University of Hawaii
Advisory Task Group on Operational and Financial Controls Improvement

May 14, 2013

Mr. James H.Q. Lee, Chair
Committee on University Audits
2444 Dole Street, Bachman Hall 209
Honolulu, Hawaii 96822

Dear Chair Lee:

The Advisory Task Group on Operational and Financial Controls Improvement ("ATG") is pleased to submit its Summary Report on Board of Regents Interviews. This is a supplemental, report and the information contained in this report will impact future reports to be issued by the ATG. This report is the result of in-depth interviews conducted with the Board of Regents ("BOR") by the ATG. The interviews were conducted in confidence as the purpose was to gain a better understanding of underlying themes and issues affecting the operations of the BOR.

This report is prepared as part of the ATG's current Operational Assessment of University's System Level operations. The purpose of the report is to provide information to the BOR for its review and use. The themes and issues identified in this report will be used in the ATG's report on BOR Policies and Practices.

Sincerely,

Lawrence D. Rodriguez
Chair, ATG

University of Hawaii – Advisory Task Group - Operational Assessment
Summary Report on Board of Regents Interviews

BACKGROUND

On September 5, 2012, the University of Hawaii System ("University") Board of Regents ("BOR") approved the formation of an Advisory Task Group on Operational and Financial Controls Improvement ("ATG") to assist the BOR with its oversight of the University's actions and improvements to policies, internal controls, and practices. The purpose and primary function of the ATG is to oversee, provide input, monitor activities, and guide the scope of an evaluation and improvement initiative specific to operational and financial processes and related internal controls of the University.

Pursuant to its approved Charter, its scope of work includes reviewing whether the University's current policies (Board, Executive, and Administrative), assignments of responsibility, delegations of authority, and accountability for duties require clarification and revision. Its approved work plan for this portion of the Operational Assessment includes interviews of the Board of Regents, certain legislators and government officials and key administrators within the University. The ATG reports to the BOR's Committee on University Audits.

The ATG is comprised of seven members, three members from the BOR, and four from private industry with expertise in financial processes and organizational structure and internal controls. The members of the ATG are:

- James H.Q. Lee, Vice Chair, Board of Regents
- Barry Mizuno, Regent
- Saedene Ota, Regent
- Terri Fujii, Office Managing Partner, Honolulu Office of Ernst & Young LLP
- Cory Kubota, Assurance Principal, Accuity LLP
- Patrick Oki, Managing Partner, PKF Pacific Hawaii LLP
- Lawrence D. Rodriguez, Business Consultant, ATG Chair

The ATG's first effort was to evaluate the operational and financial processes associated with the planned Stevie Wonder Concert. It issued its report to the Committee on University Audits on November 15, 2012. With the completion of its first task, the ATG has moved on to its second task, and is now conducting an Operational Assessment at the System Level of the University. For purposes of the assessment, "System Level" is defined as the Board of Regents and its direct reports and the University President and her direct reports.

The scope of work for this Operational Assessment includes individual interviews with the members of the Board of Regents. The interviews were conducted in confidence as the purpose was to gain a better understanding of underlying themes and issues. In an effort to provide further feedback to the Board of Regents, we have summarized the information, themes and issues obtained during our interviews.

The ATG plans to issue a series of reports during this Operational Assessment. Interim reports are issued as discrete components of the Work Plan are completed. The interim reports are designed to provide timely information to the BOR and stakeholders on the results of the work of

the ATG and will be incorporated in one final report to be issued at the completion of all steps in the Work Plan.

This interim report summarizes issues and themes identified by the members of the BOR, and provides the basis from which the BOR can begin to take actions to address those issues of concern that affect its ability to operate effectively. Rather than waiting for an outsider to assess and comment upon its operations, this summary provides an introspective view of the BOR and its operations, commonly referred to as a "self-assessment" or "self-evaluation." The results of the interviews will also be used in the next ATG report which will evaluate BOR Policies and Practices and compare them to leading practices.

The ATG approved this report for release to the Committee on University Audits on May 1, 2013.

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Summary Report on Board of Regents Interviews

SUMMARY OF THEMES AND ISSUES

Presented in the table below are the questions asked by the ATG during the process of interviewing each of the Regents. The ATG has summarized the information and prevalent themes identified during the interviews and present them alongside the related questions. While the ATG believes it has presented the thoughts of each of the individual Regents in a collective manner, the Regents responses to some of the questions varied greatly. We would expect that individual preferences with respect to the Regents' roles and responsibilities would be addressed as the Regents continue their voluntary service to the community. The ATG believes that this document can be used by the Regents as an aid in its assessment of how the BOR operates. It highlights internal and external issues identified by the Regents that need to be addressed and provides the basis for the next steps or changes that the BOR could make to improve its operations.

Questions Addressed to Regent	Summary Viewpoint
1. a) Do you have a good understanding of your roles and responsibilities as a Regent? b) How would you best summarize your roles and responsibilities as a member of the Board of Regents?	Generally, the responses were Yes – the Regents felt they had a good understanding of their roles and responsibilities. Generally, there was recognition that the primary roles of the Regents are to carry out the constitutional mandate to formulate policy and exercise appropriate control and governance over the University, which means they are responsible to: • Set and shape policy • Monitor executives' ability to implement policy and hold Administration accountable • Govern and don't micromanage • Protect the public interest and be accountable to stakeholders and constituents Regents' views on how they should carry out these responsibilities, however, vary widely. There was recognition that additional guidance on how to carry out the responsibilities is needed to help them better carry out these responsibilities. Additionally, the Regents are aware that the public perception of its roles and responsibilities differs and that it is incumbent

Questions Addressed to Regent	Summary Viewpoint
	upon the BOR to improve communications to educate and inform the public about its roles and responsibilities.
2. a) Do you feel the initial Board orientation and subsequent renewal efforts are sufficient to enable you to carry out your responsibilities to your satisfaction?	Overall no and orientation needs to be much more in-depth. The initial Board orientation should be expanded and supplemented with areas affecting the Board's role (e.g., more on strategic planning, also matters around Sunshine Law). Several regents mentioned the ***Board of Regents Reference Guide*** as a helpful tool.
3. a) What type of Board training do you receive annually and do you feel it is adequate to carry out your responsibilities?	Training has been sporadic and not adequate. The only "formal" training has been with an Association of Governing Boards ("AGB") facilitator. In addition, other Regents have attended AGB and other seminars on the mainland. There was support for regularly scheduled annual training to cover specific topics such as ethics and board operations. Additionally there was support for the concept that the training be supplemented with non-UH personnel who have relevant areas of expertise.
4. a) What has been your involvement with the Strategic Planning ("SP") process? b) Are you familiar with the most recently adopted SP and is it readily available?	Majority of the Regents were **not** involved with the last Strategic Planning process and believe a new Strategic Plan needs to be prepared and the Regents' participation in the planning process needs to be established. The plan is discussed during orientation so the Regents are generally familiar with the components of the plan. A dashboard report and "playbook" are also provided annually to the Regents.
5. a) Is the current SP goals and priorities well understood by the Board and UH leadership, and is it an area of focus throughout the year? b) Is it the guiding plan that drives decision-making?	The plan needs updating and more time spent assessing the accomplishments or challenges of meeting goals. The majority of the Regents noted that the SP goals are well understood by the BOR and aligned with the President's three strategic initiatives. Recently other issues have consumed much of the meeting time and the Board has not spent much time on strategic issues and direction.

Questions Addressed to Regent	Summary Viewpoint
6. a) What issues/subjects occupy the majority of Board meetings? b) If you had to categorize the top 3 areas, what would they be?	With respect to both questions, the majority of the Regents noted the top three areas that consume most of the current BOR meetings are: 1. Personnel matters; 2. Litigation and other administrative matters; and 3. Crisis management. Almost all of which are discussed during Executive Session.
7. a) What are the most critical issues and challenges facing UH and do you believe there are processes in place to address these areas?	The critical issues and challenges raised by the majority of the Regents include: • Re-establishment and restoring trust and credibility among the various constituents and stakeholders; • Internal trust needed amongst the BOR and between the BOR and Administration; • Financial accountability and transparency; • Challenges to autonomy; and • Sunshine Laws noted as a major challenge for effective communication and deliberation[1] Most believe processes were lacking or need to be further evaluated to fully address the issues and challenges noted above.
8. a) Are there items on the Board's agenda that you feel are of lesser importance and could be delegated to Committees for resolution?	Yes, more should be delegated to Committees, some examples noted: 1. Budget and personnel issues 2. Curriculum and program matters
9. a) Is the information provided to you for the Board meetings sufficient for you to review and discuss and make informed decisions?	Most believe the information is sufficient but others want more. Generally, however most agreed that because of the complexity of matters, more time is needed to adequately vet issues before decisions are made.

[1] The impact of the interpretations of the Sunshine Law was frequently mentioned as inhibiting informal informational meetings that Regents could use to obtain information and learn more about various subject matters. The BOR understands that all decision making should be in a public forum. However, interpretations that preclude more than two Regents from gathering to collect, or be provided information without going through formal noticing processes, etc. have inhibited opportunities for learning and common discourse on items of interest to the BOR.

Questions Addressed to Regent	Summary Viewpoint
b) Do you have enough time at Board meetings to deal adequately with the action items?	The "Sunshine Law" interpretations do not allow the Board the opportunity to meet informally to acquire information (not for decision-making, but to gain more information). See Footnote 1.
10. a) From your perspective, does the Board have the right committee structure and does it rely on its committees to do the "heavy lifting" in their respective areas, and are they effective in carrying out their charters?	Most believe the Board has the right standing committees, but more work needs to be done through the committee structure (i.e., they are not doing the "heavy lifting"). Committees should be given more responsibility to take public testimony, explore issues, and develop recommendations to present to the Board. This would allow the Board to focus on the recommendations brought forward by the Committees and to focus on making decisions. More has been done over the past two years with committees, but more structural reporting (i.e., executive summaries, standardized templates, etc.) from the committees is needed.
11. a) Is the information provided to you for the Committee meetings sufficient for you to review and discuss and make informed recommendations to the Board? b) Do you have enough time at Committee meetings to deal adequately with the action items?	Overall, yes the information is sufficient and time is adequate, but more structural reporting needs to be presented by each committee to the BOR (i.e., currently consistently not set up to deliberate and deliver recommendations). BOR also needs to establish "dashboard" formats for monthly reporting.
12. a) In your opinion, who drives the agenda for the Board meetings? b) What about for the Committee(s) meetings?	Consensus noted the Chairman & Vice Chairs together with the President set the agenda for the Board meetings. General belief is that the other members do not have input on agenda items and the other members want to have input on the agenda. Committee chairs set the agenda for the respective committees.
13. a) If you could change anything about the way the Board operates, what would it (they) be?	Common threads noted included: • Better quality time among Regents is needed to improve cohesiveness and understand each other; • Improve trust, openness, and understanding amongst Regents; • More focus on strategic issues;

Questions Addressed to Regent	Summary Viewpoint
	• More effective use of committees to better explore issues and present recommendations to the Board; and • Sunshine Law impacts on communications and ability to gather information as a group.
b) How about any "leading practices" that you would like to see adopted?	No specific recommendations on "leading practices" were noted during the discussions.
14. a) What can be improved in order to increase the effectiveness of the Board?	See #10, #12, and #13 above.
15. a) What additional information that you are not now receiving would you like to receive in order to help you better perform and carry out your responsibilities as a Board member?	More effective "summaries" of information and "dashboards" for the monthly BOR meetings and the committees. Also, annual updates (formal process) on significant issues facing higher education.
16. a) Do you believe **delegations of authority** and **roles and responsibilities** are clearly established at the Board level?	Generally, yes.
b) How about from the Board to the President?	The BOR has established the appropriate delegation and roles from the BOR to President.
c) From the President to her direct reports?	Also, majority believes the President has appropriately delegated to her direct reports.
17. a) How would you assess the communication channels within the Board? b) Between the Board and the President? c) How about between the President and her leadership team?	Majority believes improvement is needed, see comments above. Also, see Sunshine Law comment above.
18. a) Is there a Risk Management[2] process in place to engage in strategic discussions on institutional risks?	The responses were generally no with respect to having a formal Risk Management process, but there was awareness of the role of internal audit and its audit plan that addresses areas of identified risk and concern.
b) Is there a formal documented process for annual comprehensive risk assessments?	There is no formal Risk Management reporting to the BOR. A Risk Management process needs to be implemented.

[2] **Risk Management** is the identification, assessment, and prioritization of risks (commonly defined as *the effect of uncertainty on objectives*, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.

Questions Addressed to Regent	Summary Viewpoint
19. a) Does the Board conduct any type of self-assessment? b) What is the process and how is it documented?	Majority said no, with the exception of discussions with Terry MacTaggart from the Association of Governing Boards ("AGB") on a very limited scale. The use of outside consultants has helped, but needs to be expanded.
20. a) Any new proposed legislation or regulatory matters that concern you?	Yes. Significant concern over the legislation proposed, especially those affecting the University's autonomy, which will negatively impact their ability to govern.