

MINUTES

BOARD OF REGENTS' COMMITTEE ON INDEPENDENT AUDIT MEETING

OCTOBER 6, 2016

I. CALL TO ORDER

Committee Chair Randolph Moore, called the meeting to order at 9:35 a.m. on Thursday, October 6, 2016, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Randolph Moore, Committee Vice Chair Michael McEnerney; Regent Wayne Higaki.

Committee members excused: Regent David Iha; Regent Jeffrey Portnoy.

Others in attendance: Board Vice Chair Benjamin Kudo; Regent Simeon Acoba; Regent Brandon Marc Higa; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernie Wilson, Jr. (ex officio committee members); President/Interim UH Mānoa (UHM) Chancellor David Lassner; Vice President for Academic Planning & Policy Risa Dickson; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer, Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH-Hilo (UHH) Chancellor Donald Straney; Interim UH-West O'ahu (UHWO) Chancellor Doris Ching; Executive Administrator and Secretary to the Board Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE AUGUST 18, 2016 SPECIAL MEETING

Committee Vice Chair McEnerney moved to approve the minutes of the August 18, 2016 special meeting, as amended, seconded by Regent Higaki, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the board office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

A. For Review and Acceptance

1. Office of Internal Audit Report and Management Response: Student Housing

Internal Auditor Glenn Shizumura presented the internal audit report of the student housing program at UHM. The committee raised concerns about the lack of adequate and timely response; the need for prioritization and timeline for implementation of improvements; and requested a progress report on high priority items in February 2017. Other concerns included adequacy of staffing to implement recommendations, noting additional work anticipated related to the Atherton property; plans and funding to address repair and maintenance; large balances for accounts receivables and collections; and renegotiation of long-term third-party service provider contracts. Interim Associate Vice Chancellor and Dean of Students Michael Kaptik acknowledged the delays, and concurred that a progress report including implementation prioritization and status would be provided to the committee in February. Housing has adequate staffing; a long-range plan for repair and replacement of buildings that are self-supported and do not require utilization of general funds; and indicated contract negotiations are already underway. Process improvements were identified that reduced accounts receivables and increased collections, and further work continues. It was noted that the audit was the result of the committee's request to look at revenue-generating programs to ascertain whether they are generating optimal revenue and operating effectively and efficiently.

Committee Vice Chair McEnerney moved to accept the audit, seconded by Regent Higaki, and the motion carried unanimously.

B. For Information

1. Update on Enterprise Risk Management Program

John Hashimoto, Director of Risk Management, provided a slide presentation on the status of the new Enterprise Risk Management (ERM) program, and explained the scope and process involving UH leadership systemwide that produced a plan with key definitions, 5 main risk categories and 8 key risks, and opportunities, and created a risk heat map organized in four quadrants, prioritized by impact on the enterprise. The next steps discussed included completing the risk heat map; mitigating risks; and developing measurements and processes to fit within the unique culture; focusing on the upper quadrant to prioritize, address, monitor and report in 12 to 18 month cycles; with the ultimate goal being to embed in the culture risk analysis in decision-making in all areas across campuses consistently.

The committee expressed appreciation with progress, requested the plan include identification of responsible party, inclusion of campus governance groups, and concurred that ownership is necessary at the highest level to ensure long term implementation and utilization.

Committee Chair Moore suggested that in the interest of time, agenda item IV.C.3 be taken up next. There were no objections.

C. Professional Development

3. Presentation by Accuity LLP on Audit Committee member roles, responsibilities, and charter (Chapters 1 and 2 of AICPA Tool Kit, 3d Ed. 2015)

Accuity LLP presented the first of a series of professional development sessions planned for the committee, in compliance with the statutory requirements. The presentation provided information on the primary duties of an audit committee, expertise, understanding processes and controls, federal government implications, and roles and responsibilities of the external auditor, the internal auditor, and management.

Committee Vice Chair McEnerney clarified that regents are not expected to fully understand General Accepted Auditing Standards and Generally Accepted Accounting Principles, and Accuity will train committee members on what those standards are and how they apply.

B. For Information continued

- 1. Update on Whistleblower Hotline**
- 2. Review internal and external auditors' report on coordination of plans**
- 3. Update on status of Internal Auditor Workplan**

C. Professional Development continued

- 1. Review Board bylaws re independent audit committee**
- 2. Review HRS Chapter 304A-321 and committee agenda matrix**

Discussion of these remaining items was deferred due to time constraints. The committee was satisfied with the independent auditor and the external auditor working relationship explained in the written report provided to the committee.

V. ADJOURNMENT

Committee Vice Chair McEnerney moved to adjourn, and Regent Higaki seconded, and with unanimous approval, the meeting was adjourned at 10:51 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents

Notice of Meeting

UNIVERSITY OF HAWAI'I

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Date: Thursday, October 6, 2016

Time: 9:00 a.m.

Place: University of Hawai'i at Mānoa
Information Technology Building
1st Floor Conference Room 105A/B
2520 Correa Road
Honolulu, Hawai'i 96822

AGENDA

- I. Call Meeting to Order**
Committee members: Board Vice-Chair Randy Moore (Chair), Regent McEnerney (Vice-Chair), Regents Higaki, Iha, and Portnoy
- II. Approval of Minutes of the August 18, 2016 Special Meeting**
- III. Public Comment Period for Agenda Items:** All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Oral testimony is limited to three (3) minutes.
- IV. Agenda Items**
 - A. For Review and Acceptance
 1. Office of Internal Audit Report and Management Response: Student Housing
 - B. For Information:
 1. Update on Enterprise Risk Management Program
 2. Update on Whistleblower Hotline
 3. Review internal and external auditors' report on coordination of plans
 4. Update on status of Internal Auditor Workplan
 - C. Professional Development
 1. Review Board bylaws re independent audit committee
 2. Review HRS Chapter 304A-321 and committee agenda matrix
 3. Presentation by Accuity LLP on Audit Committee member roles, responsibilities, and charter (Chapters 1 and 2 of AICPA Tool Kit, 3d Ed. 2015)
- V. Adjournment**

Attachment A: Personnel action for information, pursuant to HRS §89C-4.

A: Pursuant to Haw. Rev. Stat. Sec. 89C-4, the following proposed compensation actions for excluded executives and managers are disclosed for purposes of public comment.

Executive/Managerial

Campus	Last Name	First Name & Middle Initial	Proposed Title	Unit	Nature of Action	Monthly Salary	Effective Date
System	Thomason	Richard H.	Administrative Program Officer	System Office of Human Resources	Appointment	\$12,548	October 7, 2016



CERTIFIED PUBLIC ACCOUNTANTS

**University of Hawaii Audit FY 2016
Meeting with Glenn Shizumura & Sheri Ching
September 6, 2016**

Purpose of Meeting: To discuss issues related to the FY 2016 University of Hawaii audit.

1. Audit timing and status
2. IA Task Plans for assistance with Accuity's FY 2016 audits
3. E-Builder
4. FY 2016 Internal Audit Plan
 - All IA projects completed and/or in progress
 - i. UHM Athletics – Athletic Equipment and Apparel
 - ii. Sales Audit of the H-Zone
 - iii. H-Zone – Comments and Observations
 - iv. Purchasing Card (PCard) Program
 - v. Associated Students of the University of Hawaii at Manoa (ASUH)
 - vi. Community Colleges – Revenue Generating Programs
 - vii. UHM Athletics
 - viii. Corrective Action – Auditee Status (H-Zone, KCC and LCC Culinary Art Programs, KCC Chancellor's Office Accounts at UHF)
 - ix. UHM Parking
 - x. UHM and UHH Student Housing
 - Expected reliance on project(s) for FY 2016 external audit
 - Has IA identified any matters that should be brought to the attention of the external auditors, management or the BOR (e.g. internal control weaknesses, noncompliance, abuse, fraud, etc.)?
5. Outlook of FY 2017 Internal Audit Plan and Audit Committee Assistance
6. Fraud Inquires
 - Have you been made aware of any actual or possible instances of fraud or illegal acts?
 - Have you been made aware of any actual or possible instances of noncompliance with Federal, State, or other regulatory agencies?

**Office of Internal Audit
Summary of Audit Engagements
Fiscal Year Ended June 30, 2017**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
EXTERNAL AUDIT ASSISTANCE			
1. University of Hawai'i (Consolidated) financial statements • Type: Financial • Period: Year ended June 30, 2016	Audits pursuant to federal requirements. • Provide audit assistance under the direction of Accuity, LLP (Accuity). • Provide support and assistance in connection with all audit reports. • Participate in periodic status meetings with Accuity and Financial Management Office personnel. • Review and provide comments on draft reports.	In process and to be determined	Audit areas assisted to date: • Accts Rec • Fixed Assets • Accts Payable • Post retirement and pension
2. University of Hawai'i (A-133) Reports • Type: Compliance • Period: Year ended June 30, 2016		In process and to be determined	Audit areas assisted to date: • Allowable costs • Payroll
3. UHM Athletics agreed-upon procedures (AUP) report • Type: Attestation (NCAA agreed-upon procedures) • Period: Year ended June 30, 2016	AUP pursuant to NCAA regulations. • Provide AUP assistance under the direction of Accuity. • Provide support and assistance in connection with the AUP report. • Review and provide comments on draft report.	In process and to be determined	Audit areas assisted to date: • Cash receipts • Cash disbursements
AUDIT COMMITTEE ASSISTANCE			
4. Whistleblower Hotline • Type: Audit Committee Assistance • Period: ongoing	The University whistleblower hotline and associated website was launched on June 15, 2016. The Audit Committee will be apprised of the type, nature, status, etc. of hotline reports received during their periodic meetings.	See report presented at the October 6, 2016 Audit Committee meeting.	On going

**Office of Internal Audit
Summary of Audit Engagements
Fiscal Year Ended June 30, 2017**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
5. Audit Committee Reports – Annual Report to the Board of Regents (BOR) and Hawai'i State Legislature <ul style="list-style-type: none"> Type: Audit Committee Assistance Period: July 1, 2015 – June 30, 2016 	Assisting the Audit Committee prepare an annual report to the Board of Regents (BOR) and Hawai'i State Legislature identifying 1) all instances of material weakness in internal controls and 2) all instances of fraud required by HRS §304A-321.	To be determined.	Open
6. Audit Committee Reports – Annual Report to the BOR <ul style="list-style-type: none"> Type: Audit Committee Assistance Period: July 1, 2016 – June 30, 2017 	Assisting the Audit Committee prepare an annual report to the BOR regarding the Audit Committee's effectiveness required by HRS §304A-321.	To be determined	Open
INTERNAL AUDITS			
7. UHM and University of Hawai'i at Hilo Student Housing <ul style="list-style-type: none"> Type: Operational, Financial Period: Year ended June 30, 2015 including fiscal 2016 operations 	Review and analyze financial information and the related processes and controls to assess operational issues.	UHM Student Housing report presented at the October 6, 2016 Audit Committee meeting;	<ul style="list-style-type: none"> UHM Student Housing report draft presented at October 6th AC meeting UHH Student Housing audit is in process.

**Office of Internal Audit
Summary of Audit Engagements
Fiscal Year Ended June 30, 2017**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
8. University of Hawai'i at Mānoa – Office of Planning and Facilities <ul style="list-style-type: none"> Type: Operational, Compliance, Financial Period under audit: As of June 30, 2016 through the end of fieldwork 	<p>Historical evaluations and reviews of the University of Hawai'i at Mānoa Office of Facilities and Grounds operations performed by APPA, Accuity, and Internal Audit have identified areas for improvement.</p> <p>Internal Audit will review the CIP Procurement process, the project/construction management process, repair and maintenance/work order process and inventory control process.</p>	To be determined	Preliminary discussions with management have occurred. Entrance conference scheduled for October 11, 2016.
9. Sales Audit of the H-Zone <ul style="list-style-type: none"> Type: Financial Period: January 1, 2016 – December 31, 2016 	Perform a sales audit of the H-Zone's (located at Ward Center) Schedule of Gross Sales in accordance with the lease agreement.	To be determined	Discussions regarding audit timing and information requirements are complete. Information request listing provided to H-Zone personnel.
10. H-Zone - Comments and Observations <ul style="list-style-type: none"> Type: Operational, Compliance, Financial Period: January 1, 2016 – December 31, 2016 	Provide comments and recommendations in connection with the 2016 H-Zone sales audit and assess the status of prior year comments, observations and recommendations.	To be determined	Open To be performed concurrently with the 2016 sales audit.

