MINUTES
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING
APRIL 7, 2022

I. CALL TO ORDER

Chair Benjamin Kudo called the meeting to order at 9:02 a.m. on Thursday, April 7, 2022, with regents participating from various locations.

Committee members in attendance: Chair Benjamin Kudo; Vice-Chair Simeon Acoba; Regent Wayne Higaki; Regent Alapaki Nahale-a; and Regent Diane Paloma.

Others in attendance: Regent Randy Moore; Regent Eugene Bal; Regent William Haning; and Regent Ernest Wilson (ex officio committee members); Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH West O'ahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Chair Kudo inquired if there were any corrections to the minutes of the December 2, 2021, committee meeting which had been distributed. Hearing none, the minutes were approved.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Review and Acceptance of University Real Property Lease Management Status of Corrective Action

Glenn Shizumura, Director of the Office of Internal Audit (OIA), reported on the status of corrective actions taken by the university’s Office of Strategic Development and Partnership (OSDP) to address improvement opportunities and mitigate risks documented in a report dated April 9, 2021, titled “University of Hawai‘i Review of Real Property Lease Management”. He reviewed several of the objectives of the initial audit, as well as recommendations contained within the audit report, noting that OIA has concluded that all recommended corrective actions have been implemented by OSDP.
Vice-Chair Acoba moved to accept the university real property lease management status of corrective action report, seconded by Regent Higaki, and the motion carried with all members present voting in the affirmative.

**B. Amendment to Internal Audit Work Plan for 2021–2022 (Work Plan)**

Internal Auditor Shizumura explained the rationale for the addition of a project to the Work Plan that would evaluate the university’s new management structure for Maunakea contained within the recently adopted internal restructuring plan for management operations of Maunakea lands (Restructuring Plan). He also reviewed the objectives and purpose of the audit project, the auditing procedures that will be used, and the estimated time of performance and completion, stating that OIA was seeking committee approval to amend the Work Plan to include this project.

Referencing House Bill No. 2024 (HB 2024) which proposed to establish an alternative management structure for Maunakea and is currently pending before the Legislature, Vice-Chair Acoba asked about the impact passage of this bill would have on this audit project. Director Shizumura replied that the objective of the audit was to evaluate the Maunakea management structure contained within Restructuring Plan in addition to the status of corrective actions to address recommendations included in historical audit reports made by OIA. He added that it was his understanding that enactment of HB 2024 may result in the university no longer having management authority over Maunakea. Should this occur, it was his belief that this audit will become immaterial.

Chair Kudo remarked that, despite the uncertainty created by HB 2024 with respect to the management of Maunakea and the future of astronomy in Hawai‘i, responsibility for the management of Maunakea lands associated with astronomy continues to rest with the university. As such, he suggested that the Work Plan be amended to include this audit project with the understanding that the project would be subject to legislative actions with respect to the university’s role in the management of Maunakea lands.

Vice-Chair Acoba moved to approve the amendment to the Work Plan with a proviso that the project be subject to the outcome of pending legislative action, seconded by Regent Paloma, and the motion carried with all members present voting in the affirmative.

**C. Review of University of Hawai‘i Revolving Funds at the Research Corporation of the University of Hawai‘i (RCUH)**

Chair Kudo stated that this matter was placed on the agenda due to his receipt of a letter from State Senator Donna Kim dated February 17, 2021, expressing concerns about the use of revolving fund accounts managed by RCUH and requesting that this matter be reviewed and discussed at a meeting of the Committee on Independent Audit (IA). Senator Kim also asked that an audit of revolving accounts managed by RCUH be initiated should IA deem it necessary.

VP Syrmos explained that a task force was recently established to examine the relationship between the university and RCUH and noted that an early recommendation
from the task force was to review, streamline, and clarify transactions occurring between the university and RCUH, and scrutinize these transactions to ensure compliance with applicable requirements. He also provided a historical overview on the existence of revolving fund accounts at the university, as well as the rationale for their placement within RCUH; discussed administrative and executive policies, as well as federal requirements, governing revolving fund accounts; spoke about a new executive policy that was established to address issues discovered in the task force’s review; reviewed alternatives to the use of revolving funds; and offered a comparative analysis of the university’s revolving fund account oversight role in relation to peer R1 research institutions noting that the administration has established a dedicated position to monitor revolving fund accounts. Ongoing administrative actions as well as anticipated actions that will be taken with respect to revolving fund accounts were reviewed with the expectation that additional recommendations will be forthcoming as the task force continues to move forward with its charge.

Regent Wilson asked about the role of the board’s Committee on Research and Innovation (R&I) in this issue given the committee’s subject matter jurisdiction. VP Syrmos replied that, to the best of his knowledge, revolving fund accounts were not reviewed for compliance by the administration or R&I in the past as responsibility for these matters was transferred from the Office of the Vice President for Research and Innovation to the individual campuses. He stated that the lack of centralized control for revolving fund accounts was one of the concerns raised and that the administration is working towards correcting this issue.

