

MINUTES

BOARD OF REGENTS' COMMITTEE ON INDEPENDENT AUDIT MEETING

AUGUST 6, 2015

I. CALL TO ORDER

Committee Chair Stanford Yuen, called the meeting to order at 10:58 a.m. on Thursday, August 6, 2015, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Hawai'i 96822.

Committee members in attendance: Committee Chair Stanford Yuen; Committee Vice Chair Ben Kudo; Regent Wayne Higaki; Regent Michael McEnerney.

Members excused: Regent Jeffrey Portnoy.

Others in attendance: Regent's Chair Randy Moore; Regent Simeon Acoba, Regent David Iha, Regent Lee Putnam (ex officio committee members); President David Lassner; Vice President for Community Colleges, John Morton; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH Mānoa (UHM) Chancellor Robert Bley-Vroman; UH West O'ahu UH Hilo (UHH) Chancellor Don Straney; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. SELECTION OF COMMITTEE CHAIR

Regent Kudo announced that pursuant to state law, the chair of the Committee on Independent Audit is appointed by the members of the committee and opened the floor for nominations.

Chair Moore nominated Regent Yuen to serve as chair. There being no other nominations, Regent McEnerney made a motion to close the nominations, and the nominations were closed upon unanimous vote. The nomination was put to a vote, and Regent Yuen was by unanimous vote selected to serve as Chair of the Committee on Independent Audit.

Committee Chair Yuen thanked the committee for their confidence in him and indicated he would his best to serve as chair. He introduced the other members of the committee, including Regent Kudo, Regent Higaki and Regent McEnerney.

Chair Moore noted the statute was silent on the vice chair of the committee but suggested it would be desirable to have the vice chair selected by the members of the committee. He nominated Regent Kudo to serve as vice chair and Regent McEnerney seconded the motion. There being no other nominations for vice chair, Chair Yuen put the motion to a vote and Regent Kudo was unanimously selected to serve as the Vice Chair of the Committee on Independent Audit.

III. APPROVAL OF THE MINUTES OF THE MAY 12, 2015 MEETING

Regent Matayoshi moved and Vice Chair Kudo seconded the motion to approve the minutes of the May 12, 2015 meeting, which was unanimously approved.

IV. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received no written testimony, and no individuals signed up to testify.

V. AGENDA ITEMS

A. Review of Bylaws and Office of Internal Audit Charter and HRS §304A-321:

Committee Chair Yuen indicated he had reviewed everything and noted there are a number of items that need to be reconciled. In the interest of efficiency, he deferred the item and forwarded the documents to the Glenn Shizumura, Director of the Office of Internal Audit (OIA), to reconcile and propose the amendments as appropriate for consideration by the committee at the next meeting in September. There were no objections to deferring the item. The committee also agreed to include the charter of the Office of Internal Audit.

B. Setting Goals and Objectives

Director Shizumura explained the goals and objectives are set forth in the bylaws and statute.

C. Review & Acceptance of the Audit Plan for Fiscal Year 2015-2016

Director Shizumura outlined the audit plan for Fiscal Year 2015 that was provided to the committee for review and approval. The plan included an overview of the purpose of the plan, the type of work and services the office performs, how the plan was developed, deliverables, with a current plan for initial projects, which will be monitored and revised as warranted during the year.

Director Shizumura noted this was the second year performing the Sales Audit of the H-Zone, which is a requirement of the lease as part of the percentage rent component. The landlord requires the audit be submitted by the end of February; the report will be provided to the committee in January for approval.

Director Shizumura reported that the Purchasing Card (PCard) program will be reviewed, noting that it was a highly sensitive topic in state government over the last several months. Historically OIA has done PCard audits in connection with certain departments. The audit will review the process and controls over the entire PCard program to identify the process to detect and prevent any types of misuse or abuse of the PCard. OIA will work with the Office of Procurement regarding processes and controls and evaluating spending limits.

Regarding the UHM Athletics Department, Director Shizumura explained this audit was a pending request from former Athletics Director Ben Jay to look at internal operations, effectiveness, and efficiencies. He will meet with the new Athletics Director Dave Matlin and Associated Athletics Director – Administrative Services Carl Clapp to determine areas to review in (e.g., ticket operations, booster club, etc.) over the course of the year.

Director Shizumura explained the community colleges audit will assess the implementation of corrective action recently implemented for the revenue generating programs at the community colleges following audits previously performed regarding culinary programs at Kapi'olani Community College (KapCC) and Leeward Community College (LeeCC). OIA will assess corrective actions and additional policies and procedures that have been instituted and report back to the committee in the spring regarding the effectiveness.

The Associated Students of the University of Hawai'i at Mānoa (ASUH) requested audit of their operations as required annually by their constitution. Historically, OIA has looked at processes and procedures over things like stipends, holiday, grants, scholarships, and awards, and OIA will be working with ASUH to identify areas to review this year.

Director Shizumura noted that the Status of Comments & Observations on last year's H-Zone review would be discussed later today. OIA will evaluate corrective actions and conducting a year-end sales audit.

The Corrective Action – Auditee Status is a culmination of all audits issued last year, combined into one report.

In addition, OIA will provide the Internal Audit Committee assistance with enterprise risk management (ERM), the whistleblower hotline, and audit committee reports as required under statute and charter. The first report regards identification of any material weaknesses, fraud, illegal act, etc. goes to the Legislature prior to the upcoming session, and provided in December 2014. The other required report evaluates the performance of the Committee on Internal Audit for the past fiscal year.

Committee Vice Chair Kudo asked for clarification of two audits for the Athletics Department, the National Collegiate Athletic Association (NCAA) compliance audit and a separate voluntary financial audit. Director Shizumura explained the financial audit has more than 10 year history at the request of a former Athletics Director, and is not required by NCAA, federal or state guidelines. This audit is conducted by the external auditor with OIA assistance. Discussion ensued regarding the value and cost benefit of the audit. President Lassner will consult with Chancellor Bley-Vroman and AD Matlin and work directly with OIA to determine need. Director Shizumura further explained that these statements are referred to as balance sheet, income statement, and statement of cash flows, but the government calls them statement of net assets, statement of revenues, expenses, and change in net assets, and statement of cash flows following Governmental Accounting Standards.

Regent McEnerney expressed concern over the ERM project not being implemented during Fiscal Year 2015 due to “competing priorities”. It is a statutory directive to the committee and therefore should be a high priority item. ERM determination of the top 10 to 20 risks facing the university needs to be done. President Lassner explained that the project was delayed until the VP for Administration position could be filled in Fiscal Year 2015. Given that the VPA is also responsible for communications, facilities, construction, Title IX, and human resources; his team is currently collaborating to support the VPA. He stressed that it was a priority for him and all the VPs.

There has been no audit of the booster club although some of the booster club operations are private (as ‘Ahahui Koa Ānuenue is a separate 501(c)(3) organization).

Regent McEnerney moved that the committee recommend the board approve the Audit Plan for Fiscal Year 2015-2016. Committee Vice Chair Kudo seconded the motion and the motion carried by unanimous vote.

D. For Discussion: Committee on Independent Audit Annual Report for Fiscal Year 2015:

Committee Chair Yuen noted that the agenda had this item being for discussion, but asked for a motion to amend the agenda to include acceptance of the report by the committee. Chair Moore moved the committee recommend include acceptance of the Committee on Independent Audit Annual Report for Fiscal Year 2015, Committee Vice Chair Kudo seconded, and the motion carried by unanimous vote.

Director Shizumura presented an overview of the Committee on Independent Audit Annual Report for Fiscal Year 2015, pursuant to Act 87, summarizing the sections on the committee charter, the role of the committee, committee membership for the year ended June 30, 2015, and actions taken at committee meetings.

He explained that the duties and responsibilities incorporated in the charter, statute, bylaws, the services and activities of the OIA, the roles and responsibilities of the OIA, resources, background on employees, the plan approved last year, details on the types of audit projects done during the past year in terms of follow-up work, financial audit and reviews, operation and compliance work, consultation and investigative work, and the form and content of audit reports. Exhibit 1 summarizes the status of audit projects included in last year audit plan.

Committee Vice Chair Kudo moved that the committee recommend the board approve the Audit Annual Report for Fiscal Year 2015. Chair Moore seconded the motion.

Chair Moore added the ERM and whistleblower program, along with professional development to improve the financial expertise of the committee as a whole, including: attendance at seminars and conferences; attendance at educational sessions including special speakers; and the study of analytical tools for audit committees. He noted that Regent McEnerney is an expert and might be able to assist the committee with that.

