

## **MINUTES**

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

**APRIL 6, 2023**

#### **I. CALL TO ORDER**

Chair Wayne Higaki called the meeting to order at 10:57 a.m. on Thursday, April 6, 2023, 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; Regent William Haning; and Regent Diane Paloma.

Committee members excused: Vice-Chair Gabriel Lee; Regent Laurel Loo

Others in attendance: Regent Randy Moore; Regent Abigail Mawae; Regent Alapaki Nahale-a; Regent Laurie Tochiki; and Regent Ernest Wilson (ex officio committee members); Vice President (VP) for Administration Jan Gouveia; VP for Academic Affairs Debora Halbert; 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; Interim Executive Administrator and Secretary of the Board of Regents (Interim Board Secretary) Jamie Go; and others as noted.

#### **II. APPROVAL OF MINUTES**

Chair Higaki inquired if there were any corrections to the minutes of the December 1, 2022, committee meeting which had been distributed. Hearing none, the minutes were approved.

#### **III. PUBLIC COMMENT PERIOD**

Interim Board Secretary Go 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 the University of Hawai'i Audited Financial Reports for the Year Ended June 30, 2022, including:**

- 1. Internal Control and Business Issues Report**
- 2. Corrective Action Responses for the Internal Control and Business Issues Report**

Cory Kubota, with Accuity LLP, provided a brief overview of the internal control and business issues report (ICBIR) stating that this report consisted mainly of comments and observations from Accuity that were noted in the course of auditing the university's consolidated financial statements and compliance reports for the year ended June 30, 2022. A total of six comments regarding issues involving either university or board policies were included in this year's ICBIR, none of which were of significance. It was also noted that the administration's corrective action responses to the ICBIR were provided in the committee materials.

Regent Paloma moved to accept the University of Hawai'i audited financial reports for the year ended June 30, 2022, including the ICBIR and corrective action responses for the ICBIR, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

**B. Review and Acceptance of Associated Students of the University of Hawai'i at Mānoa (ASUH) Audited Financial Statements – Years Ended June 30, 2021, 2020, and 2019 and Internal Control and Business Issues Report**

Cory Kubota, with Accuity LLP, pointed out that, although ASUH Bylaws requires annual financial audits to be conducted, the last formal review of ASUH's financial statements took place in fiscal year 2018. As such, Accuity was commissioned to perform an audit of ASUH's financial statements for the fiscal years ended June 30, 2021, 2020, and 2019. He reviewed financial statement highlights for each of the fiscal years that were audited, underscoring the impact of the COVID-19 pandemic on ASUH's financial activities; noted the existence of the ASUH Stadium Stock Fund, monies from which are primarily used to fund scholarships and student activities at UHM; and referenced required communications contained within Accuity's report.

Citing references to management contained within Accuity's report, Board Chair Moore inquired as to who was considered management with respect to ASUH. Mr. Kubota replied that ASUH student representatives essentially are considered to be management although they are supported by faculty advisors. Dr. Theresa Crichfield, Associate Vice Provost for Student Success and Dean of Students at UHM, confirmed that, while members of the faculty and administration provide oversight and guidance to ASUH, the duly elected students of ASUH's governing board are responsible for making all decisions related to this student governance body and are therefore considered to be the organization's management team.

Given this information and stating that student government organizations frequently experience high turnover rates, Board Chair Moore asked whether it would be more appropriate for faculty advisors and fiscal administrators to respond to directives from an external auditor rather than students. Mr. Kubota agreed that the nature of student government organizations often leads to high membership turnover. While students, faculty advisors, and fiscal administrators could address directives or proposed corrective actions from an external auditor via a shared responsibility approach, he opined that designating faculty advisors and fiscal administrators as the parties

responsible for responding to an external auditor's recommendations would afford greater continuity to the process.

Regent Haning moved to accept the ASUH audited financial statements for the years ended June 30, 2021, 2020, and 2019, and the internal control and business issues report, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

**C. Review and Acceptance of the Office of Internal Audit Review of ASUH – Investment Policy Compliance Report**

Glenn Shizumura, Director of the Office of Internal Audit (OIA), reviewed the findings of an audit conducted on ASUH's compliance with the requirements of Regents Policy (RP) 8.207 related to procedures and guidelines for the administration of the ASUH Stadium Stock Fund. He stated that OIA identified 10 instances of policy non-compliance noting that the majority of these cases could be attributed to a lack of quarterly meetings held by the ASUH Long-Range Planning and Investments Committee and ASUH's inconsistent participation in meetings of the board's Committee on Budget and Finance. He also spoke about OIA's recommended corrective actions including the development of a checklist to manage and monitor compliance with RP 8.207 and the enhancement of compliance tables included in the quarterly investment statements provided to ASUH by its investment advisor, Graystone Consulting.

