MINUTES

BOARD OF REGENTS' COMMITTEE ON INDEPENDENT AUDIT MEETING

May 27, 2016

I. CALL TO ORDER

Committee Chair Stanford Yuen, called the meeting to order at 9:30 a.m. on Friday, May 27, 2016, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

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

Others in attendance: Board Chair Randy Moore; Regent Simeon Acoba; Regent David Iha; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernie Wilson, Jr. (ex officio committee members); Vice President for Academic Policy and Planning Risa Dickson; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Research and Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget and Finance and Chief Financial Officer Kalbert Young; Executive Administrator and Secretary to the Board Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE APRIL 7, 2016 MEETING

Regent Higaki moved to approve the minutes of the April 7, 2016 meeting, seconded by Board Chair Moore, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received, distributed to the board, and posted online one late written testimony, and no individuals had signed up to give oral testimony.

The following individuals provided testimony:

1. Vincent Clemmons, an individual, provided late written testimony regarding his admission application to UHM.

IV. AGENDA ITEMS

A. For Action

1. Recommend Approval of Regents Policy RP 2.205, Policy on Whistleblowing and Retaliation

VP Gouveia explained how the proposed policy was a collaborative effort among Administration, the Office of Internal Audit, and the Office of the Board of Regents, and intended to be a broad policy statement that incorporates the concept of a single portal that encourages reporting, while maintaining the existing university policies and procedures that govern the daily operations of the institution, and proper board oversight as defined by statute. Upon approval, an executive policy that implements the policy has been reviewed by working groups of each campus will be signed into effect by the president that includes a reference to the whistleblower hotline, which is slated to go live in June 2016 as originally promised.

Comments and questions were raised regarding appropriate scope and breadth of board oversight, and clarity in the term “good faith”. Administration explained how the policy was intentionally broad, as the whistleblower hotline is the centralized reporting mechanism for all types of issues, but also incorporated the duties and responsibilities of the committee as specified in statute with respect to financial fraud and accounting. The term good faith is also as specified in statute and used in whistleblowing cases.

Extensive discussion ensued regarding this being a new and evolving process; the need for clarity in the reporting structure; preserving general board oversight on all whistleblowing program matters; and ensuring the process for the third party service provider for the whistleblower hotline to sort and distribute complaints appropriately including complaints on financial fraud directed to the Committee on Independent Audit. The committee suggested administration consider the comments on possibly expanding the policy, clarify language as needed and which board committee(s) should have oversight.

Board Chair Moore moved to recommend board approval of RP 2.205, Policy on Whistleblowing and Retaliation, seconded by Committee Vice Chair Kudo, and the motion carried unanimously

2. Acceptance of Management’s Response to Internal Audit’s report of UHM Commuter Services

Director of Internal Audit Glenn Shizumura reported how he reviewed the management’s response and confirmed that it addresses all recommendations included in the report that was presented last month.

Questions were raised regarding the need for response dates for resolution of the four recommendations; interfacing with the Kuali Financial System (KFS); status of correcting overbilling of payroll costs and handling of daily parking receipts and proceeds by the contracted service provider; and need for increased monitoring.

Director Shizumura explained how the Office of Internal Audit will do a follow up review on the recommendations and that appropriate procedures and controls to monitor third party vendors are in place and sufficient. Director of Campus Services Deborah Huebler confirmed how new processes are targeted to be in place by fall 2017

Extensive discussions were held on when the report on proposed new parking rates will be completed and new rates proposed to board for public hearing and the rationale for increasing parking fee rates. Director Huebler explained how the tentative target date for implementing new parking rates is fall 2017, to allow time to secure a consultant to evaluate infrastructure, rate schedule and fees, and repairs and maintenance needs. She reported how revenues based on the current rate structure are maximized, accounting for efforts to minimize expenditures, and utilizing technology automation to further reduce labor costs and other expenditures. She explained how the process for a rate increase is lengthy, and requires approvals from external agencies by law such that in order to make the fall 2017 deadline, the latest possible date commuter services could come to the board for approval to begin the public hearing process would be November or December of 2016. She explained how the goal is not to match local rates or peer institutions, but rather to determine the fairness and reasonableness of any proposed fee increase that includes a prioritized repairs and maintenance schedule for the next 10 years.

The committee requested that the committee receive periodic updates on possible parking rates increases, and in October regarding the status and a plan of action with milestones and dates be developed for the remaining four milestones.

Regent McEnerney moved to approve acceptance of Management's Response to Internal Audit's report of UHM Commuter Services with the caveat the commuter services report back as agreed to, seconded by Committee Vice Chair Kudo, and the motion carried unanimously.

B. <u>For Information & Discussion</u>

1. Status of FY16 Audit Plan

Director Shizumura summarized how the FY16 Audit plan and matrix provided to the committee includes the status projects approved in last year's audit plan and projects added to the plan in November. Questions and comments were raised regarding input from departments such as athletics to request audit services or review the plan. Director Shizumura explained how the previous athletics director had made a standing request for audit services as needed, and AD Matlin determined that no services were required for this year.

2. Status of Implementation of Enterprise Risk Management Program (ERM)

VP Gouveia provided a slide presentation on the status of implementation of the ERM program identifying top enterprise risks, and next steps. She reported how the development of the ERM Program is on track, and anticipates further refining and developing mitigation or enhancement responses for a report in the next quarter.

Extensive discussion ensued regarding aligning and informing the ongoing systemwide academics and facilities master plan led by VP Dickson; whether the board itself needs to have an ERM plan; and taking into consideration opportunity risks and other risks such as reputation, autonomy, tuition elasticity, and financial reporting limitations and how to assess those risks.

Administration confirmed how the facilities and academic strategic plan efforts run parallel, with planning for academic program needs being first, then planning for the facilities required to support those needs, and expected to overlap, and allows adjustments for compelling risks or new laws or regulations.

The committee requested a copy of the ERM plan be shared with VP Dickson to inform the academic program planning process, and that the plan include individuals who are responsible for different areas and timeframes.

At 11:02 a.m. the committee recessed. The committee reconvened at 11:07 a.m.

3. Presentation by Pricewaterhouse Coopers on Best Practices for Audit Committees of Higher Education institutions

Cory Kubota of Accuity introduced Terry Ward, Partner at Pricewaterhouse Coopers (PwC) Governance Insights Center, and Dave Merriam, Partner in Higher Education out of PwC Southern California's audit office, who shared their thoughts on the discussion regarding ERM and trends being seen in the higher education industry. They explained how they recommended a trimmed list of top risks defined by the board adjusted periodically, and a plan that includes the board as part of the entire ERM program rather than a separate ERM program. They noted that although they were not familiar with the open meetings Sunshine Law, they confirmed how the law could present challenges that private institutions do not have to address. Other topics discussed included the importance of board self-assessment that includes an evaluation on the efficiency of committee operations; the unique challenges facing the board to do a self-assessment under the Sunshine Law; the best practice of audit committees meeting on a quarterly basis; how audit committees are spending more time on compliance, internal and external audit and board education, especially educational topics for professional development at each meeting; the trend of allocating different aspects of ERM to other committees that may be better suited to address those risks; and rotating audit managers versus audit companies on a 10 year American Institute of CPAs (AICPA) standard or the 5 year Sarbanes-Oxley standard.

V. ADJOURNMENT

There being no further business, Regent Higaki moved to adjourn, and Board Chair Moore seconded, and with unanimous approval, the meeting was adjourned at 11:36 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents