

## **MINUTES**

### **BOARD OF REGENTS' COMMITTEE ON INDEPENDENT AUDIT MEETING**

**DECEMBER 15, 2016**

#### **I. CALL TO ORDER**

Committee Chair Randolph Moore, called the meeting to order at 9:01 a.m. on Thursday, December 15, 2016, at the University of Hawai'i at Mānoa, Information Technology Building, 1<sup>st</sup> 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; Regent David Iha; Regent Jeffrey Portnoy.

Others in attendance: Board Chair Jan Sullivan; Regent Simeon Acoba; Regent Eugene Bal; Regent Brandon Marc Higa; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernie Wilson, Jr.; Regent Stanford Yuen (ex officio committee members); President and Interim UH Mānoa (UHM) Chancellor David Lassner; Vice President for Community Colleges John Morton; Vice President for Legal Affairs/University General Counsel Carrie Okinaga; Vice President for Information Technology/Chief Information Officer, Garret Yoshimi; Vice President for Budget and Finance/Chief Financial Officer Kalbert Young; UH-Hilo (UHH) Chancellor Donald Straney; Interim UH-West O'ahu (UHWO) Chancellor Doris Ching; Leeward Community College (LCC) Chancellor Manual Cabral; Executive Administrator and Secretary to the Board Cynthia Quinn; and others as noted.

#### **II. APPROVAL OF MINUTES OF THE OCTOBER 6, 2016 MEETING**

Committee Vice Chair McEnerney moved to approve the minutes of the October 6, 2016 meeting, 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 Action**

- 1. Review and Acceptance of the University of Hawai‘i Consolidated Financial Statements, Supplemental Schedules, and Federal Compliance Report for the Fiscal Year Ended June 30, 2016**
- 2. Review and Acceptance of the University of Hawai‘i Internal Control and Business Issues Report for the Fiscal Year Ended June 30, 2016**

External auditor Cory Kubota of Accuity LLP provided a slide presentation that summarized the required auditor communications, audits of the financial statements of the University of Hawai‘i System, and internal controls and business issues reports for acceptance by the committee. He concluded that the external auditor was ready to issue clean, unqualified opinions on the statements. He noted the audit relies on audited financial statements issued by the UH Foundation (UHF) and the Research Corporation of the University of Hawai‘i (RCUH), who conduct their own audits. There were no material weaknesses in control matters, but four “significant deficiencies” in internal controls were noted that affected compliance with federal requirements, and have been addressed by management. Other housekeeping comments were not significant. The four compliance issues were related to the approval of payroll expenditures (Finding 2016-001), improper consultant expenditures (Finding 2016-002), inadequate monitoring of subrecipients (Finding 2016-003), and errors financial aid administration (Finding 2016-005).

Questions regarded low valuation of capital assets, decline in revenues classified as “other,” and general observations of trends occurring in the UH System. The external auditor responded that lands conveyed to the university by the territory or state are valued at \$1 as a general accounting matter. Other revenues were explained in the report as related to gifts and CIP expenditures. It was noted that overall decline is largely impacted by the shift in accounting method beginning in 2013 to include the unfunded liability for retirement benefits, and was amended in the report with a revised footnote that was distributed to the committee (replacement pages 62 to 64).

He noted that relative to the UH infrastructure and general operations, the administration has the strongest financial team in the 21 years auditing the university, is very knowledgeable in finance and accounting, and utilizing technology successfully to improve efficiency, accuracy, and timeliness. In result, UH was the third department to deliver statements to the executive branch. The challenge for the university is exponential growth in federal expenditure stresses infrastructure that places noncompliance risk at the transaction base level. In response, more proactive regular training and developing curriculum for preventative processes are present.