**Office of Internal Audit
Summary of Audit Engagements
Fiscal Year Ended June 30, 2017**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
11. Associated Students of the University of Hawai'i at Mānoa (ASUH) <ul style="list-style-type: none"> Type: Attestation Period: July 1, 2015 – June 30, 2016 	Perform an operational review related to the following: <ul style="list-style-type: none"> Scholarships Registered independent organization awards Study abroad scholarships 	To be determined	Preliminary discussions with management have occurred. Entrance conference to be scheduled.
12. University of Hawai'i at Mānoa Outreach College <ul style="list-style-type: none"> Type: Operational, Financial Period under audit: Three years ended June 30, 2016 	<p>The University of Hawai'i at Mānoa Outreach College (Outreach College) develops and implements year-round programs. According to the University System Budget Office website, Outreach College's fiscal year 2016 operating budget included budgeted revenues of approximately \$40 million.</p> <p>Project objective is to review historical Outreach College financial statements and its related processes and controls in addition to evaluating financial and operational risks and opportunities.</p>	To be determined	Entrance conference meeting held on August 25, 2016. Information request listing provided to Outreach personnel.
13. University of Hawai'i Press <ul style="list-style-type: none"> Type: Operational, Financial Period under audit: Three years ended June 30, 2016 	According to the University System Budget Office website, UH Press's fiscal year 2016 operating budget included budgeted revenues of approximately \$5 million. The objective of this project is to review historical UH Press financial statements and its related processes and controls in addition to evaluating financial and operational risks and opportunities.	To be determined	Entrance conference meeting held on August 16, 2016. Information request listing provided to UH Press personnel.

**Office of Internal Audit
Summary of Audit Engagements
Fiscal Year Ended June 30, 2017**

Engagement	Primary Objective(s)/ Audit Scope	Findings/Conclusions & Comments	Status
14. Corrective Action – Auditee Status <ul style="list-style-type: none"> Type: Operational, Compliance, Financial Period: As of May 2017 	Assess the implementation status of corrective action for fiscal 2016 Internal Audit projects.	<ul style="list-style-type: none"> University Purchasing Card Program KCC Chancellor's Office Accounts at UHF UHM Athletics Equipment and Apparel ASUH (see no. 11 above) H-Zone (see no. 10 above) UHM Commuter Services 	P-Card meeting held on Sept. 28, 2016 Open
<p style="text-align: center;">Unit Requested Assistance</p> <p>The University of Hawai'i at Mānoa Athletics Department and the Community College System Office of the Associate Vice President for Administrative Affairs may request that Internal Audit provide services to certain aspects of their operations. However, the University of Hawai'i at Mānoa Athletics Department and the Community College System Office has not yet identified the nature, timing and extent of these services. Any requested services will be presented to the Audit Committee for approval prior to Internal Audit commencing audit work.</p>			
15. University of Hawai'i at Mānoa Athletics Department <ul style="list-style-type: none"> Type: Operational, Compliance, Financial Period under audit: TBD 	Audit areas may include ticket office operations, booster club operations, sport camp operations, etc.	To be determined	Open
16. Community College System <ul style="list-style-type: none"> Type: Operational, Compliance, Financial Period under audit: TBD 	Audit areas may include evaluating select Community College operations for compliance with the Community College's Financial and Operational Oversight of Revenue Generating and Financially Self-Sustaining Programs policy.	To be determined	Open