Committee on Independent Audit

Summary of August 6, 2015 meeting

The committee tasked the internal auditor to reconcile the various organizational documents of the committee and propose amendments for the next committee meeting. The committee also reviewed and accepted of the Audit Plan for Fiscal Year 2015-2016, amended an agenda item to clarify that the discussion of the Committee on Independent Audit Annual Report for Fiscal Year 2015 also included acceptance of the report, and received two updates on ongoing internal audits relating to the UHM H-Zone business operations, and Corrective Action for Kapi'olani Community College and Leeward Community College Culinary Arts Program, and an update on the Cancer Center RFP and Status of Development of Cancer Center Business Plan. The committee also went into executive session on a personnel matter regarding the annual evaluation of the internal auditor.

The audit plan was accepted and currently will include ongoing internal audits from HZone and corrective actions on other reports issued last year, Pcard review with the office of procurement and evaluating spending limits, and by request, Mānoa athletics operations for effectiveness and efficiencies, and community colleges assessment of the recently implemented policies and procedures regarding all revenue generating programs; recurring projects including review of ASUH financial statements and other projects to be determined; audit committee assistance and continued work regarding enterprise risk management and whistleblower systems; and providing legislative and annual reports on effectiveness of the audit committee.

The committee added that the plan can be revised at any time to add other risk assessment assignments, and requested that administration review the necessity of continuing the more than 10 year practice of incurring additional costs for an external audit of the athletics when it is not NCAA required and provides normal balance sheet reporting; highlighted the importance of progress on the implementation of the statutory directive to create an enterprise risk management office as soon as possible, and to include professional development per statute, adding resources for the committee on best practices for audits, additional AICPA best practices for internal audit of government organizations, and reserve time during the meetings to provide such information to the committee.

The committee accepted the legislative annual report. The internal auditor summarized the report that provided two components comprising the work of the office and the form and content of work regarding the objective and scope of engagement, and outcome. Highlighted were the close out of UHM Athletic concession Rainbowtique because it shifted to the HZone concession program, and identified other items that were deferred or transferred to other departments eg Cancer Center management and the capital improvement pilot project to test the new construction processes.

Regarding the update on the HZone corrective actions, Administration reported that the concerns were addressed by purchasing a new accounting system and conducting in-house training, implementing scheduled reporting and deposits, and working directly with the business office. As to projections and goals, the merchandising program has recovered from being 5 years in the red, with the last year being the 1st year in black even though there were considerable expenses. The upcoming 2nd year is expected to be $1.2 - $1.3M gross with net in the 5 figure range. The minimum goal is set at net 30% growth next year, with projects to prop up sales in three locations with different demographics: tourists, fans, and online for the out of state market, with all profits going to the athletic teams and athletes. They are also attending licensing and marketing seminars for ideas and best practices across industry. The first year was to set a solid foundation to be quality sustainable operations, from which they learned much, and can bring in consultants to maximize revenue. A follow up is in the audit plan for this year.
Regarding the culinary programs at KCC and LCC, Administration reported that business management is part of culinary education and the program was used as a laboratory for student learning but lacked proper oversight and quality control. Administration undertook aggressive remedies to assess policy and procedure compliance on all revenue generating programs, established a policy for CC business office and programs relating to financial management of all programs, and expanded new processes to all revenue generating programs, VCA and fiscal administration met delineating responsibilities and agreements, and going forward will meet with each campus to emphasize and delineate responsibilities. There is a plan to monitor for compliance, revenue and expense reports, bill processing, and receivables, and to reconcile accounts receivables, inventory control, and ledgers with KFS, and set clear responsibilities to manage and account for financial issues. A computer system for inventory control for all campuses is under review.

Regarding continuing education accounting, Administration reported that it is implementing a banner program with policies and procedures for collection on account receivables for contracts that relate to the audit of OCET across the board of all CC programs, and alignment with Kuali needs more work. It is also in the audit plan for 2016 for an update on the progress.

The committee concurred and recognized the responsiveness of the CCs, the stellar rankings of the culinary programs, and the difficulty of aligning academic and revenue generating programs. It noted the opportunity as a potential through good business practices, implementing policies and procedures to generate to support programs and for the students to learn how to run a business.

Regarding the status of the Cancer Center, Administration reported on the progress of obtaining an external consultant with significant relevant expertise to prepare business plan. An external advisory committee (EAC) conducted a visit, and provided referrals. A report on the visit is forthcoming. Currently, an RFP through UHF was issued and completed, and the consultant selected was highly recommended by the EAC. The consultant is a director and principal of a firm that has extensive experience with NCI designated cancer centers. The RFP requires that the business plan objectively examine the financial ability and alternative uses for the facility, and also includes consideration of the medical school, but it is not a business plan for the medical school. It is a 2 phase approach, with a documentation and data review and visit with leadership, stakeholders, and regents, culminating in a draft assessment report in late September and the final report in late October. At the same time, a search is underway for a new director.

Concerns raised whether the search for a director is premature before a business plan is completed could hinder the consultant’s work, and the interest of the board to review the RFP to ensure clarity of scope that affects policy, even though issued by UHF and not by the University. Administration responded that parallel tracks are necessary given the time pressure with deadlines pending. A report is expected to be available before the search is complete and the director will be part of the process although is not specific in the RFP. All options are on the table with focus to have a comprehensive business plan, with the goal for a plan to have a viable CCH.

Finally, the committee held an executive session on the evaluation of the internal auditor.