

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

JUNE 1, 2022

I. CALL TO ORDER

Chair Benjamin Kudo called the meeting to order at 11:30 a.m. on Wednesday, June 1, 2022, with regents participating from various locations.

Committee members in attendance: Chair Benjamin Kudo; Vice-Chair Simeon Acoba; Regent Wayne Higaki; and Regent Diane Paloma.

Committee member excused: Regent Alapaki Nahale-a.

Others in attendance: Regent Randy Moore; Regent Eugene Bal; Regent William Haning; and Regent Ernest Wilson (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 Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa Provost Michael Bruno; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Chair Kudo inquired if there were any corrections to the minutes of the April 7, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

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. Annual Review of Committee Charter

Chair Kudo stated that the Committee on Independent Audit (IA Committee) is the only committee governed by statute under section 304A-321, Hawai'i Revised Statutes (HRS), which together with the board bylaws, comprise the charter of operations for the committee. He also noted that the bylaws require the IA Committee to provide recommendations to the board regarding the committee's charter and asked if committee members had any questions or concerns. None were raised.

B. Approval of Proposed Internal Audit Work Plan (Work Plan) for Fiscal Year (FY) 2022-2023

Glenn Shizumura, Director of the Office of Internal Audit (OIA), stated that the proposed Work Plan for FY 2022-2023 was an outline of work to be performed by OIA during the coming year. While the Work Plan was developed in consultation with the administration, he noted that the addition of the VP for Administration to broaden these discussions to include enterprise risk was a change to the process that was implemented this past year. He furnished a summary of services provided by OIA to the committee, as well as the university's external auditor, Accuity, LLP, and presented a breakdown of new, carryover, and follow-up projects for FY 2022-2023.

Vice-Chair Acoba moved to approve the proposed Work Plan for FY 2022-2023, seconded by Regent Higaki, and noting the excused absence of Regent Nahale-a, the motion carried, with all members present voting in the affirmative.

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

Internal Auditor Shizumura explained that the Annual Report, which highlights the IA Committee's activities over the past year, is prepared pursuant to Section 304A-321, HRS, and the board bylaws. The Annual Report also includes, among other things, OIA's audit results for FY 2022, a summary of the services provided by OIA during the past fiscal year, and information on projects included in last year's Work Plan that were completed or are ongoing. He noted that the committee met all statutory and bylaw requirements.

Vice-Chair Acoba asked about any staffing issues facing OIA. Internal Auditor Shizumura replied that OIA has experienced some attrition and provided information on some of the retirements and resignations that have occurred over the last few years stating that these were all in the normal course of employment.

Regent Higaki moved to accept the draft Annual Report, seconded by Regent Paloma, and noting the excused absence of Regent Nahale-a, the motion carried, with all members present voting in the affirmative.

D. Approval of Selection of Accuity, LLP for Audit and Accounting Services as External Auditors for FY 2022 through FY 2024

VP Young stated that, pursuant to section 304A-321, HRS, and Regents Policy (RP) 8.201, the administration was requesting board approval of the selection of, and authorization to enter into a contract with, Accuity, LLP, to provide external auditing and accounting services to the university. He explained that the current services contract with Accuity, LLP, expired following the completion of the FY 2021 audits; noted the process used to solicit, qualify, and select an audit and accounting services firm for the FY 2022 through FY 2024 university audit reviews and reporting requirements; discussed the scope of the external audit services; and provided information on estimated costs.

Regent Paloma asked about the length of time Accuity, LLP has served as the university's external auditor. VP Young replied that the university has been utilizing Accuity, LLP, as its external auditor for over 10 years.

Given the extended period of time that Accuity, LLP, has been providing external auditing services to the university, Chair Kudo inquired as to whether there were rules in place governing the accounting profession in order to prevent potential conflicts of interest that could lead to biased reporting. VP Young replied that there is no requirement for a public entity, such as the university, to acquire the services of new auditors within a specified timeframe. However, there are industry standards in place limiting the duration of time that an individual can serve as the principal auditor managing the auditing contract. In order to address this issue, Accuity, LLP, has chosen to rotate the principal auditor handling the audit arrangement with the university every few years.

Chair Kudo suggested that the administration look into the possibility of developing a mechanism to address his concerns about the appearance of conflicts of interest when a single firm has been providing external auditing services to the university for such a long duration despite changes to the principal auditor managing the account.

Regent Higaki moved to recommend board approval of the selection of Accuity, LLP, for audit and accounting services as external auditors for FY 2022 through FY 2024, seconded by Vice-Chair Acoba, and noting the excused absence of Regent Nahale-a, the motion carried, with all members present voting in the affirmative.

E. Review and Acceptance of Evaluation of the Maunakea Revised Management Structure

Internal Auditor Shizumura reviewed the findings of OIA's evaluation of the internal restructuring plan for the management of Maunakea lands (Restructuring Plan) that was approved by the board in August 2020. He also stated that OIA was directed to include an assessment of the status of corrective actions with respect to historical audits conducted by OIA and the State Auditor on university-related entities engaged in Maunakea stewardship and management within the aforementioned evaluation. OIA notes that the reorganized and restructured management of Maunakea has created better lines of authority, jurisdiction, and communication which resulted in improved efficiency and effectiveness in comparison to the disjointed management structure that was in place prior to the implementation of the Restructuring Plan. Moreover, OIA has determined that the Center for Maunakea Stewardship (CMS), the organization overseeing Maunakea management pursuant to the Restructuring Plan, is performing its functions in accordance with the Plan; CMS has either completed or is in the process of meeting the Plan's objectives; and all recommendations noted in historical OIA and State Auditor reports have been addressed and implemented.

Citing recently passed legislation that would create a new Maunakea management authority if enacted, Chair Kudo asked whether it would be permissible to transmit a copy of OIA's report on Maunakea's revised management structure to this entity upon its constitution. Internal Auditor Shizumura replied in the affirmative stating that this was a public document. VP Okinaga concurred but emphasized that, to date, the Governor has not taken action on legislation creating a new management entity for Maunakea lands. However, she stated that OIA's report could be forwarded to a new management authority, should such an entity be created.

Vice-Chair Acoba moved to accept the evaluation of the Maunakea revised management structure, seconded by Regent Paloma, and noting the excused absence of Regent Nahale-a, the motion carried, with all other members present voting in the affirmative.

F. Review and Acceptance of the University Bookstore System (Bookstore) Status of Corrective Action

Internal Auditor Shizumura reported on the status of corrective actions taken by the Bookstore to address improvement opportunities and mitigate risks documented in a report dated January 29, 2021, titled "Review of University Bookstore System". He reviewed several of the objectives of the initial audit, as well as recommended corrective actions contained within the initial audit report. Although OIA has concluded that corrective actions addressing the risks and challenges of certain financial and operational matters have been implemented, the timely preparation of accurate and complete financial information and the analysis of such information for operational purposes is still in process. It was noted that a plan to address the remaining corrective action recommendations has been submitted and that OIA is in accord with this plan. As such, OIA will conduct a follow-up audit in FY 2023 to assess the Bookstore's implementation of the remaining recommendations.

Vice-Chair Acoba asked if the plan that was submitted to address the remaining corrective action recommendations was included in the committee materials and questioned whether OIA's concerns about operational matters related to the Bookstore's fiscal reporting system have been allayed. Internal Auditor Shizumura replied that the plan to address the remaining corrective action recommendations was included in the committee materials. He also stated that an increase in staff training with respect to the Bookstore's financial reporting system has resulted in tremendous improvement but noted that some additional work needs to occur on this issue.

Given the annual fiscal losses experienced by the Bookstore as noted in OIA's report, Vice-Chair Acoba inquired as to whether it was more appropriate for the administration, rather than OIA, to gather, analyze, and monitor this kind of information. Internal Auditor Shizumura responded that OIA's charge was to evaluate Bookstore operations which included an assessment of reasons for the experience in fiscal losses. As such, OIA did recommend actions to address these fiscal losses such as contracting Bookstore operations to a third-party, noting that the administration is responsible for determining whether it will act upon these recommendations. Vice-Chair Acoba asked if OIA will reassess the administration's actions on this matter in the follow-up audit. Internal Auditor Shizumura replied in the affirmative. VP Gouveia added that the profitability of the Bookstore is being closely monitored, stating that the administration anticipates that it will break-even in FY 2022 and reverse loss-trends experienced over the last few years. Additionally, the administration continues to analyze means by which the Bookstore can reduce operational costs such as outsourcing certain operations.

Regent Haning left at 12:04 p.m.

Chair Kudo remarked that over the years the IA Committee has taken on the responsibility of assessing more of the financial operations of the university with the mindset of providing the administration with an additional tool to improve the efficiency and effectiveness of managing the university.

Vice-Chair Acoba moved to accept the Bookstore status of corrective action report, seconded by Regent Higaki, and noting the excused absence of Regent Nahale-a, the motion carried with all members present voting in the affirmative.

G. Review and Acceptance of Waikīkī Aquarium (Aquarium) Status of Corrective Action

Internal Auditor Shizumura reported on the status of corrective actions taken by the Aquarium to address improvement opportunities and mitigate risks documented in a report dated January 29, 2021, titled "University of Hawai'i at Mānoa Review of the Waikīkī Aquarium". He reviewed the objectives, findings, and recommended corrective actions contained within the initial audit report. Although OIA noted that corrective actions to address certain identified risks and challenges contained within the audit have been implemented, risks and challenges associated with the implementation of procedures to gift shop inventory adjustments, recordation of third-party vendor payments on behalf of the Aquarium, and ensuring compliance with university policies and procedures are either in the process of resolution or pending implementation due to a delayed return to normal operations. Accordingly, OIA will conduct a follow-up audit in FY 2023 to assess the Aquarium's implementation of the remaining recommendations.

Vice-Chair Acoba moved to accept the Aquarium status of corrective action report, seconded by Regent Higaki, and noting the excused absence of Regent Nahale-a, the motion carried with all members present voting in the affirmative.

H. Review and Acceptance of the Review of the Masters of Business Administration for Executives in Vietnam Program (VEMBA)

Internal Auditor Shizumura summarized OIA's review of the VEMBA stating that the audit was initiated as a result of potential improvement opportunities identified in a historical audit engagement. He spoke about several identified financial, operational, and compliance risks associated with the VEMBA which included, among other things, fiscal loss experiences for 15 of the last 20 years; nonexistent processes to monitor the program's financial results; the lack of requirements for the preparation of interim and year-end fiscal reports; and the failure of the program to monitor third-party compliance with the terms and conditions of various agreements. It was noted that a management response was received from the Shidler College of Business, which oversees VEMBA, stating that, although several of OIA's recommendations are being implemented, the program is being discontinued and will cease to exist after the completion of the 2022-2023 academic year. As such, Internal Auditor Shizumura stated that OIA will not conduct a follow-up audit of VEMBA.

Regent Paloma inquired about the date of VEMBA's cessation. President Lassner replied that VEMBA is a two-year program that will be continued until the end of the

2022-2023 academic year in order to teach-out existing students and that no new students will be admitted into the program.

Vice-Chair Acoba expressed his disappointment with the report on VEMBA. While the program was well-intentioned, it faced numerous issues throughout its existence, including substantial financial losses as indicated in OIA's report. Regent Acoba also conveyed his dismay about the apparent lack of efforts to address these challenges, as well as the difficulties experienced by OIA in obtaining requested information remarking that at one point the IA Committee was contemplating the summoning of executives overseeing VEMBA to appear before the committee to discuss the concerns raised about the program. He stressed his belief that these types of issues need to be addressed with a sense of urgency, particularly when they could impact the financial integrity of the university, and that requests from the IA Committee or OIA must be taken seriously by all units of the university.

Chair Kudo stated that the points made by Vice-Chair Acoba were noteworthy and salient. He remarked that, in the past, the heads of operating units have been requested to appear before the committee to respond directly to questions from regents when OIA or the committee encountered a lack of cooperation or faced pushback on audits. In this instance, the operating unit has decided to terminate the program making this option moot. However, he suggested that the administration continue looking into the root causes of the issues that affected VEMBA so that corrective actions can be taken should something like this occur again in the future.

President Lassner provided context for some of the issues that VEMBA faced over the years as well as actions taken by the administration to monitor the situation it was facing, stating that financial losses experienced by the program were considered reasonable by the Shidler College of Business Administration given the revenue-positive nature of the entire suite of Executive Master of Business Administration programs at the College. However, he concurred that the university must do a better job of complying with requests by OIA and the IA committee.

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

I. Update on Review of University of Hawai'i Revolving Funds at the Research Corporation of the University of Hawai'i (RCUH)

VP Symos explained that a task force established to examine the relationship between RCUH and the university conducted a review of the 360 revolving fund accounts currently in existence within RCUH to determine whether the accounts are appropriate under current policies, are carrying large balances or deficits, and are essential for day-to-day research operations. He went over the task force's screening process, including criteria used to make certain determinations; discussed the results of the task force's review; provided information on the anticipated next steps that will be taken by the administration on this matter; and presented a timeline for this work stating that the project is expected to be completed by June 2023.

Chair Kudo asked if the criteria for revolving fund accounts were contained within an executive policy and questioned whether there were blurred lines with respect to the classification of RCUH revolving fund accounts. VP Syrmos replied that, in general, the categorization of revolving fund accounts is clear and straightforward. However, he stated that revolving fund accounts related to research involve some grey areas and the administration is trying to find the right balance in classifying these accounts. He also stated that the administration is currently working with RCUH to ensure compliance with presently established criteria applicable to revolving fund accounts that are contained within both executive and administrative policies.

J. Audit Project Status Update

Internal Auditor Shizumura provided a status update on the projects and audits outlined in the Work Plan and presented a chart indicating new and ongoing carryover projects as well as their current status.

K. 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 cases involving employment or human resources-related issues, which historically constitute the majority of whistleblower cases, were surpassed by cases involving health and safety issues related to the COVID-19 pandemic over the past academic year.

Chair Kudo inquired about the process used to address complaints received by student-athletes via the whistleblower hotline given that the athletic department has an internal complaint and feedback system. Internal Auditor Shizumura stated that individuals are assigned to each campus to investigate complaints, including those received through the whistleblower hotline. Upon receipt of a complaint, the assigned campus individual will evaluate the complaint, determine appropriate protocols for resolution, and contact the entity to which the complaint was applicable. Once contacted, the entity assumes responsibility for review, resolution, and the provision of feedback on the status of the complaint.

Referencing issues raised about the athletic department's complaint feedback system, Chair Kudo asked whether complainants using the whistleblower hotline are provided updates on the status of their complaint. Internal Auditor Shizumura replied in the affirmative stating that complainants are provided with a key code that can be used to obtain status reports on their complaint.

Vice-Chair Acoba requested clarification as to what types of whistleblower cases were contained within the student affairs category noted in the report. Internal Auditor Shizumura replied that student affairs cases involve complaints received about issues such as course grades or professors.

L. Committee Annual Review

Chair Kudo 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. He stated that it was a very productive year for the committee and remarked that the committee continued to perform its due diligence in regularly examining the various operating units of the university and addressing issues brought to the committee's attention.

Board Chair Moore commended and thanked Chair Kudo for his efforts in leading the committee over the past year.

V. EXECUTIVE SESSION (closed to the public)

Regent Paloma moved to convene in executive session, seconded by Vice-Chair Acoba, and noting the excused absence of Regent Nahale-a, 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 12:42 p.m.

Chair Kudo called the meeting back to order at 1:03 p.m. and announced that the board met in executive session to discuss matters as stated on the agenda.

VI. ADJOURNMENT

There being no further business, Chair Kudo adjourned the meeting at 1:04 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents