UNIVERSITY OF HAWAI‘I

Board of Regents

MINUTES OF THE REGENTS’ COMMITTEE
ON UNIVERSITY AUDITS

Date: Wednesday, November 9, 2005

Place & Time: Campus Center Conference Chamber, Room 220
University of Hawai‘i at Mānoa
1:05 p.m.

Committee Members Present: Regents
Yamasato (presiding)
Landon
Migita
Lagareta (ex-officio)

Other Regents Present: Regents
Albano
Bender
Dahilig
de la Peña
Tanaka
Tatibouet

Others Present: David McClain, Interim President, University of Hawai‘i
Walter S. Kirimitsu, Vice President and University
General Counsel
Howard Todt, Vice President for Budget and CFO
Linda K. Johnsrud, Vice President for Academic
Planning and Policy
Doris M. Ching, Vice President for Student Affairs
Kathleen Cutshaw, Acting Vice President for
Administration, Finance, & Operations
Presley Pang, Associate General Counsel
Alex Uyeda, Director for Internal Audit
David K. Lassner, Chief Info Officer
David Iha, Executive Administrator and Secretary of the
Board
Carl H. Makino, Executive Assistant to the Board

Subjects:

   FY 2004


5. Update on Corrective Actions Taken on FY 2004 A-133 Findings and Internal Controls/Business Issues Report

6. Programmatic and Management Presentation on Audit, Allocation and Budget Process

Programmatic and Management Presentation on Audit, Allocation and Budget Process
(Note: This item was taken out of order by the Administration.)

President McClain introduced newly appointed Chief Financial Officer (CFO) Howard Todo. CFO Todo explained that there were a number of audits that happen throughout the year and the administration felt it was important that the Committee be periodically updated on those audits and their findings. He asked Vice President Johnsrud to provide an explanation about cost per student models and how the University calculates the average cost per student.

Clarifying for Regent Bender, Vice President Johnsrud informed that full-time status was 9 credit hours for graduate students, 15 credit hours for the Community Colleges and 12 credit hours for Mānoa.

Vice Chancellor Cutshaw provided information on the budgeting process, Mānoa's budget and the budget reform act. She stated that the public demands more accountability for rising costs, technology has raised the customers expectations and the University has diminishing resources. In President McClain's stock taking, his questions were, "what are we doing, how are we paying for it, what do we want to do and how are we going to pay for that." There is a budgeting task force charged with developing performance metrics to allocate new tuition dollars. Phase I will roll out in July of 2006 and that assumes a fixed based budget and we will only develop an allocation model for new additional resources. Phase II which won't start until 2007 would be a critical analysis of our current fixed based budgets in the units. Although G funds have increased by 18 ½% real net increases are -1.8% when you take off the top, net after collective bargaining and net after legislative earmarks have really had a net loss of 1.8% and on top of that approximately 95% of Mānoa's G fund is currently committed to salaries.
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The second fund source is Research and Training Revolving Fund (RTRF) allocated based on performance. 50% of what the faculty earn goes back to their unit. RTRF by statute, however, can only be reinvested in research and training. The third fund source is tuition which increased from 2001 to the present but so have our expenses in costs. She also reported on plans for a financial data system. Regent Yamasato inquired about a time frame for such a system. Director Lassner informed that the University is expecting to have a version of Kuali that would take about a two year development cycle. President McClain inquired as to how they decided on Kuali. Director Lassner stated that his committee was driven by the fact that IBM was no longer willing to maintain the box that we were running FMIS on. They considered whether to buy a new box server to run that on or look at a complete new financial system. It was unanimous that nobody wanted to look at buying a commercial package at that point.

Chairperson Lagareta inquired how deferred maintenance is to be funded. President McClain stated that part of it would be through the supplemental budget request that involves some $85 - $87 million in CIP of which $13 or $14 million would be for repairing our facilities. With the State having a surplus it may become feasible to get some of the surplus. Mānoa has plans to put some RTRF funds back into R&M.

Regent Migita expressed that Regents need to know the University's financial picture at least on a quarterly basis. CFO Todo informed that quarterly budget level summaries are available and he would provide quarterly budget reports to the Board.

Chair Lagareta asked if such presentations of priorities can be made before the Governor and Legislature. After going through the process with the strategic plan, the stock taking, the involvement of everyone with a budget request, the budget goes to the Legislature only to be pre-empted by their special interests. She said there is a need to educate the legislators that there is an elaborate process by people who are most closely involved with the University. President McClain responded that it has been one of the University's biggest challenges. He will focus on having the campus community understand the budget, how we operate and how we move forward. Chair Lagareta added that the Regents have offered to go to the Legislature as part of the University community.

Regent Tatibouet asked if it will be possible when the Board is presented a new initiative that a solid budget is also presented to support that initiative, such as the Academy for Creative Media. President McClain stated that to his knowledge, every program that he brought to the Board had addressed the resource issues thoroughly. She also asked that key legislators be invited to the campuses before session for briefings.
CFO Todo called on Vice President Ching and Mr. Jim Hasselman of PricewaterhouseCoopers (PWC), the University's external auditor, for a presentation on U.S. Department of Education audits on financial aid.