Citing user fees paid for certain projects, Regent Wilson questioned the impacts these fees had on the overall research and development efforts of the university. VP Syrmos stated that user fees should not have any impacts on the university’s research and development efforts given that they mainly involve financial transactions.

Chair Kudo requested clarification on the approach being used to review the 365 revolving fund accounts currently in existence and whether certain accounts were being prioritized for review. VP Syrmos stated that the administration is prioritizing its examination of revolving fund accounts based upon three main factors including whether the accounts are appropriate under current policies, are carrying large balances or deficits, and are essential for day-to-day research operations. He noted that, to date, the review has discovered approximately two dozen accounts that the administration believes do not satisfy established requirements and discussions are ongoing with the responsible campuses to address this matter.

Chair Kudo asked if his understanding was correct that the administration was anticipating that the review of all revolving fund accounts would be completed in one-year. VP Syrmos responded in the affirmative. Chair Kudo expressed his belief that this review could be completed in a much shorter period of time and inquired about the reason for the lengthy timeframe. VP Syrmos clarified that the actual review of revolving fund accounts and determining a course of action should be completed by the end of the current fiscal year. However, implementation of corrective actions will take time. Additionally, the administration believes that coinciding changes with the start of the new fiscal year in 2023 would allow for a smoother transition. Chair Kudo requested
that the administration report back to the committee in three months on the status of the review of the accounts themselves, as well as any anticipated corrective actions, and provide an estimated timeframe for completion of these corrective actions. VP Syrmos acknowledged the request stating that the account review will be completed in the next few months and agreed to provide a status at that time.

Regent Acoba noted that one of the recommended actions presented involved the closing of RCUH revolving fund accounts and the establishment of these accounts in the university’s Kuali Financial System (KFS), with certain exceptions for necessary service orders. He questioned what constituted a necessary service order and whether this action meant that RCUH will no longer be associated with any revolving fund accounts. VP Syrmos replied that necessary service orders referred to service orders applicable to procurement or personnel services. He also explained that centralizing control of revolving fund accounts by placing them in KFS would allow for a better understanding of the university’s overall financial picture and a more accurate portrayal of this picture in reports made by the administration.

Referencing RCUH’s involvement with activities with respect to Cancer Center facilities, Regent Acoba asked if actions being proposed by the administration regarding revolving fund accounts and service orders would impact any of these activities. VP Syrmos stated that actions being proposed by the administration should not impact activities involving the Cancer Center. However, core facilities at the Cancer Center that currently provide services using revolving fund account monies will be required to service order these activities through RCUH going forward.

Regent Acoba asked whether actions proposed by the administration will impact fees charged by RCUH to the university. VP Syrmos replied that fees will need to be adjusted accordingly and it is anticipated that accounts with large balances would witness a decrease in fees whereas accounts with large deficits would experience an increase in fees.

Noting the statutory alternatives to the use of revolving funds that were presented, Regent Acoba requested clarification on the administration’s method for determining which alternative to use. VP Syrmos responded that, by definition, the majority of the revolving fund accounts fall under the guise of the statutorily-established University of Hawai’i Auxiliary Enterprises Special Fund and will therefore be placed in that special fund. The University of Hawai’i Commercial Enterprises Revolving Fund is another statutorily established alternative but is geared more towards revenues derived from commercial enterprises such as H Zone.

Regent Acoba asked whether the administration’s proposed actions constituted a substantial change to the way the university will be managing research funds in the future. VP Syrmos stated that these actions will not substantially change the way the university will be managing research funds in the future. Rather, he expressed his belief that they will ensure proper management of research funds.

Regent Wilson inquired about the major benefit of the actions being proposed by the administration. VP Syrmos replied that, through these actions, the administration will
gain a better understanding of the liabilities and exposures associated with the various revolving fund accounts and allow it to provide a complete and more accurate picture of the university’s finances. Additionally, these actions will ensure compliance with federal financial requirements for research funding.

Regent Acoba requested clarification about revolving fund account deficits and whether the university needed to act to cover these deficits. VP Syrmos replied that, in the aggregate, the revolving fund accounts currently have a balance of $12 million. However, some individual accounts do have deficits and action needs to be taken to address these deficits that might entail raising fees or closing of accounts.

Citing a comment made that revolving fund accounts are similar to checking accounts, Chair Kudo asked whether the accounts were being regularly monitored for appropriateness of account transactions. VP Syrmos stated that responsibility for monitoring these accounts currently rests with the principal investigator (PI) and campus fiscal officer.

Chair Kudo expressed his concerns with respect to account oversight and monitoring, particularly given the large amount of funds contained within some of the accounts, and asked whether safeguards were in place to ensure appropriate use of revolving fund account monies. VP Syrmos replied that current safeguards exist at higher levels within the administration. However, transferring the revolving fund accounts to KFS will allow for centralized oversight and increased monitoring of these accounts. In addition, bringing the accounts under the oversight of the university through KFS will result in these accounts being subject to regular financial audits performed by the university. Chair Kudo stated that, despite these assurances, he remained concerned about regular monitoring of these accounts and requested that the administration include a recommended mechanism to address these concerns when it reports back to IA on the status of the revolving fund account review.

Regent Paloma noted that she was one of the regents appointed to serve on the RCUH Board and remarked she will closely monitor this issue. VP Syrmos thanked Regent Paloma and praised the cooperative manner in which RCUH has worked with the university on this matter.

Regent Acoba asked if it was customary for a PI to carry a deficit on a project and if this was something that the university needed to include in its budget. VP Syrmos replied that deficits within a revolving fund included short term deficits, such as those associated with the purchase of large pieces of equipment, and longer-term structural deficits which are subsidized. He stated that administration is seeking to close accounts with structural deficits. Regent Acoba suggested that information about liabilities that may impact the university’s budget and require board action be presented as part of the report made to IA on the status of the revolving fund account review.

Chair Kudo concurred with Regent Acoba’s suggestion and requested the Board Secretary to make note of the requested information to be included in the next status update on the review of revolving fund accounts.
D. Audit Project Status Update

Internal Auditor Shizumura provided a status update on the projects and audits outlined in the Work Plan and presented a chart indicating new and ongoing carryover projects and their current status. He highlighted that the evaluation of the university’s new management structure for Maunakea was added to the list of projects on the Work Plan in anticipation of receiving IA approval and noted that OIA has already begun preliminary work on this project due to the compressed timeframe for completion.

Regent Acoba asked if progress has been made in completing the report for the audit conducted on the Vietnam Executive Master of Business Administration (VEMBA) Program at the Shidler College of Business. Internal Auditor Shizumura replied that OIA has concluded its report and is awaiting the issuance of a final corrective action response from VEMBA. Upon receipt of a completed corrective action response, OIA will prepare a final report for presentation to IA. Regent Acoba expressed his dismay at the apparent lack of cooperation with respect to the VEMBA audit and questioned whether it would be helpful to invite the executives overseeing VEMBA to a meeting of the committee to discuss questions raised by OIA. Internal Auditor Shizumura responded in the affirmative, provided that a response is not received in the near future. Regent Acoba requested that executives overseeing VEMBA be extended an invitation to the next IA meeting to discuss the program’s pending response to concerns raised by OIA in its audit report.

Chair Kudo agreed with Regent Acoba’s request and asked Board Secretary Oishi to request the presence of the appropriate individuals related to the VEMBA audit at the next IA meeting.

E. Whistleblower Report

Internal Auditor Shizumura provided an overview of the whistleblower summary and tracking reports and reviewed some of the specific information contained within these reports noting that, while cases involving employment or human resources-related issues continue to be a large portion of the whistleblower cases report, cases involving health and safety issues related to the COVID-19 pandemic have been a major cause of whistleblower complaints since July 1, 2021.

Regent Acoba questioned whether the complaints regarding athletics were still pending and whether the general details of these complaints were publicly available. Internal Auditor Shizumura replied that the six complaints received about athletics have been resolved and closed. He noted that reports on complaints involving athletics are forwarded to Athletic Director David Matlin. As such, AD Matlin would be able to provide more information on these complaints and their resolution.

F. Enterprise Risk Management (ERM) Update

VP Gouveia provided an ERM update noting that the administration continually assesses risk exposures to the university as part of its internal control process. She stated that this provides the administration with the opportunity to report to the committee on any areas of concern, from a risk management standpoint, that it believes
should be addressed by the board. VP Gouveia noted that the top risk categories identified by the administration were financial resiliency and the maintenance of health and safety. The administration will be reviewing the risk heat map over the coming weeks to update and reevaluate the two highest risk categories moving forward and will report its findings to the committee during the next ERM update.

Chair Kudo reiterated his concerns with respect to revolving fund account oversight and monitoring and inquired as to whether these types of issues were a part of the risk management assessment. VP Gouveia replied that risk management assessment is general and broad in nature and not specific to one issue. Chair Kudo requested that VP Gouveia discuss concerns raised with respect to the oversight and monitoring of revolving fund accounts with VP Syrmos as he believed this was a potential risk factor that should be considered when evaluating ERM.

V. ADJOURNMENT

There being no further business, Chair Kudo adjourned the meeting at 10:14 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary of the Board of Regents