

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

DECEMBER 1, 2022

I. CALL TO ORDER

Chair Wayne Higaki called the meeting to order at 11:01 a.m. on Thursday, December 1, 2022, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822, with regents participating from various locations.

Committee members in attendance: Chair Wayne Higaki; Vice-Chair Gabriel Lee; Regent William Haning; Regent Diane Paloma; and Regent Robert Westerman.

Others in attendance: Regent Randy Moore; Regent Eugene Bal; Regent Laurie Tochiki; and Regent Ernest Wilson (ex officio committee members); Vice President (VP) for Administration Jan Gouveia; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Budget and Finance/Chief Financial Officer Kalbert Young; Interim Associate VP (AVP) for Academic Affairs for Community Colleges Della Teraoka; 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

Chair Higaki inquired if there were any corrections to the minutes of the August 4, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that 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 the University of Hawai'i Audit Reports as of June 30, 2022, including:

1. Audited Financial and Compliance Reports

2. Corrective Action Responses for the Federal Compliance Findings

Erin Takamine, an audit partner with Accuity LLP, reviewed Accuity's audit of the university's consolidated financial statements, stating that this matter is presented to the committee each year to satisfy annual audit requirements and expectations. She noted that, for the fiscal year (FY) ended June 30, 2022, total assets of the university increased by \$147 million while total liabilities decreased by \$494 million. She also

provided a synopsis of the main elements contained within the financial statements reviewing increases and decreases in cash and investment revenues; pension and other post-employment benefit (OPEB) liabilities; deferred inflows and outflows of resources related to OPEB; and operating, as well as non-operating revenues and expenses.

Ryan Horiuchi, a principal with Accuity, stated that, in addition to auditing the university's consolidated financial statements, Accuity conducts what is known as a single audit, 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. He reported on several aspects contained within the single audit highlighting that, in FY 2022, the university had 11 major federal programs which expended a total of \$644 million in federal funds, and that eight compliance findings regarding federal award expenditure requirements were discovered. Although there were only two repeat findings noted in FY 2022, Accuity deemed the repeat finding related to stipends issued by the Title VII Native Hawaiian Education Program to be a significant deficiency.

Vice-Chair Lee questioned whether Accuity found the institutional corrective action responses to the findings of the single audit to be satisfactory. Mr. Horiuchi replied in the affirmative stating that the corrective action responses appeared to be reasonable. He also stated that Accuity will be confirming the implementation of corrective actions as part of its FY 2023 audit.

Regent Wilson inquired about the magnitude of the eight reportable compliance findings with respect to the numbers of individuals, as well as dollar amounts involved. Mr. Horiuchi replied that each finding contains a section providing context to the total population and dollar amount encompassed by the matter in question. He also reviewed the process used by Accuity in determining its findings noting that they are based upon a sampling approach to ensure the reasonable implementation of controls.

The responsibilities of Accuity in conducting its audit of the consolidated financial and compliance reports and communication requirements for findings of any accounting, auditing, internal control, or other pertinent matters that warrant consideration or action by the committee were reviewed. Ms. Takamine emphasized that Accuity does not conduct an audit of the university but rather conducts an audit of the university's consolidated financial statements to evaluate and report on the fairness of these statements in accordance with generally accepted accounting principles. Accuity is then responsible for reporting the findings and results of the audit to the committee. The consolidated financial statements and compliance reports themselves are produced by, and are the property of, the university. She also noted that, while information on the audited financial statements of the University of Hawai'i Foundation continues to appear in the reports, this information is presented separately and is no longer co-mingled with information related to the university. It was reported that the audit conducted by Accuity in 2022 did not find significant risks, exposures, weaknesses, difficulties, material uncertainties, acts of fraud, or illegal activities, but did note internal control and operational issues that will be communicated in Accuity's 2022 Internal Control and Business Issues Report.

Referencing the uncorrected audit difference of approximately \$3.9 million regarding a capital improvement project, Regent Westerman asked if this disparity was mainly due to a timing issue. Ms. Takamine responded in the affirmative stating that this matter can be attributed to the reclassification of an asset that was placed in service and used during FY 2022 but remains noted as a project whose construction is in progress which impacts the assets depreciation value.

Regent Moore questioned why figures from the fiscal year ended June 30, 2022, would be included in communications regarding Government Accounting Standards Board Statement Number 87 (GASB 87) if the university formally adopted GASB 87 on July 1, 2022. Ms. Takamine replied that while the terms of GASB 87 were required to be implemented for the university's financial statements for the fiscal year ending on June 30, 2022, its provisions also must be applied retroactively to the university's financial statements for the fiscal year ended on June 30, 2021, in accordance with government accounting reporting rules applicable to comparative financial statements. She also highlighted that the university's GASB 87 adjustments were minimal. Cory Kubota, a managing partner with Accuity, clarified that the date of the university's formal adoption of GASB 87 was July 1, 2021.

Regent Westerman moved to accept the university of Hawai'i audit reports as of June 30, 2022, seconded by Regent Paloma, and the motion carried with all members present voting in the affirmative.

B. Review and Acceptance of the Annual Report to the Legislature on Material Weaknesses and Fraud

Glenn Shizumura, Director of the Office of Internal Audit (OIA), explained that OIA prepared a report on material weaknesses and fraud in accordance with statutory requirements. He noted that this report is submitted to the Legislature each year prior to the convening of the legislative session, that the contents of the report were based upon Accuity's audit of the university's financial and compliance reports, and that there were no findings of material weaknesses, fraud, or illegal acts. Upon its approval, the report will be sent to the Legislature on behalf of the committee.

