



UNIVERSITY
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SYSTEM

**House Committee on Judiciary and Hawaiian Affairs
Tuesday, March 30, 2021, 2:00 p.m.**

Testimony by:

Kendra Oishi, Executive Administrator and Secretary of the Board of Regents

S.B. No. 1225, S.D. 1, H.D. 1 – RELATING TO UNIVERSITY OF HAWAII BOARD OF REGENTS INDEPENDENT AUDIT COMMITTEE

Chair Nakashima, Vice Chair Matayoshi, and members of the Committee:

The Office of the Board of Regents (Board Office) **supports** S.B. No. 1225, S.D. 1, H.D. 1. Note that this bill is substantively similar to its companion, H.B. No. 1071, H.D. 2.

S.B. No. 1225, S.D. 1, H.D. 1, allows the chair of the Independent Audit Committee (IA Committee) of the University of Hawaii'i (University) Board of Regents (BOR) to be selected in a manner consistent with the BOR's Bylaws; clarifies the IA Committee's oversight role with regard to the University's enterprise risk management activities; allows the IA Committee to meet in executive session with internal and external auditors under specific circumstances; and provides the IA Committee chair with the discretion to conduct executive session meetings with internal and external auditors without the presence of the President or the Chief Financial Officer of the University.

The IA Committee is an advisory body established under section 304A-321, Hawaii'i Revised Statutes (HRS), as well as under the BOR's Bylaws. The IA Committee provides oversight of the University's compliance with, and internal controls relating to, various areas of risk management, finance, and accounting. While the BOR chair appoints the chairperson and voting members of other BOR standing committees in accordance with the BOR Bylaws, section 304A-321, HRS, requires that the chair of the IA Committee be selected by and from its members. Current statutory language regarding selection of the chair of the IA Committee has presented challenges and has inadvertently created situations in which the IA Committee does not have a chair. Such situations occur when the IA Committee chair's term on the BOR ends on June 30 and committee membership is pending election of a BOR chair, which occurs at the first BOR meeting after June 30. Planning the first committee meeting after the election of BOR leadership is challenging when there is no IA Committee chair to set the meeting agenda. By making the selection of the IA Committee chair consistent with BOR Bylaws and allowing the BOR chair to appoint an IA Committee chair in a manner consistent with the way in which other committee chairs are appointed, this problem can be avoided.

The Board Office also notes that the IA Committee's responsibility is to oversee, rather than engage in operations related to, the University's enterprise risk management activities and that this measure makes a clarifying amendment to that effect.

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Additionally, while the IA Committee is currently exempt from the provisions of Part I of Chapter 92, HRS, and may meet in executive session to the extent that it is engaging in discussions or proceedings arising from an investigation by the IA Committee relating to potentially actionable civil or criminal conduct, whether or not the investigation is pending or outstanding, it appears that the IA Committee is prohibited from meeting with internal and external auditors in executive session to discuss matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees. S.B. No. 1225, S.D. 1, H.D. 1 addresses this issue by explicitly exempting the Committee from Part I of Chapter 92, HRS, when the Committee is "...engaging in discussions with internal or external auditors on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees..." and provides discretion to the chair of the IA Committee to determine if these discussions may take place in the absence of the President or the Chief Financial Officer of the University.

Thank you for the opportunity to testify in **support** of S.B. No. 1225, S.D. 1, H.D. 1.