Regent McEnerney recommended reading materials on best practices for audit at the

board office, offered sharing the American Institute of Certified Public Accountants (AICPA) rules for internal audit committees for government institutions, including universities, and suggested Director Shizumura provide programs specifically dealing with how Yellow Book audits at universities work. Chair Moore suggested that the committee agenda include such topics as well. Regents were encouraged to attend VP Young's program on August 16, 2015 regarding government reporting at the university in order to understand the accounting process for UH.

A motion having been moved and seconded, the motion carried on unanimous vote.

E. Update on Internal Audit Reports on H-Zone Comments & Observations

For the benefit of new committee members, Committee Vice Chair Kudo explained that pursuant to the previous audit, OIA looked at the H-Zone operations and discovered a lack of business and inventory controls typically found in a retail operation. The Athletics Department embarked on a new venture started two to three years ago under former AD Jay to take control over the sales of athletics merchandise from the UH Mānoa Bookstore to generate more revenues. At the last meeting, the committee asked the Athletics Department to report back in 60 days on improvements, if any, measures, and procedures had been implemented to address the issues.

Committee Chair Yuen notes that the sales audit was performed by the OIA which saved the university money from costs for an external auditor.

AAD McNamara referred to the memo distributed with the materials containing updates on the internal audit reports on H-Zone comments and observations, responses from previous AD Jay, and corrective actions taken since the last committee meeting. Each item has been addressed, and he was optimistic about continuing to stay in line going forward. Felix Calvo, Director of H-Zone summarized the memo regarding major deficiencies and the specific corrective actions that were taken.

The committee inquired as to follow up after the report is received; who within the department receives the reports generated; the sales and profit projection goals for future growth in comparison to peers; revenue allocation to athletics department; necessity to continue follow up reports; and provide financial performance to the committee.

AAD McNamara responded that he and the business office receive and review the reports with staff assigned to work directly with H-Zone. The operation ran at a deficit for five years and athletics has turned a profit in the first year, and starting the second year going forward expecting six figure profits, with a minimum 30% in sales over the past year figures. All net proceeds benefit UH teams and student athletes. Director Shizumura noted that in connection to OIA performing the sales audit, they will evaluate status of implementation and include the results in its reports.

Administration explained that regarding profits, the department runs three retail operations (H-Zone, Stan Sheriff Center, Les Murakami Stadium) and online operations that support each other to maximize net sales. The H-Zone will engage in promotionals with AAD McNamara and his team, to drive sales which are typical of retailers. They

reached out to the travel industry to promote the H-Zone, and are seeing an increase of tourists coming into the H-Zone store at Ward Center. At 30% increase in profits, gross revenues estimates are \$1.2 to \$1.3 million.

Regarding a business plan going forward, AAD McNamara explained plans to use the current year as a baseline to set future goals. Each location will require a separate plan, because of unique customer base: Ward is tourist-driven, and the Stan Sheriff Center and Les Murakami Stadium are fan-driven, and online is off island/out-of-state fan driven. AAD McNamara attended a national convention in Atlanta this past year, other licensing and merchandising seminars on best practices to target building a sustainable, quality operation moving forward. The first year provided a great foundation. Discussions internally and externally, including engaging a consultant are planned to help grow the operation and maximize net revenue. He added that in total, the department received \$30,000 in net revenues, and noted that start-up expenses would not be incurred next year.

F. Update on Status of Corrective Action for Kapi'olani Community College and Leeward Community College Culinary Arts Program

Committee Vice Chair Kudo explained that this was a follow-up on corrective actions to address several deficiencies reported during last year's audit by the OIA of the culinary programs. The committee subsequently asked KapCC and LeeCC to come back after 90 days to provide the committee with an update.

Associate VP for Administrative Affairs Mike Unebasami reported that since the last meeting aggressive remedies were taken to assess policy and procedure compliance on all revenue generating programs, a policy for the business offices and programs at the community colleges relating to financial management of all revenue-generating programs, was established. Brian Pactol, Commercial & Auxiliary Enterprises Officer held meetings last month with the VC for Administrative Services and the Fiscal Administrators of all the campuses to review the procedures established in this policy, along with delineating what the responsibilities of the business should be, and received approval and buy in. A meeting with chancellors, vice chancellors, academic programs, and deans and program coordinators is planned for next month. The Office of the VP for Community Colleges will monitor and work with the campuses to ensure that the policies are followed, including revenue and expense reports, bill processing and reconciling and recording of accounts receivables, inventory control, and reconciliation of subsidiary ledgers with the Kualii Financial System (KFS). Responsibilities for managing and account for all these financial issues are clarified.

Regarding the accounting issue for the KapCC Office of Continuing Education & Training (OCET) that came up in the previous OIA audit, AVP Unebasami reported that a new software (Destiny) has been implemented, which is the non-credit program equivalent to the BANNER program for course credit management. Scott Murakami, the Director of Workforce Development, is working with the OCET directors on policies and procedures for tuition collections, accounts receivables for contracts, etc. that were raised in the OIA audit. These policies and procedures will be implemented for all the community college programs to ensure revenue generating programs are being properly

managed.

The committee inquired regarding the status of the computerized system, centralization of operations, and encouraged academic learning for the culinary programs with business management.

AVP Unebasami responded that each campus had its own business office and fiscal administrator that oversees the functions of the business office (e.g., procurement, cashiering, etc.). VP Morton explained the program was used as a laboratory for student learning but lacked proper oversight and quality control, which have since been implemented.

AVP Unebasami noted that identifying the proper computer system for inventory control is ongoing to find one system for all campuses. Also under consideration is separating instructional from cafeteria service. VP Morton added that all financial information from BANNER flows directly into KFS nightly, but non-credit programs have a separate system that must be manually input into KFS. They are building the interfaces to allow non-credit programs to flow automatically into KFS and avoid errors in time or oversight that happens from manual processes. Director Shizumura indicated that as part of the audit plan, the OIA will follow-up with the community colleges in January and provide the committee with an update.

The committee concurred and recognized the responsiveness of the community colleges to the auditor's report, the stellar rankings of the culinary programs, and the difficulty of aligning academic and revenue generating programs. The committee also noted the opportunity to generate revenue and income to the respective schools through good business practices, implement policies and procedures to generate support programs, and teach the students how to run a business.

G. Update on Cancer Center RFP and Status of Development of Cancer Center Business Plan

Chancellor Bley-Vroman provided a status report on the Cancer Center (Center). He provided a historical background from the end of last fall into early January when he became convinced that significant changes needed to happen at the Center, and took advantage of former Center Director Michele Carbone decision to return to research to make some changes to leadership, internal structure and the way the Center reported to the rest of the university. He appointed Jerris Hedges, Dean of the John A. Burns School of Medicine (JABSOM), as interim Director of the Center, with the larger plan being to eventually integrate the Center into a structure that would encompass medical education and cancer research. Work is ongoing towards changing the internal structures of the Center itself in order to build an effective shared governance operation of faculty senate with the right interactions with administration, which had not been functioning well in the past. Other internal changes were also set up involving program directors, academic leads and the Center structure. He asked the interim director to analyze the financial situation and come up with a report about the business plan for the future of the Center, which the board has seen. It was not intended as a complete business plan, but rather a clearer analysis of the situation and its challenges. At that time, the regents suggested,

and he agreed, to retain an external consultant with significant expertise in enterprises of this kind to prepare a business plan for the Center. In the meantime, the Center's External Advisory Committee (EAC) conducted a visit and provided referrals for external consultants based on their knowledge. A report on the visit is forthcoming.

They also began the process of putting together the search for a permanent Director, and expect to seek approval of a salary range that would be high given the nature of the job. There is continued plans to create a search committee, led by Michele Tom, the UHM executive search coordinator, and likely conducted with a search firm to provide consulting services.

Dr. Clif Tanabe, Executive Assistant to the UHM Chancellor, was tasked with the Request for Proposal (RFP) to retain an external consultant to develop the business plan. He reported that the RFP process was completed and Charlie Cosovich, Director at Navigant Consulting, Inc. in San Francisco was selected as the consultant. He explained that the National Cancer Institute (NCI) designated cancer centers have EACs that are generally composed of scientists and administrators from cancer centers around the country. The Center's EAC made its annual visit in June, and Mr. Cosovich was one of the individuals recommended. Dr. Tanabe provided background information on Mr. Cosovich (Attachment 1), his extensive experience working with major cancer programs, including NCI-designated cancer centers, and clients as well as background on Navigant Consulting, Inc.