Vice President Ching reported on follow-up actions on the financial aid compliance and audit reviews conducted earlier. The primary issues related to financial compliance and audits were attributable to four major issues: lack of staff, lack of automation, lack of coordination among offices campus wide, and difficulties with third party contractor the National Student Clearing House (NSC). On staffing, the 2005 Legislature appropriated five new financial aid positions. One each for Hawai‘i CC, Kaua‘i CC and Māuī CC, and two new positions for Windward CC. In this next supplemental budget period UH-Mānoa has requested six new positions, UH-West O‘ahu and Leeward CC each have requested two new positions and Kapi‘olani CC has reallocated internally to accommodate the financial aid staff needs on their campus.

A new financial aid automation and compliance task force has undertaken several automation projects to address compliance issues. The project to automate a scheduled process for Pell Grant data reporting and what we call a common origination and disbursement system has been successfully implemented. Other automated processes are also being processed by the way increased automation is also benefitting the entire audit process and this year we’re saving time and paper by utilizing a Banner security user level which has been created especially for users such as auditors who need information but should have only limited access to student information. This procedure gives auditors online access to the information that they need and we don’t violate FERPA, the Federal Family Education Rights and Privacy Act.

Each Chancellor and their respective staff is trained to understand that financial aid reporting is a campus wide responsibility and not just the financial aid office. After many discussions and negotiations between Institutional Research Office and the NSC the issues are finally being addressed so we’re now actually establishing our own schedules directly with the office of the U.S. Office of Education and NSC has changed some of their procedures to address our concerns so that we are in compliance with the Federal regulations.

CFO Todo explained that the October 10th letter to Ronald Moody relates to an audit done by the Office of Naval Research (ONR). The October 10th letter is the University’s response to the audit report. In that report the University received an overall
satisfactory rating based on our control, protection, preservation and maintenance of Government property. He noted that the letter dated November 7th to Ronald Moody from himself responded to ONR’s audit report telling them the timing of corrective actions.

A letter was received from the Department of Health and Human Services asking questions about findings in the A-133 annual report. That inquiry was responded to on behalf of the Board.

Mr. Hasselman described the OMB Circular A-133 financial compliance audit covering general financials issued to the public, federal grant, and contract audits. The second audit is the Bond system audit and the third piece is the athletics program as required by the NCAA.

About 55% of the financials were completed. The PWC team, according to Mr. Hasselman was still in the process of getting the figures relative to the Mānoa flood from last year such as write-offs for the damaged properties. PWC was about 35% completed with the Federal Programs and about 55% completed on the Bond System audit. The Athletics audit was again 55% complete. He then explained how their findings will be communicated. CFO Todo had suggested that findings be surfaced to his level as soon as possible so there is no chance of repeat findings. President McClain, nevertheless, expressed concern that the external auditors had gotten a relatively late start. Mr. Hasselman assured that PWC would devote more man-hours to insure a timely report.

Chairperson Lagareta commented about the corrective actions taken by the administration to concerns raised by PWC in its last audit. Mr. Hasselman assured that getting a CFO on board was an important initiative to begin addressing the major findings and to prevent them from reoccurring. Some of the other findings had to do with the management information systems. CFO Todo added that the communication protocol will be a key factor in avoiding repeat findings.

Chairperson Lagareta asked if the CFO had sufficient staffing. Mr. Todo stated that he needed a larger staff and had asked his staff to develop a business plan for each segment of his operation. Based on those plans he will be making a recommendation to the President on staffing. He added that during the last legislative session some of his open positions were swept so in order to fill those positions he must go back to the Legislature for an appropriation. President McClain informed that he had inserted three positions for the internal auditor in the supplemental budget and if the CFO did not get his positions back that the administration would reallocate funds internally for about $225,000.

CFO Todo then reported on the status of last year’s audit findings. There were 26 items in total and 19 of those findings have been implemented at this point or partially implemented and three are anticipated repeat findings. These are A-133 findings that
need to be reported on the Federal guidelines. There is a final report that’s required on Federal grants or sometimes its an annual report. In one case, JABSOM’s report was not filed on a timely basis. Part of the solution we’re coming up with is our system solution from the standpoint of Office of Research Services (ORS) who oversees this. If they do not file on time ORS will do so and it will bring its own penalty. That finding is no longer applicable and the University has taken corrective action.

Regent Landon advised that with regard to Sarbanes-Oxley and best practices, that, from experience, one should perhaps consider common practice or emerging practice. Time will tell what is really best practice but in the meantime, there are good things that can be adopted rather than a rush to adopt Sarbanes-Oxley standards broadly. He further inquired about the auditor’s report on controls and business issues. CFO Todo explained that the largest section dealt with financial management findings and almost all of those are ongoing and not easily resolved.

When asked how frequently the Committee should meet to receive reports, CFO Todo stated that quarterly would be ideal with shorter reports on a monthly basis. Regent Landon added that the Committee could meet on a quarterly basis to discuss the progress of the audits. That might take some pressure off of the full Board session. That would also provide a staging for the quarterly financial update as well as the Foundation’s. Regent Yamasato agreed with the suggestion.

There being no further business before the Committee, the meeting was adjourned at 3:42 p.m.

Respectfully submitted,

[Signature]

David Iha, Secretary

Dated: December 8, 2005

c:  Chairperson Kitty Lagareta
    Members, Committee on University Audits
    Interim President David McClain
    Vice President Howard Todo