- 3. Review and Acceptance of the University of Hawai‘i at Mānoa Intercollegiate Athletics NCAA Agreed-Upon Procedures Reports for the Fiscal Year Ended June 30, 2016**
- 4. Review and Acceptance of the University of Hawai‘i at Mānoa Intercollegiate Internal Control and Business Issues Report for the Fiscal Year Ended June 30, 2016**

External auditor Cory Kubota summarized the UHM Intercollegiate Athletics NCAA-required Agreed-Upon Procedures Reports for the Fiscal Year Ended June 30, 2016 and Internal Control and Business Issues Report for the Fiscal Year Ended June 30, 2016, for acceptance by the committee. He was ready to issue a clean, unqualified opinion for the report, and there were no matters of noncompliance. The committee discussed at length concern regarding the status of the H-Zone at Ward Center progress; and fundraising efforts and the memorandum of understanding structure among the UHM campus, the athletics department, the 'Ahahui Koa Ānuenue booster club, and the UHF. AD Matlin reported that the H-Zone management has improved and the Ward Center store is now at a break even basis warranting continuing with the current lease through its term in June 2017. Discussion ensued regarding the proper role of the external auditor to audit operations for compliance with the NCAA agreed upon procedures, and the committee to accept the report.

Questions regarding operations as a result of the audit are matters for the chancellor and athletic director to address, and to bring any recommendations to the board. The need for historical data to assess the current fundraising model was also discussed. The committee concurred further review by the intercollegiate athletics committee may be appropriate.

Regent Portnoy moved to accept the UH Audited Consolidated Financial Statements, Supplemental Schedules, and Federal Compliance Report for the Fiscal Year Ended June 30, 2016; the UH Internal Control and Business Issues Report for the Fiscal Year Ended June 30, 2016; the UHM Intercollegiate Athletics NCAA Agreed-Upon Procedures Report for the Fiscal Year Ended June 30, 2016; and the UHM Intercollegiate Athletics Internal Control and Business Issues Report for the Fiscal year ended June 30, 2016. Committee Chair McEnerney seconded, and the motion carried unanimously.

At 10:20 a.m., the committee went into recess. The committee reconvened at 10:26 a.m.

Regent Portnoy left the meeting at 10:20 a.m.; quorum was maintained.

## **B. Professional Development**

### **1. Presentation by Accuity LLP on Audit Committee member roles, responsibilities, charter (Chapters 8-10, 12-13 of the AICPA Tool Kit, 3d. Ed.2015)**

External auditor Cory Kubota provided an overview of the role of the audit committee to review audits for overall control of the university's systems of checks and balances. He noted that communication was key to ensure compliance and the primary oversight role of the committee is to set the tone for compliance, whereas management implements controls, the internal auditor monitors, consults, and reports financial and

operational controls to the audit committee, and the external auditor assesses and reports observations on financial controls for committee to consider and decide. He explained the classifications of control deficiencies, and the fraud and prevention role of the committee to review, monitor and assess implementation of the controls, ethics, compliance, and aid in the discovery of fraud and provide findings to the board.

It was highlighted that the whistleblower policies and responsibilities, such as the hotline, are only tools that must be legitimate by being easily visible and accessible, transparent as to results, and ensure anti retaliation. He explained the need for an active campaign to promote the hotline to the public, its existence and utility, with statistics published regarding types of complaints, average time to follow up, and results.

Further discussion ensued regarding the challenge of compliance with sunshine law that limits the ability to follow the generally accepted best practice for the audit committee to meet with the auditors in executive session without management to encourage candor and frankness on the auditor findings and recommendations. The committee concurred to continue the discussion at the next committee meeting. Committee Chair Moore shared a handout on the status of the whistleblower complaints received to date. The committee would further discuss the report at every meeting to assess and improve publicizing the results and outcomes.

Committee Chair Moore noted that pursuant to statute, an annual report is required on the material weaknesses, responses, and fraud, and responses, of which there were none. A report was created for submission to the legislature, and the external auditor responses will be attached and sent to the legislature, a copy of which was provided to the committee. The committee acknowledged the work of the external auditor and for a job well done.

#### **V. ADJOURNMENT**

There being no further business, Regent Higaki moved to adjourn, and Committee Vice Chair McEnerney seconded, and with unanimous approval, the meeting was adjourned at 10:52 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn  
Executive Administrator and  
Secretary of the Board of Regents