Board Chair Moore reiterated that student government organizations often experience high turnover and expressed his belief that this could be an explanation for some of ASUH's non-compliance issues with RP 8.207. He encouraged the university administration to take a more active role in advising ASUH members about the policy's requirements. Internal Auditor Shizumura concurred with this assessment.

Regent Haning asked about the incentive for ASUH representatives to participate in the meetings noted in OIA's report in order to improve compliance with RP 8.207. Internal Auditor Shizumura replied that the creation of compliance checklists and better training of ASUH members with respect to the requirements of RP 8.207 could serve to incentivize meeting participation. Dr. Crichfield added that ASUH representatives take their responsibilities seriously and are working on improving internal processes to ensure meeting attendance, such as the establishment of a calendar noting quarterly and other required meeting dates. Rudy Ramirez, ASUH President, acknowledged the importance of addressing the concerns raised in OIA's audit and emphasized ASUH's ongoing commitment to responsible financial management and oversight. He also stated that ASUH is taking steps to review and revamp internal processes to make any necessary improvements to address the audit's findings.

For the edification of the new regents and members of the public, Board Chair Moore pointed out that the board is responsible for management of the funds contained within the ASUH Stadium Stock Fund but has delegated operational authority over the Fund to ASUH.

Regent Paloma suggested that OIA increase its communications with ASUH's faculty advisors and fiscal administrators about the requirements of RP 8.207 to further ensure policy compliance going forward.

Chair Higaki inquired as to whether OIA will be conducting a follow-up audit of this matter during the next fiscal year. Internal Auditor Shizumura responded in the affirmative stating that OIA will present a report to the committee next year on the status of ASUH's corrective actions.

Regent Haning moved to accept the report on OIA's review of ASUH investment policy compliance, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

#### **D. Review and Acceptance of the University of Hawai'i Systemwide Financial Reserves Report**

Internal Auditor Shizumura presented a report on OIA's audit of the university's systemwide financial reserve policies highlighting the existence of both an Executive Policy (EP) and RP associated with the university's financial reserves. He spoke about the objectives of the compliance report noting that, as of June 30, 2022, the university maintained a balance of approximately \$542.4 million in financial reserves which was well above EP and RP requirements; described the work performed by OIA; and summarized OIA's findings and recommendations, including the clarification of inconsistencies between various terms contained within the two financial reserve policies and giving consideration to identifying and defining additional reserve categories.

Chair Higaki inquired as to whether OIA will be conducting a follow-up audit of this matter during the next fiscal year. Internal Auditor Shizumura responded in the affirmative stating that OIA will present a report to the committee next year on the status of the administration's corrective actions.

Board Chair Moore asked if OIA will be working with VP Young to clarify ambiguities in policy terminology identified in the audit and develop language for any necessary amendments to the EP and RP. Internal Auditor Shizumura replied in the affirmative.

Regent Paloma moved to accept the University of Hawai'i systemwide financial reserves report, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

#### **E. Review and Acceptance of Clery Act Compliance Status of Corrective Action**

Internal Auditor Shizumura reported on the status of corrective actions taken by the administration to address improvement opportunities and mitigate risks documented in a report dated April 27, 2022, titled "Clery Act Compliance Review". He reviewed several of the objectives of the initial audit, as well as recommended corrective actions

contained within the initial audit report, and noted that the administration has implemented all of the suggested corrective actions to the satisfaction of OIA.

Regent Haning moved to accept the Clery Act status of corrective action, seconded by Regent Paloma, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

**F. Review and Acceptance of the Follow-Up Report on the University Bookstore System (Bookstore) Status of Corrective Action**

Internal Auditor Shizumura explained that, in June 2022, the committee was provided with a report 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". Although the June 2022 report found that corrective actions to address the risks and challenges of certain financial and operational matters were implemented, it also noted that a plan to address the remaining corrective action recommendations, including the timely preparation of accurate and complete financial information and the analysis of such information for operational purposes, was in the process of being implemented. Accordingly, OIA conducted a follow-up audit to assess the Bookstore's implementation of the remaining corrective action recommendations. As described in OIA's follow-up report, the Bookstore has engaged KMH LLP to analyze operations and assist in the implementation of corrective actions to mitigate the remaining risk factors identified in the initial status of corrective action audit. Thus, OIA finds that the implementation of all suggested corrective actions has been completed.

Chair Higaki sought to confirm his understanding that KMH LLP has been assisting the Bookstore for the past six months. Internal Auditor Shizumura replied in the affirmative noting that KMH LLP was engaged by the Bookstore in September 2022.

Regent Paloma inquired as to when the next regularly scheduled audit of the Bookstore would be occurring. Internal Auditor Shizumura explained that university entities are not subjected to regularly scheduled audits conducted by OIA. Rather, OIA works with the administration in developing an annual audit work plan which is then presented to the committee for its approval. However, he stated that the committee, board, OIA, or administration can request additions to the audit work plan at any time.

Regent Paloma moved to accept the follow-up report on the University Bookstore System status of corrective action, seconded by Regent Haning, and noting the excused absences of Vice-Chair Lee and Regent Loo, the motion carried with all members present voting in the affirmative.

Regent Mawae arrived at 11:39 a.m.

**G. 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.

Regent Nahale-a asked for clarification on the meaning of the colors used in the audit project status chart. Internal Auditor Shizumura replied that the colors on the chart are used to indicate the respective audit phase that a project is currently in. Green indicates completion of the phase. Yellow indicates that a phase will be completed shortly, such as in the case of the four reports being presented to the committee for acceptance at the current meeting. Once the reports have been accepted by the committee, the yellow shading will be changed to green. White sections indicate that the audit phase is still in progress or has not yet been initiated.

Given past instances in which OIA has experienced issues with respect to the cooperation of an auditee, Regent Nahale-a inquired about the avenues available to OIA to address this matter. Internal Auditor Shizumura replied that OIA has an internal process that it uses to address instances where an auditee is uncooperative. OIA also has the option of reporting these issues to the Chair of the IA Committee for possible committee action.

#### **H. 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.

Chair Higaki asked about the type of individuals encompassed by the non-employee reporter classification. Internal Auditor Shizumura replied that this reporter classification included students and individuals who are not associated with the university.

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

Darren Suzuki, Director of the Office of Risk Management, provided background information on ERM and the development of a risk heat map that identifies the top risk categories for the university. He spoke about a recently completed external review of the university's ERM program which found that the risks faced by the university are comparable to those encountered by other public universities; the program is on the right path; and the risk heat map is an effective tool for managing the university's risk exposure. In late 2022, the administration also initiated a comprehensive review of the risk categories used by the university, which resulted in the updating of risk descriptions and the recalibration of the heat map. Director Suzuki reviewed key risks and risk categories for the university and went over the shifts in impact and probability that have occurred with respect to the identified risks plotted on the heat map since it was last presented to the committee in 2021.

VP Yoshimi discussed the increase in impact and probability with respect to identified risks associated with information technology (IT) stating that a rise in frequency and significance of IT threats experienced by a broad spectrum of entities, including institutes of higher education, warranted this change. He stressed that cybersecurity has always been a priority for the university and spoke about a comprehensive peer review of the university's systemwide information security program

that was begun in early 2022. Fieldwork for this project has been completed and a report on the findings and recommendations of this review is currently being drafted. The administration is expecting the report to contain several security enhancement and response recommendations that will assist the university in improving its management of IT risks going forward.

Regent Nahale-a asked about the rationale for dramatic changes experienced in the construction/facilities and personnel/workforce risk categories. Director Suzuki replied that positive changes in the construction/facilities risk category can be credited to increases in systemwide construction and repair projects which has resulted in a concomitant decrease in deferred maintenance. On the other hand, increases in personnel attrition due to retirement and other factors, as well as difficulties in filling vacant positions, mainly accounted for the negative changes to the personnel/workforce risk category.

In light of these explanations, Regent Nahale-a questioned why the personnel/workforce risk category would not be an area of particular focus or close monitoring by the university as designated by the solid and dashed circles on the risk heat map. VP Gouveia responded that the issues contained within the orange-red portion of the risk heat map are considered to be of higher importance. She also agreed that a circle could be placed around that particular category.

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.

**J. Update on the Follow-Up Report on the Waikīkī Aquarium (Aquarium) Status of Corrective Action**

Provost Bruno acknowledged receipt of the draft follow-up report on the Aquarium status of corrective action but stated that addressing some of the remaining risks and challenges identified in the initial Aquarium status of corrective action report has proven to be difficult. The impacts of the COVID-19 pandemic on Aquarium staffing and revenue generation dealt a devastating blow to Aquarium operations, the effects of which are still being felt today. Despite these challenges, the administration continues its efforts to address the findings and recommendations contained within the status of corrective action follow-up report, which it takes seriously. It was noted that Sandy French, UHM Chief Budget Officer, is working with aquarium personnel to deal with questions concerning financial planning, year-over-year fluctuations in revenues and expenditures, and implementation of procedures for the luau concession, as well as the gift shop operations. Additionally, the administration is actively working on several high-level strategic issues that will have a significant bearing on both the financial picture for, and the operations of, the Aquarium. These matters include restarting of the luau program, fully integrating gift shop and overall Aquarium operations, rebuilding of the Aquarium's management team and staff, and examining how the Aquarium can best be incorporated into the broader UHM education and research activities. Provost Bruno expressed his gratitude to the committee for taking the extraordinary difficulties being faced by the Aquarium into account and delaying action on this report to a later meeting.

**V. ADJOURNMENT**

There being no further business, Chair Higaki adjourned the meeting at 12:01 p.m.

Respectfully Submitted,

/S/

Jamie Go  
Interim Executive Administrator and  
Secretary of the Board of Regents