Vice-Chair Lee moved to accept the annual report to the Legislature on material weaknesses and fraud, seconded by Regent Westerman, and the motion carried with all members present voting in the affirmative.

C. Review and Acceptance of the UHM Intercollegiate Athletics Audit Reports for the Year Ended June 30, 2022

Mr. Horiuchi provided an overview of Accuity's report on agreed-upon engagement procedures to ensure that the UHM Athletic Department's (UHM Athletics) statement of revenues and expenses for the year ended June 30, 2022, was compliant with the National Collegiate Athletic Association (NCAA) bylaws. Although no material misstatements were detected, Accuity did identify a transpositional error in the reporting of Pell Grant information to the NCAA's Membership Financial Reporting System. He stated that UHM Athletics subsequently notified the NCAA of this discrepancy and has

been informed that no further action on this matter was necessary. While UHM Athletics received approximately \$5.1 million from the UHM campus during FY 2022 to assist in defraying revenues lost due to the COVID-19 pandemic, the easing of restrictions on fan attendance at athletic events is expected to increase revenues and reduce the need for this fiscal support. It was also noted that Accuity will be performing an additional agreed-upon procedures engagement to assist UHM Athletics in evaluating whether the Football Actual Attendance Summary for the 2022 Football Season is in compliance with NCAA Bylaws is currently underway and will be reported on in 2023.

Vice-Chair Lee questioned whether the football attendance summary would be based upon actual attendance or tickets sold. Mr. Horiuchi replied that historically fan attendance has been based on turnstile counts but stated that UHM Athletics has the option to use either method per NCAA Bylaws. David Matlin, UHM Athletics Director, confirmed that management is allowed to choose the method by which attendance is calculated noting that UHM Athletics will probably choose to use the figures for tickets issued although a final decision has not yet been made.

Regent Westerman asked if his understanding was correct that the NCAA would not be requiring any further action from UHM Athletics regarding the Pell Grant reporting issue. Mr. Horiuchi replied in the affirmative.

Vice-Chair Lee moved to accept the UHM Intercollegiate Athletics audit reports for the year ended June 30, 2022, seconded by Regent Haning, and the motion carried with all members present voting in the affirmative.

D. Review and Acceptance of OIA Review of Outreach College

Internal Auditor Shizumura reviewed the findings and recommendations of OIA's evaluation of Outreach College noting that the purpose of this evaluation was to determine whether units of UHM were engaging Outreach College in the use of revolving account service orders for tuition and fee generating activities, as well as ascertain whether Outreach College students received benefits funded through the payment of fees by traditional UHM students. While OIA found that Outreach College has not been engaged in the use of revolving account service orders, it has determined that Outreach College students enrolled in its Continuing Education & Professional Programs courses do have access to certain benefits afforded to traditional students at UHM despite being exempt from paying student fees. As such, OIA has recommended that Outreach College students be assessed certain student fees. It was noted that Outreach College's corrective action response cites its agreement with this recommendation, as well as actions being taken to finalize a new student fee policy.

Vice-Chair Lee moved to accept the review of Outreach College, seconded by Regent Westerman, and the motion carried with all members present voting in the affirmative.

E. Audit Project Status Update

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

F. 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 incidents involving employment or human resources-related issues constituted the majority of whistleblower cases for the current reporting period.

Regent Westerman asked if there was a correlation between the number of whistleblower cases received and specific time periods during an academic semester. Internal Auditor Shizumura stated that case numbers have historically been the highest during the first two weeks of a semester and begin to wane thereafter. The number of cases during the summer also have been lower mainly due to decreased campus activity.

G. Office of Risk Management (ORM) Biennial Report

Darren Suzuki, Director of ORM, explained that ORM provides advice on risk-related matters; assists in the development of programs, policies, and best practices to reduce the university's total cost of risk; and establishes the university's risk-financing and insurance strategy. It also administers the enterprise-wide workers' compensation program for the university. The vision of ORM is to promote a culture of risk awareness and advance an enterprise risk management process that embeds risk ownership into management activities and decisions at all levels of the institution. Director Suzuki stated that the university has established a risk financing and insurance strategy that effectively addresses the risks and claims that arise across its ten-campus system and reviewed various provisions of the university's risk management program including types of liability coverages and summarized claims associated with each of these areas.

Regent Haning questioned which of the noted types of liability coverages purchased by the university was applicable to officers and directors. Director Suzuki replied that officers and directors of the university fall under the management liability program.

H. Enterprise Risk Management (ERM) Process Update

Director Suzuki provided background on ERM and the development of a risk heat map that identifies the top risk categories for the university. He noted that the administration is currently in the process of reexamining its current heat map to determine where the university stands in relation to risks being faced by other public universities, as well as the need for any updates or additions. He also stated that a recent review by an external ERM expert found that the university's ERM program is on the right path and that its heat map is an effective tool for managing the university's risk exposure.

Chair Higaki recognized the late Regent Emeritus Michael McEnerney for his efforts in getting the university's ERM program established stating that this will be his legacy.

V. ADJOURNMENT

There being no further business, Chair Higaki adjourned the meeting at 12:05 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents