

**Notice of Meeting
 UNIVERSITY OF HAWAI'I**

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Members: Regents Miyahira (Chair), Akitake (Vice-Chair), Abercrombie, Higaki, and Paloma

Date: Thursday, November 7, 2024

Time: 11:30 a.m.

Place: University of Hawai'i at Mānoa
 Bachman Hall
 1st Floor Conference Room 106A/B
 2444 Dole Street
 Honolulu, Hawai'i 96822

See the Board of Regents website to access the live broadcast of the meeting and related updates: www.hawaii.edu/bor

ORDER OF THE DAY

- I. Call Meeting to Order**
- II. Approval of Minutes of the September 19, 2024, Meeting**
- III. Public Comment Period for Agenda Items:**

All communications from the Public to the Board of Regents is welcomed and distributed to all regents. To enable the Board to conduct its business, public comments at meetings may only be provided on agenda items noted below. Individuals who are unable to provide testimony at this time will be allowed an opportunity to testify when specific agenda items are called.

All written testimony on agenda items received after posting of this agenda will be distributed to the board. Written testimony may be submitted via the board's website through the testimony link provided on the Meeting Agendas, Minutes and Materials page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail at 2444 Dole Street, Bachman 103, Honolulu, HI 96822, or facsimile at (808) 956-5156.

Those wishing to provide oral testimony virtually may register [here](#). Individuals wishing to orally testify virtually are requested to register no later than 7:30 a.m. on the day of the meeting in order to be accommodated. Registration for in-person oral testimony on agenda items will also be provided at the meeting location 15 minutes prior to the meeting and closed at the posted meeting time. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier.

If you need an auxiliary aid/service or other accommodation due to a disability, contact the Board Office at (808) 956-8213 or bor@hawaii.edu as soon as possible. Requests made as early as possible have a greater likelihood of being fulfilled. Upon request, this notice is available in alternate/accessible formats.

Although remote oral testimony is being permitted, this is a regular meeting and not a remote meeting by interactive conference technology under Section 92-3.7, Hawai'i Revised Statutes (HRS). Therefore, the meeting will continue notwithstanding loss of audiovisual communication with remote testifiers or loss of the public broadcast of the meeting.

All written testimony submitted are public documents. Therefore, any testimony that is submitted orally or in writing, electronically or in person, for use in the public meeting process is public information and will be posted on the board's website.

IV. Executive Session: (closed to the public):

A. Personnel: To consider the hire, evaluation, dismissal, or discipline of an officer or employee, where consideration of matters affecting privacy will be involved, pursuant to Section 92-5(a)(2), HRS

1. Review of Applications for the Director of Internal Audit Position

V. Agenda Items

A. Update on the Search for a New Director of Internal Audit

B. Professional Development: Review of the Accuity Audit Committee Tool Kit

VI. Adjournment

DISCLAIMER – THE FOLLOWING ARE DRAFT MINUTES AND ARE SUBJECT TO FURTHER REVIEW AND CHANGE UPON APPROVAL BY THE COMMITTEE**MINUTES****BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING****SEPTEMBER 19, 2024**

A video recording of this meeting may be viewed at the Board of Regents website as follows:

[Meeting Video](#)

I. CALL TO ORDER

Chair Michael Miyahira called the meeting to order at 1:00 p.m. on Thursday, September 19, 2024, at Leeward Community College, Education Building, ED-201, 96-045 Ala 'Ike, Pearl City, Hawai'i 96782, with regents participating from various locations.

Committee members in attendance: Chair Michael Miyahira; Vice-Chair Lauren Akitake; Regent Neil Abercrombie; Regent Wayne Higaki; and Regent Diane Paloma.

Others in attendance: Board Chair Gabriel Lee; Board Vice-Chairs Laurie Tochiki and Laurel Loo; Regent Joshua Faumuina; Regent William Haning; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) Academic Strategy Debora Halbert; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Budget and Finance/Chief Financial Officer Kalbert Young; Interim VP for Community Colleges Della Teraoka; UH Mānoa (UHM) Chancellor Michael Bruno; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Yvonne Lau; and others as noted.

II. APPROVAL OF MINUTES

Chair Miyahira inquired if there were any corrections to the minutes of the September 5, 2024, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Board Secretary Lau announced that, while the Board Office did not receive any written testimony, one individual signed up to provide oral testimony.

