were not significant. She noted that five comments were made during last year's audit with two of those issues being resolved and three carrying forward.

Regent Westerman expressed his concerns regarding the recurring issues identified in Accuity's report and opined that the university needs to continue to improve in this area so that it can remain policy compliant and not be subject to fines, particularly from the federal government.

Chair Moore stated that, while some of the issues reported on are recurring, this is something that will periodically occur in an organization as large as the university. It

would be troublesome, however, if it was discovered that an individual was repeatedly responsible for the same issue of non-compliance and it would behoove the administration to take appropriate corrective action if such an instance occurred. VP Szymos clarified that the compliance issues identified in Accuity's report dealt with purchase orders and submission of timely travel completion reports. None of the individuals responsible for non-compliance were repeat offenders. UHM is also working closely with the Research Corporation of the University of Hawai'i to mitigate the risks of non-compliance regarding purchase orders.

Cory Kubota, with Accuity LLP, clarified some of the reasons for non-compliance with university or board policies and stated that Accuity does conduct annual follow-up meetings with individuals and departments where instances of non-compliance have occurred.

Regent Acoba asked if some of the issues identified in the audited financial and compliance reports are reflected in the internal control and business issues report. Mr. Kubota explained that the issues identified in the audited financial and compliance reports pertain to non-compliance issues specific to federal dollars with the potential for an awarding agency to return to the university with a request for repayment. Issues identified in the internal control and business issues report addressed compliance with university or board policies. Ms. Asato added that the issues identified in each report may be applicable to the same transactions but that the standards for non-compliance differ.

Noting that the untimely submission of travel completion reports appears to be a recurring issue every year, Regent Acoba stated that it appeared the administration needed to increase its efforts to ensure compliance with travel reporting policies.

Vice-Chair Nahale-a moved to accept the internal control and business issues report, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

Ms. Asato noted that the corrective action response for the internal control and business issues report was simply the university administration's response to the report. Chair Moore added that the administration's corrective action response indicated that management has addressed all of the issues noted by Accuity.

#### **D. Approval of Annual Review of the Committee Charter**

Chair Moore explained that the charter of the Committee on Independent Audit is prescribed in statute. Although legislation was passed this year to amend the statute governing the committee, it has not yet been enacted. As such, the committee charter remains unchanged. He asked if committee members had any questions or concerns regarding the committee charter and none were raised.

Regent Wilson moved to approve the annual review of the committee charter, seconded by Regent Acoba, and noting the excused absence of Regent Higaki, the motion carried, with all members present voting in the affirmative.

**E. Approval of Proposed Internal Audit Work Plan (Work Plan) for 2021-2022 and Discussion on Utilization of the Office of Internal Audit (OIA)**

Glenn Shizumura, Director of OIA, explained that the proposed Work Plan was the outline for work to be performed by OIA during the coming year stating that it was developed in consultation with the administration. He furnished a summary of services provided by OIA, including services to the university's external auditor, Accuity, LLP, and services provided to the committee, and presented a breakdown of new, carryover, and follow-up projects for the 2021-2022 fiscal year.

Chair Moore remarked that, while the committee approves the Work Plan, it is a dynamic document that can be amended to include additional projects over the course of the year should the need arise and subject to approval of the committee.

Regent Wilson asked whether OIA would be conducting a follow-up audit on the use of federal stimulus money provided to the university as this was not noted in the Work Plan. Internal Auditor Shizumura replied that the use of federal stimulus funds would be subject to the audit of the university's consolidated financial statements conducted by Accuity. Since the majority of federal stimulus monies were received in 2021, this information should be reflected in Accuity's report on the audited financial and compliance reports for the year ended June 30, 2021.

Vice-Chair Nahale-a left at 10:49 a.m.

Chair Moore stated that a meeting to discuss how the committee could better utilize the services of OIA in the future will be scheduled next year. He noted that he asked Internal Auditor Shizumura to provide information to the committee on the processes used by other university auditors to develop work plans at their respective institutions. This will provide the committee with better context for establishing a Work Plan.

Regent Acoba requested clarification on the follow-up audit on real property lease management; the apparent lack of cooperation on the audit conducted on the Vietnam Executive Master of Business Administration (VEMBA) Program and whether consideration has been given to inviting individuals from VEMBA to a meeting of the committee to discuss questions raised by OIA; and the gist of the evaluation of the status of corrective action for Maunakea. Internal Auditor Shizumura replied that OIA will be reporting on the initial audit for real property lease management later in this agenda and a follow-up audit will be conducted in calendar year 2022 to determine the status of any recommended corrective actions. OIA did request assistance from UHM Provost Bruno regarding VEMBA and additional information was provided by the program. However, due to personnel changes and retirements, obtaining additional information has been challenging and OIA has elected to issue an interim report based on initial findings and conduct follow-up procedures to obtain additional information at a later date. OIA has also been working with the Associate Director of the Institute for Astronomy (IfA) in addressing recommendations made regarding the accounting and administrative functions of IfA's support services group. Given that IfA is addressing a number of pressing matters, finding a suitable time to meet and review this issue has been difficult. However, OIA notes that of the five recommendations made regarding

Maunakea, three have been implemented and follow-up was being conducted on the remaining two items. It was also noted that the items for corrective action noted by OIA were not substantial.

Regent Wilson moved to approve the Work Plan, seconded by Regent Acoba, and noting the excused absences of Vice-Chair Nahale-a and Regent Higaki, the motion carried, with all members present voting in the affirmative.

#### **F. Review and Acceptance of Draft Committee on Independent Audit Annual Report to the Board**

Chair Moore explained that the committee's annual report to the board is prepared by OIA pursuant to Section 304A-321, HRS, and the board bylaws. This annual report includes OIA's audit results for the fiscal year ended June 30, 2021, 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.

Regent Acoba asked about the resignation of Mr. David Estes, an internal auditor of OIA, and whether this occurred in the normal course of employment. Internal Auditor Shizumura responded in the affirmative stating that Mr. Estes was afforded an opportunity to pursue another career and submitted his resignation to OIA in July 2020.

Regent Wilson moved to accept the draft Committee on Independent Audit annual report to the board, seconded by Regent Acoba, and noting the excused absences of Vice-Chair Nahale-a and Regent Higaki, the motion carried, with all members present voting in the affirmative.

#### **G. Overview of Processes for Student Account Receivables and Collections**

Amy Kunz, Associate Vice President (AVP) for Budget and Finance and University Controller, reported on the university's policies, procedures, and processes for managing student accounts receivable and the collection of delinquent accounts. It was noted that student accounts include any charges for fees, services, and programs applicable to students and that accounts are considered past-due as of the last day to add or drop courses at 100 percent except under certain, specific conditions such as enrollment in a payment plan, pending financial-aid disbursements, or third-party contracts for payments. If the past-due balance for a student account is \$200 or more, the student is prohibited from registering for future terms. In addition, the release of student transcripts is prohibited for any past-due balance on a student account.

An overview of the process used to determine the financial obligations of a student and account delinquency, as well as notifications, actions, and efforts employed in the collection of delinquent accounts, including the use of four external collection agencies, was provided by AVP Kunz. She also reviewed the laws, administrative rules, and policies related to the collection of delinquent accounts.

A breakdown of past-due account balances was presented and included total outstanding account balances to date; approved to be written off; referred to collections; and enrolled in a debt repayment plan. As of May 21, 2021, the cumulative past-due

account balance stood at approximately \$30.28 million which was a decrease of approximately \$7.5 million since April 2021. AVP Kunz stated that the financial management office continues to work toward reducing outstanding and historical balances in the aggregate and went over some of the efforts undertaken.

VP Young lauded the efforts of AVP Kunz and her staff in addressing collections of student accounts receivable and developing initiatives that make it easier for students to meet their financial obligations. As a result, a significant decrease in collection balance amounts has been witnessed by the university.

Regent Acoba requested clarification on the role of the blue ribbon committee noted in the presentation; whether the Department of Taxation works with the university to address delinquent student account balances through a tax refund offset; and whether statutes governing debt collections pertinent to the university consider legal time limitations applicable to the collection of debt. VP Young replied that the blue ribbon committee was established to assess the academic mission of the university and how to make attending the university more agreeable to prospective students, including financial considerations and obligations. AVP Kunz added that a subcommittee within the blue ribbon committee was formed to discuss the issue of student debt collection and recommended a number of changes to the collections process, including improved student notification of balance due and the initiation of various payment options to meet a student's financial obligations. She also stated that the Department of Taxation offsets the tax refunds of students with delinquent accounts and remits these payments to the university. VP Okinaga stated that the statute of limitations applicable to the collection of debts does not affect the collection of monies by the university being discussed.

Citing the percentage fees charged by collection agencies for the services provided to the university, Regent Acoba asked if this was the major factor in deciding which collection agency to employ. AVP Kunz responded in the affirmative but stated that the university retains the option of utilizing any one of the four collection agencies.

Regent Wilson inquired about the impact of the COVID-19 pandemic on the collection of delinquent accounts. AVP Kunz replied that a substantial amount of the internal operations regarding debt collection of delinquent accounts, including the mailing out of collection letters, were completed prior to the economic shutdown in early 2020. Once the shutdown occurred and individuals began experiencing severe economic impacts because of the COVID-19 pandemic, the university halted collection efforts. However, these efforts were reinstated in late 2020. She noted that, despite the halt in collection efforts, students continued to take advantage of the repayment plans afforded by the university.

Regent Westerman asked if the Internal Revenue Service afforded an offset option for federal tax refunds. He also questioned whether federal stimulus money could be accessed by the university to help decrease student debt. AVP Kunz stated that she was unaware of any opportunities for the university to establish tax liens on a student's federal tax refund. As for federal stimulus funding, money received by the university was disbursed directly to students in the form of student aid in accordance with Higher

Education Emergency Relief Fund guidelines. Although the university encouraged students who received federal assistance to apply those funds to their outstanding educational debt, it could not require the use of the funds for that purpose.

#### **H. Review and Acceptance of Student Accounts Receivable Status of Corrective Action**

Internal Auditor Shizumura reported on the status of corrective actions taken by the university to address improvement opportunities and mitigate risks documented in a student accounts receivable report dated June 20, 2018. He stated that, while a substantial portion of the issues discovered and recommendations for corrective action were discussed under agenda item G, an issue not covered dealt with the labor-intensive process to reconcile information on student accounts receivable contained within the university's student information system with the Quali Financial System (KFS), the university's general ledger. However, the administration has established a fully automated reconciliation system which has increased the efficiency and accuracy of this process. OIA has concluded that all recommended corrective actions have been implemented or are in the process of being implemented by the administration.

Regent Wilson moved to accept the report on the status of corrective action for student accounts receivable, seconded by Regent Acoba, and noting the excused absences of Vice-Chair Nahale-a and Regent Higaki, the motion carried, with all members present voting in the affirmative.

#### **I. Review and Acceptance of Review of University Bookstore System**

Internal Auditor Shizumura provided a summary of an initial audit of the University Bookstore System (Bookstore) stating that the audit examined various operational and financial aspects of the Bookstore. It was noted that all Bookstore accounting functions are the responsibility of the UHM Bookstore. He highlighted several associated risks and challenges facing the Bookstore that were identified in the audit including undetected and unreconciled financial information differences between the Bookstore's point-of-sale system and KFS; a lack of managing and monitoring inventory gross margins; the inability to identify and explain significant or unusual month-to-month and year-to-year financial account balance fluctuations; significant receivable balances (approximately \$1.6 million) as of June 30, 2020, in addition to the inability to provide a receivable report as of December 31, 2020; the inability to provide reports supporting inventory balances and adjustments; and the lack of documentation supporting the rental textbook program and the inability to adequately explain the program. OIA identified several recommendations to mitigate the above noted issues including that consideration be given to contracting Bookstore operations to a vendor specializing in managing higher education bookstores. OIA will provide a status of corrective action report to the committee in the future.

Chair Moore added that management's response to the audit report indicates that management concurs with the findings and recommendations of the audit and is in the process of implementing the majority of the suggested corrective actions.

Regent Acoba requested clarification on management's position regarding OIA's recommendation to outsource management of the Bookstores' operations. Chair Moore opined that OIA's recommendation was actually to consider outsourcing management of the Bookstore's operations and not require outsourcing. VP Gouveia replied that the administration has been investigating and analyzing this complex issue noting that challenges exist in balancing the needs of students and faculty with the process of Bookstore operations.

Regent Wilson asked about the university's stance regarding the provision of free textbooks, also known as open-sourcing, which is becoming more prevalent at institutions of higher education across the nation. President Lassner replied that open-sourcing initiatives tend to be more prevalent at the lower-division levels of institutes of higher education but become less so at the upper- and graduate-level divisions. As such, open-sourcing is viewed as being complimentary to, and not a replacement for, a bookstore. He also noted that in its efforts to provide reduced student educational costs through the provision of free or reduced-cost textbooks, universities were actually impairing their business models despite being the correct course of action.

Chair Moore questioned whether the requirement that 20 percent of sales at bookstores on the UHM, UHH, and Windward Community College campuses be paid to the Office of Hawaiian Affairs was applicable to gross or net sales of the respective bookstore. VP Okinaga replied that the university applies the 20 percent to net proceeds from agreed-upon sales categories that includes logo items but does not include textbooks and computers.

Regent Westerman stated that he believed that there would always be a need for a bookstore and that it was a matter of finding the right balance among meeting the needs of students, generating revenues, and mitigating expenses to maintain Bookstore operations.

Regent Acoba moved to accept OIA's review of the University Bookstore System and management's response to the review, seconded by Regent Wilson, and noting the excuses absences of Vice-Chair Nahale-a and Regent Higaki, the motion carried, with all members present voting in the affirmative.

#### **J. Review and Acceptance of Review of Real Property Lease Management**

Internal Auditor Shizumura provided a summary of an initial audit of the university's Office of Strategic Development and Partnership (OSDP) noting that it was established in 2019 to coordinate the strategic development and administration of university real property transactions. As a newly established university department, OSDP is in the process of revising university policies in addition to developing internal processes and procedures associated with the development and administration of real property transactions. One of the objectives of the audit was to evaluate OSDP operations, as well as current processes and procedures it has been utilizing, to determine if the electronic records management repository platform known as OnBase that is used by OSDP to track real property transactions, including leases, was beneficial to the university's General Accounting Office (GAO) in connection with their implementation of

the newly issued Governmental Accounting Standards Board Statement (GASB) No. 87 regarding leases. He highlighted several of OIA's recommendations, including enhancements to OnBase that will increase the accuracy and completeness of the lease listing thereby assisting GAO in remaining compliant with the provisions of GASB No. 87; having the office involved with a lease develop an abstract of the lease; and revising university policies and internal processes and procedures to better align with leading practices of offices similar to OSDP at other institutes of higher education. OIA will provide a status of corrective action report to the committee in the future.

Chair Moore remarked that management's response to the audit report indicates that it concurs with the findings and recommendations of the audit and is in the process of implementing the suggested corrective actions.

Regent Wilson moved to accept OIA's review of real property lease management, seconded by Regent Acoba, and noting the excuses absences of Vice-Chair Nahale-a and Regent Higaki, the motion carried, with all members present voting in the affirmative.

#### **K. 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.

#### **L. Whistleblower Report**

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports and 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.

Noting that public comment received by the committee noted alleged employer retaliation at HawCC, Chair Moore asked if this was something that would be appropriate to add to a whistleblower report. Internal Auditor Shizumura replied that OIA has received whistleblower reports regarding HawCC and noted that these reports have been forwarded to the community college system representative that evaluates whistleblower cases. It was his understanding that the community college system representative is continuing to investigate, evaluate, and analyze these cases and consultation with the community colleges systems office is ongoing.

#### **M. Enterprise Risk Management (ERM) Update**

VP Gouveia provided the annual 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, primarily as a result of the COVID-19 pandemic and the recently passed State budget, the top risk categories identified by the administration were financial resiliency and the maintenance of health and safety.

#### **N. Designation of Committee Member Financial Expertise**

Chair Moore state that Section 304A-321, HRS, requires that membership of the committee include one or more individuals with financial expertise. He noted that both he and Regent Wilson submitted statements highlighting the financial qualifications they possessed that would allow for their designation as the financial expert of the committee to the Board Office which were then distributed to committee members. Chair Moore opined that Board Chair Kudo also possesses financial qualifications, although he did not submit a statement.

Regent Acoba moved to designate both Chair Moore and Regent Wilson as the committee members with financial expertise as required by statute. Noting the excused absences of Vice-Chair Nahale-a and Regent Higaki and the appropriateness of either Chair Moore or Regent Wilson seconding the motion, Board Chair Kudo, as an ex officio voting member of the committee, seconded the motion. The motion passed with all members present, including Board Chair Kudo, voting in the affirmative.

#### **O. Committee Annual Review**

Chair Moore referenced the committee annual review matrix provided in the materials packet stating that it sets forth the actions carried out by the committee throughout the year and asked for comments from committee members. Hearing none, Chair Moore stated that it was a very productive year for the committee and thanked the committee members, administration, Board Office staff, university staff, and the internal and external auditors for all of their efforts that allowed the committee to complete the tasks set forth in the committee work plan.

Regent Acoba and Regent Wilson thanked Chair Moore for his leadership of the committee.

#### **V. ADJOURNMENT**

There being no further business, Regent Wilson moved to adjourn, seconded by Regent Acoba, and noting the excused absences of Vice-Chair Nahale-a and Regent Higaki, and with all members present voting in the affirmative, the meeting was adjourned at 12:00 p.m.

Respectfully Submitted,

/S/

Kendra Oishi  
Executive Administrator and Secretary  
of the Board of Regents