The Center RFP requires the business plan be informed by the positive economic and health impacts that accrue to the state as a result of Center activities and also specifically requires an objective examination of the financial feasibility of having the Center operate as part of UH. It also states the plan must consider possible alternative uses for the Center facility. In order to accomplish this and produce a robust and objective plan, Mr. Cosovich has proposed a two phase approach. Phase 1 is a review of documentation and data, and a visit to UH and the Center later this month. In addition to meeting with system, UHM, and Center leadership and community-based advisors and stakeholders, Mr. Cosovich expressed an interest in meeting with regents, including those on the Committee on Independent Audit. Phase 1 will culminate in an assessment report that is slated to be substantially completed by late September. Phase 2 next steps and related specific timeline will follow from this assessment report and also be determined in late September, with substantial completion by late October. The plan will also include consideration of JABSOM, but it is not a business plan for the medical school.

The committee raised concerns whether the search for a new director is premature before the business plan is completed and could hinder the consultant's work; some regents expressed interest in reviewing the RFP to ensure clarity of scope that affects policy; and others understood the importance of having the plan consider whether the Center was viable as an option in the comprehensive plan, even if the goal is to make guarantee survival of the Center.

President Lassner explained the administration does not normally give full RFPs to the board, and in this case procurement was conducted through UHF so public funds are not being used. Chancellor Bley-Vroman added that parallel tracks for the search and

business plan are necessary given the time pressure and pending deadlines. A report is expected to be available before the search is complete and the new director will be part of the process, although it is not specific in the RFP.

All options are on the table, but the intent is to make the best possible effort to have a viable Center for the state, the university and the people of Hawai'i. Considering what would happen if there was no Center is an important part of the business plan.

VI. EXECUTIVE SESSION

Upon motion by Regent Wilson and second by Committee Vice Chair Kudo, the committee unanimously approved convening in executive session, pursuant to HRS §92-5(a)(2)). The committee convened in executive session at 12:23 p.m. Following a motion to come out of executive session by Committee Vice Chair Kudo and second by Regent Wilson, which was unanimously approved, executive session was adjourned at 12:58 a.m.

Committee Chair Yuen explained that the committee went into executive session pursuant to HRS §92-5(a)(2) to discuss confidential matters regarding personnel matters as indicated on the agenda.

VII. ADJOURNMENT

There being no further business, on the motion of Committee Vice Chair Kudo and second by Chair Moore and with unanimous approval, the meeting was adjourned at 1:00 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents



J. Charles Cosovich

J. Charles Cosovich
Director

Navigant Consulting
One Market Street
Spear Street Tower, Suite 1200
San Francisco, CA 94105
Tel 415.356.7107
Fax 415.356.4005

charlie.cosovich@navigant.com

Professional History

- Principal, Kurt Salmon Associates
- Vice President, The Advisory Board Company

Education

- B.A., Stanford University
- M.B.A., J.L. Kellogg Graduate School of Management, Northwestern University

Charlie Cosovich is a Director in the Healthcare Strategy practice who has served the industry in strategic planning and related services since 1987. Long based in San Francisco, he has supported institutions nationally that range from sole community providers to major, multi-hospital systems. His experience includes extensive work with academic health centers and major cancer programs, including NCI-designated Comprehensive Cancer Centers and freestanding cancer hospitals. He has worked on oncology-related efforts with academic institutions and major regional health systems and often as a partnership facilitator between the two. His client have included the Knight Cancer Institute at Oregon Health and Science University, Roswell Park Cancer Institute, Moffitt Cancer Center, University of Kansas Medical Center, the Huntsman Cancer Institute at University of Utah, the Sylvester Cancer Center at University of Miami, UCSD, University of Pennsylvania Health System, Dana-Farber Cancer Institute, University Medical Center, Tucson, University of New Mexico, University of Texas, San Antonio, City of Hope, and the James Cancer Center at The Ohio State University along with health systems such as Benefis, Baystate, INTEGRIS, Intermountain Health Care and others.

Including these and other engagements, Charlie has worked with dozens of academic institutions (AHCs or SOMs) and numerous additional teaching hospitals over his career, including University of Colorado, UCSF, UCLA, University of Minnesota, University of Virginia, Baylor College of Medicine, Cedars-Sinai Medical Center, Baylor Healthcare and many others. His work has regularly involved leading discussion and provoking thought in multi-dimensional groups – those involving research, teaching, and clinically focused faculty and administration. Prior to joining Navigant in 2009, he was a Principal with Kurt Salmon Associates and a Vice President with the Health Care Advisory Board in Washington, DC.