Kimmer Horsey provided verbal comments on the indemnification of the federal government as set forth in a proposed contract between the United States Navy, Naval Sea Systems Command, and the Applied Research Laboratory at the University of Hawai'i which was approved during the board meeting held earlier today.

IV. AGENDA ITEMS

A. Waikīkī Aquarium Update – Status of Corrective Actions

Glenn Shizumura, Director of the Office of Internal Audit (OIA), briefly recounted previous presentations made to the committee regarding the status of corrective actions to address improvement opportunities and mitigate risks documented in a report dated January 29, 2021, entitled “*University of Hawai‘i at Mānoa Review of the Waikīkī Aquarium*”, the last of which occurred in April 2024. Although the status of corrective actions report dated March 13, 2024, determined corrective actions were still pending for five of the 15 risks and challenges identified in the initial audit, a subsequent review by OIA found an additional item of concern related to the Aquarium’s installation of a new point-of-sale system in March 2024 and the lack of a full understanding of the functionality of this system. As such, Internal Auditor Shizumura stated six corrective actions connected with the Waikīkī Aquarium now remain pending.

Vice-Chair Akitake questioned whether there has been a commitment by the administration to completing the remaining identified recommendations within a specific timeframe. She also asked about the length of time OIA had been reviewing issues concerning the Waikīkī Aquarium; solicited information on the number of Aquarium-related outstanding corrective actions in existence at the beginning of 2023, as well as corrective action status reports presented to the committee in total; sought clarification on the reason for the increase in the number of pending corrective actions, asking if this was an unusual occurrence; inquired if the administration provided OIA with any dates for implementation of the remaining corrective actions; and mentioned a verbal commitment made by Provost Bruno to complete all of the recommended corrective actions by December 22, 2023, with the exception of the luau contract, as well as his statement in the OIA report that all of these items have been addressed with the exception of the luau contract audit as of June 6, 2024. Internal Auditor Shizumura replied that the management response to OIA’s current report on the status of corrective actions for the Waikīkī Aquarium did not include a specific timeframe for addressing the remaining, identified corrective actions, although he believed commitments to address the outstanding recommendations were made during previous committee meetings. He stated almost three-and-a-half years have passed since the initial audit report on the Aquarium was issued in May 2021; recalled there being eight or nine pending corrective action items at the beginning of the 2023 calendar year; noted this was the fourth status of corrective action report provided to the committee; reiterated the reason for the increase in the number of currently pending corrective actions previously mentioned, remarking this was an unusual occurrence; and repeated his previous statement about the lack of definitive dates for implementation of the outstanding corrective actions in the current management response.

Chair Miyahira called upon Provost Bruno to present the administration’s perspective on the status of corrective actions report and the situation at the Waikīkī Aquarium.

Provost Bruno offered his thoughts on the state of affairs at the Waikīkī Aquarium relative to OIA’s status of corrective actions report stating, from management’s point of view, a number of the items listed as not being implemented have been addressed and are no longer outstanding. He went over the pending action items, as well as the steps taken by management to attend to each as noted in its response to OIA’s report

contained within the committee materials, and briefly spoke about conversations between himself and Internal Auditor Shizumura regarding specific management actions which would be required in order to satisfy OIA's concerns beyond what has already been done. He also apprised the committee on the administration's sending of a Notice of Default to the Aquarium's luau concessionaire for failure to adhere to contract requirements concerning the engagement of an independent certified public accountant to audit and issue a report on the concessionaire's receipts stating the administration is currently working with the university's Office of General Counsel to determine the next steps in the process.

Byron Apo, Waikīkī Aquarium Administrative Officer, provided additional information on issues specific to the Aquarium's point-of-sale system as mentioned in OIA's report and the steps being taken to deal with them.

Chair Miyahira requested additional information on the types of issues being experienced with the Aquarium's new point-of-sale system. Mr. Apo replied that challenges being faced with RocketRez, the point-of-sale system which the Aquarium migrated to earlier this year, primarily involved discrepancies between manual and system inventory counts and inventory valuation issues, noting these problems have been mainly attributed to issues with the new system's software. Given this response, Chair Miyahira asked if the point-of-sale system's vendor has taken responsibility for, and acted upon, this matter and, if so, whether there was an established timeframe for resolution of these issues emphasizing the length of time which has passed since the concerns were first identified has been far too long. Mr. Apo stated RocketRez is aware of the abovementioned issues and has been working to upgrade its point-of-sale system through things such as the updating of software so it can better meet the Aquarium's needs. He also communicated his intent to contact RocketRez to obtain a status on the progress of these fixes.

A conversation took place between Vice-Chair Akitake and Provost Bruno on the precise number of corrective action items within OIA's report which the administration feels it has responded to and are no longer an issue, as well as the rationale for, and evidence supporting, this belief.

Further discussions ensued between Vice-Chair Akitake, Internal Auditor Shizumura, and Provost Bruno on the documentation of revenue receipts from the Friends of the Waikīkī Aquarium (FOWA) and actions being taken by the Aquarium to monitor FOWA's compliance with the terms of a memorandum of understanding on this matter; what would be required to resolve the FOWA issue, such as official documentation from the FOWA board containing a statement of the entities' commitment to certain accounting practices pertaining to the receipt and disbursement of revenues; the timing of management's response to an initial or follow-up audit report, inclusive of any actions being taken to satisfactorily address noted deficiencies, and the issuance of the report itself, which may be out of sync; and the handling of disagreements between the auditor and the entity being audited as to whether a situation has been resolved.

Referencing remarks made about official documentation from the FOWA board to ameliorate OIA's concerns as presented in its report, Vice-Chair Akitake asked when

the administration expects to receive such documentation. Provost Bruno stated he has brought this matter to the attention of the FOWA board but recent quorum issues have hindered its ability to conduct a meeting in order to provide the noted documentation to the administration. Dr. Andrew Rossiter, Director of the Waikīkī Aquarium, informed regents about the FOWA board's meeting schedule stating the entity is slated to have two more meetings prior to the end of the calendar year.

Given the previous discussions, Vice-Chair Akitake inquired whether the committee can expect all of the outstanding corrective action items to be dealt with by the end of 2024. Provost Bruno stated that the administration anticipates the remaining corrective action items to be closed out by the end of the year with the exception of the matter related to the luau contract which, as previously noted, is an ongoing situation which may not be resolved until a later date.

Board Chair Lee asked if the luau contract contained provisions for events of default. Chair Miyahira stated it was his understanding that a Notice of Default has already been sent to the luau concessionaire. Provost Bruno affirmed Chair Miyahira's statement.

Chair Miyahira invited Provost Bruno to comment on the administration's plans regarding the operations of the Waikīkī Aquarium.

Provost Bruno began by speaking about the positive attributes of the Waikīkī Aquarium's facilities, faculty, and staff and presenting historical information on conversations started several years ago about the need to better align the programs and activities at the marine facility with the core mission of the university. He then proceeded to share details about the administration's organizational restructuring of the Waikīkī Aquarium whereby the Director of the Aquarium will now be reporting to the Dean of the School of Ocean and Earth Science and Technology (SOEST), as well as ongoing activities to complete this reorganization so as to ensure a smooth and seamless transition. The administration believes this restructuring will be beneficial to both the Aquarium and SOEST, improving upon the Aquarium's ability to meet the educational, research, and community service missions of the university while at the same time, expanding the capabilities of the various SOEST departments and centers, in particular those with educational, research, and public outreach programs that can benefit from the Aquarium's collections, facilities, expertise, and location. Bolstering the Aquarium's ties to SOEST and the UHM campus will also have the added benefit of strengthening the marine facility's operational capacity and management culture.

Regent Abercrombie asked if board approval was needed for the restructuring plan and whether the committee would be receiving a presentation on the plan from the administration. He also sought clarification on the entity with administrative responsibility for the Waikīkī Aquarium under this plan. Provost Bruno stated board approval of the restructuring plan was not required and noted the Aquarium Director will report directly to the Dean of SOEST, although ultimate administrative responsibility for the Aquarium will come under the authority of the Office of the Provost at UHM since the Dean of SOEST reports to the UHM Provost. He also offered to have the Dean of SOEST present the plan of action for the Waikīkī Aquarium going forward at the appropriate time.

A brief discussion ensued between Regent Abercrombie and Provost Bruno as to whether there were financial implications associated with the administration's organizational restructuring of the Waikīkī Aquarium and the necessity of seeking legislative appropriations to address this situation.

Taking into account all of the information presented and discussed at this meeting, the administration's anticipation of the majority of outstanding corrective action items being addressed by the end of the year, and the desire of committee members to be given a presentation on the plans for the administration of the Waikīkī Aquarium going forward, Vice-Chair Akitake suggested the Aquarium issue be placed on the agenda for the regular committee meeting presently scheduled for December.

Chair Miyahira and Vice-Chair Akitake thanked Provost Bruno for his leadership in addressing the situation with the Aquarium and his efforts to restructure its organization. They also thanked Internal Auditor Shizumura for his dedication and service to the university over the last 15 years and lauded his work as the Director of OIA.

V. ADJOURNMENT

There being no further business, Chair Miyahira adjourned the meeting at 1:42 p.m.

Respectfully Submitted,

Yvonne Lau
Executive Administrator and Secretary
of the Board of Regents

Item IV.

Executive Session

**ITEM TO BE
DISCUSSED IN
EXECUTIVE
SESSION**

Item V.A.

Update on the Search for a
New Director of Internal Audit

**NO MATERIALS
ORAL REPORT**



University of Hawai'i

Committee of Independent Audit Presentation
Audit Committee Tool Kit

November 2024



Audit Committee Administration

- Audit Committee Purpose and Procedure
- Audit Committee Roles and Responsibilities
- Audit Committee Functions
- Audit Committee Financial Expertise Considerations of Decision Tree





Audit Committee Purpose and Procedure

Audit Committee Purpose and Procedure

- The University's Independent Audit Committee was legislatively created by HRS Chapter 304A-321.
- Article II, Section D.2.c of the Bylaws of the Board of Regents, in concert with the HRS, serve as the University's Independent Audit Committee charter.
- The charter clearly articulates the Independent Audit Committee's key responsibilities and helps guide its activities throughout the year.
- The charter is a living document and should be updated on a regular basis.

Audit Committee Roles and Responsibilities

Audit Committee Roles and Responsibilities

The audit committee assists the governing body in its oversight of

- integrity of the organization's financial statements;
- internal control including internal control over financial reporting;
- independent auditor's qualifications, independence, and performance;
- internal audit function's qualifications, independence, and performance;
- the organization's risk management and overall governance process; and
- the organization's ethics and compliance program, which includes legal and regulatory requirements.

Oversight of the Financial Reporting Process

- Review critical accounting policies, practices, judgments, estimates, significant issues, significant transactions, adjustments, unusual items, complex issues, and business arrangements.
- Review annual and interim financial statements including management's discussion and analysis and budgetary comparisons for structural compatibility and period to period consistency.
- Review annual audited financial statements including any federal Office of Management and Budget (OMB) reports.
- Obtain explanations from management on all significant variances.
- Question management and the independent auditor about significant financial reporting issues.
- Review comparative data from other comparable government entities to perform reasonableness tests of the entity's results.
- Facilitate the resolution of disagreements between management and the independent auditor regarding financial reporting issues.
- Determine when a subject matter expert is required and hire advisers when needed.
- Review management letters containing the independent auditor's recommendations and management's responses to those recommendations.

Oversight of the Financial Reporting Process *(continued)*

- Determine that adequate procedures are in place for reviewing the government entity's disclosure of financial information extracted or derived from its financial statements and assess periodically the adequacy of these procedures.
- Understand complex accounting and reporting topics and how management addresses them.
- Understand significant judgments and estimates used by management and their effect on the financial statements, such as fair-value accounting and related assumptions.
- Review new accounting and reporting requirements and assess how pending financial reporting and regulatory developments may affect the organization.
- Oversee the adequacy of the entity's system of internal controls.

Oversight of the Independent Auditor

- Review the audit plan and the scope of audit to be conducted by the independent auditor.
- Provide pre-approval of all audits, permitted non-audit services, and proposed fees.
- Appoint or replace the independent auditor, including the periodic rotation of the audit partner.
- Conduct evaluations of the independent auditor. Meet periodically with legal, IT, actuarial, and other specialists.



Oversight of the Internal Audit Function

- Approve the internal audit department charter.
- Ensure that the internal audit department follows the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and maintains an effective quality assessment and improvement program.
- Concur in the appointment of the chief audit executive (CAE).
- Review the internal audit department's planning and risk assessment process.
- Review and approve the internal audit department's annual (or periodic) audit plan and scope of audits to be conducted.
- Conduct evaluations of the chief audit executive.
- Ensure that the chief audit executive reports functionally to the audit committee and administratively to senior management such as the head of the governing body.
- Discuss succession planning for the CAE and other key staff.
- This may not apply if the CAE is an elected official.

Oversight of Risk Management

- Oversee the system of risk assessment and risk management as determined by the governing body. The audit committee should be focused primarily on financial risk. Compliance or regulatory risks as well as single audit and any other engagements performed by the external auditor may also be reviewed by the audit committee.
- Oversee and respond to enterprise risk management activities.
- Periodically reassess the list of top enterprise risks, determining who in the senior leadership team is responsible for each risk.



Oversight of Ethics and Compliance

- Oversee the system for compliance with legal and regulatory requirements (for example, OMB circulars, budgeting, HHS regulations, and the like).
- Ensure that management exhibits ethical behavior, and reported violations receive action.
- Ensure that a code of conduct has been developed, reviewed, and updated as needed, and that all employees are given the code of conduct, understand it, and receive training on a regular basis.
- Ensure that a chief ethics and compliance officer or equivalent has been appointed and has sufficient personnel and resources commensurate with the entity's needs.
- Review the government entity's procedures for reporting problems, including whistleblower hotline and other communication methods.
- Establish a process for audit committee special investigations, including but not limited to whistleblower allegation, anti-fraud plan compliance, discovery of error, and illegal acts.
- Ensure that the chief ethics and compliance officer or equivalent has direct access to the governing body or one of its committees (or similar bodies).

Audit Committee Functions

Functions of the Audit Committee

- Retain and renew the appointment of an independent auditor to conduct the audit.
- Review with the independent auditor the scope and planning of the audit prior to its commencement.
- Upon completion of the audit, review and discuss the following with the independent auditor:
 - Any material risks and weaknesses in internal controls identified by the independent auditor
 - Any restrictions placed on the independent auditor's scope of the activities or access to requested information
 - Any significant disagreements between the independent auditor and management
 - The adequacy of the entity's interim and annual accounting and financial reporting process
 - Any observations or recommendations identified during the audit process

Functions of the Audit Committee

(continued)

Assess the performance and independence of the independent auditor on an annual basis.

Solicit observations on staff skills, qualifications and performance related to audited functions.

Report to the governing body on the committee's activities and recommend the results of audit findings for approval.

Oversee corrective actions implemented to address issues identified in the required communication and management letter.

Audit Committee Financial Expert Decision Tree

Typical Attributes of Financial Expertise

- An understanding of generally accepted accounting principles, generally accepted auditing standards, and financial statements
- The ability to assess the general application of such principles and standards in connection with the accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the government entity's financial statements or experience actively supervising (that is, direct involvement with) one or more people engaged in such activities
- An understanding of internal controls and procedures for financial reporting
- An understanding of audit committee functions (roles and responsibilities)
- A general understanding of the financial issues and specific knowledge of the government sector (for example, federal, state, or local government)
- A general knowledge of any current relative concerns or regulatory issues surrounding the government entity's specific sector
- An understanding of the past 3–5 years of the government entity's financial history

Questions to Ask in Assessing Financial Expertise

- Do laws or regulations governing the government entity include certain requirements of audit committees regarding independence, oversight governance, committee activities, or other criteria?
- Has one or more individual(s) completed a program of learning in accounting or auditing?
- Does one or more individual(s) have experience as a chief or principal financial officer, principal accounting officer, controller, public accountant, or auditor?
- Does one or more individual(s) have experience with government accounting standards?
- Does one or more individual(s) have experience in position(s) that involve the performance of similar functions?
- Has one or more individual(s) gained experience by actively supervising a person or people performing one or more of these functions?
- Does one or more individual(s) have experience overseeing or assessing the performance of companies, or public accountants with respect to the preparation, auditing, or evaluation of financial statements?
- Does one or more individual(s) have other relevant financial experience?
- Does one or more individual(s) have experience serving on audit committees of other government entities?



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