



**STATE OF HAWAII  
STATE PROCUREMENT OFFICE**

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TESTIMONY  
OF  
AARON S. FUJIOKA  
ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE  
HOUSE COMMITTEE  
ON  
FINANCE

February 25, 2013

1:30 p.m.

HB 114, Proposed HD 3

RELATING TO HIGHER EDUCATION.

Chair Luke, Vice-Chair Nishimoto, Vice-Chair Johanson, and committee members, thank you for the opportunity to testify on HB 114, Proposed HD 3. The State Procurement Office (SPO) testimony is limited to Part II, which proposes to redirect the University of Hawaii (UH) chief procurement officer (CPO) authority to the State Procurement Office (SPO) CPO, limited to construction contracts and professional services related to construction contracts.

The SPO plans, organizes, directs, and coordinates various activities to assist all state and county governmental bodies statewide, to meet compliance with the Hawaii Public Procurement Code (Code), HRS chapter 103D, and Purchases of Health and Human Services, HRS chapter 103F. For further information on SPO activities, including a summary of SPO's mission and goals, view the *SPO Executive Overview* at the SPO homepage <http://hawaii.gov/spo>.

To meet compliance, SPO assistance is provided in the form of:

- Consultation and advice on any procurement issues specific to a requesting agency;
- Issuance of Procurement Circulars that provide guidance and requirements, are available at <http://spo3.hawaii.gov/circulars/circulars>;

- Availability of extensive statewide procurement training, including related trainings such as *Understanding, Detecting and Preventing Anti-Trust Violations*, *Overview of Property Loss, Auto Accident and Tort Claims*, to ensure personnel have the knowledge and tools (forms, sample templates, etc.) to conduct procurements. Training information is available at <http://hawaii.gov/spo/training/training-for-state-and-county-personnel>;
- Availability of SPO Price or Vendor List Contracts that SPO has conducted the procurement or issued in accordance with cooperative purchasing statutes. Contracts are available at <http://spo3.hawaii.gov/pvl/price-vendor-lists>.

For executive branch departments, which the SPO Administrator serves as the CPO, various processes are in place such as:

- Issuance of written procurement delegation to each department head ensures clarity of responsibilities. Current delegation information is available at <http://hawaii.gov/spo/state-county-personnel-manual/procurement-delegation/procurement-delegation-authority>;
- Direct oversight on specific areas such as appropriate use of emergency procurement, sole source, and exemptions; and includes contract extensions, restrictive specifications which require CPO approval. Requests for CPO approvals may be viewed at <http://hawaii.gov/spo2/source/>.

If the legislature determines the UH is in need of SPO's oversight, we will incorporate this additional responsibility into current operations.

As currently in place for executive branch departments, the UH would be delegated the authority to continue to conduct its construction and professional services procurements, with the SPO providing similar oversight to the UH procurements. The SPO would not interfere or be involved with UH's ability to decide on their priorities, or to execute and administer the procurement of construction contracts for the UH. The authority and responsibility of the UH administration and the Board of Regents would remain the same in allocating funding and directing resources necessary to ensure the timely procurement of construction contracts, however, the procurement processes will be under the purview of the SPO to ensure compliance with the Code.

UH and the Board of Regents shall remain responsible in identifying what to procure, and why they should procure. SPO's involvement will be in how the procurement is conducted, and providing oversight to assure compliance with the Hawaii Public Procurement Code.

Thank you.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Finance  
February 25, 2013 at 1:30pm

by  
John Morton  
Vice President for the Community Colleges  
University of Hawai'i

### **HB 114 Proposed HD3 (Part I) – RELATING TO HIGHER EDUCATION**

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members Committee:

Thank you for the opportunity to testify in opposition to this measure.

HB 114 Proposed HD3 Part I proposes repealing the President of the University of Hawaii's authority to serve as the chief procurement officer for construction contracts and professional services related to construction contracts for the University of Hawai'i and requires the state administrator of the state procurement office of the department of accounting and general services to serve as the chief procurement officer for such contracts.

This bill proposes to amend Section 103D-203 of the state procurement code which currently appoints separate chief procurement officers for the University of Hawai'i and other semi-autonomous entities in the state such as the Department of Education, the Hawai'i Health Systems Corporation, county boards or departments of water supply and public transit agency, as well the Senate, the House of Representatives, the Judiciary, the Office of Hawaiian affairs and the executive and legislative branches of the counties. This measure would remove the authority for procuring construction contracts and professional services related to construction contracts only from the University of Hawai'i.

This would mean that the ability to prioritize, execute and administer the procurement of construction contracts and professional services related to construction contracts for the University would no longer be within the authority and responsibility of the Board of Regents and the University's administration. The University would no longer have the ability to direct resources necessary to ensure the timely procurement of construction contracts and professional services related to construction contracts.

Currently, the University has \$206 million in major construction underway, \$229 million of major projects soon to be procured and \$187 million of health, safety, code, and repairs and maintenance projects in various stages of design and construction, for a total in excess of \$622 million. We are concerned that removing the University's authority to procure its own construction projects will adversely impact the upcoming procurement of these construction projects. The University is operating in compliance with the procurement code and has demonstrated that it is quite capable of

expeditiously procuring its own construction projects. Accordingly, we do not see the need or benefit for this amendment to the procurement code which would differentiate the University from other entities with separate chief procurement officers and authority.

If this measure is a result of concern over the limited flexibility the University previously had in procurement, which was sunset on June 30, 2012, we provide the following information:

The Legislature, through Act 82, SLH 2010, provided the University of Hawai'i flexibility from certain requirements of the Hawai'i Public Procurement Code (HRS Chapter 103D), effective as of July 1, 2010. The intent of providing this limited flexibility to the University was to allow it to pilot innovative procedures to expedite procurement of goods and services, especially construction services while maintaining fairness and transparency. It was intended to aid the economy while helping the University with its capital improvement needs at a time when costs were low and financing favorable. And the procurement processes piloted by the University could be adopted in the future by the legislature for other state agencies.

Since Act 82 only provided the limited flexibility to the University from July 1, 2010 through June 30, 2012, University administration proposed initial revisions to its procurement procedures to be effective July 1, 2010 on an interim basis while further revised processes were being developed for piloting. These initial revisions were approved by the Board of Regents at its meeting of June 28, 2010.

Following that meeting, the President of the University appointed a Procurement Task Group to review the interim procedures and develop further revised procedures for recommendation to the Board of Regents. Members of this Task Group included two members of the Board of Regents, the executive vice president of the General Contractors Association of Hawai'i, a representative of the American Council of Engineering Companies of Hawai'i, and two construction managers, one from the U.S. Army Corps of Engineers and one from the State of Hawai'i Department of Education. After several meetings during which discussions focused on expediting construction projects while maintaining fairness and transparency, the Task Group recommended further revisions to the procedures for the procurement of construction. They proposed three new alternative procedures for qualification-based construction procurement in addition to the revisions previously approved by the Board. These additional revisions were approved by the Board of Regents at its meeting of September 16, 2010.

Subsequently, numerous outreach presentations on several islands were made to approximately 250 members of the General Contractors Association of Hawai'i, Kaua'i Contractors Association, and Hawai'i Island Contractors Association, the Building Industry Association, the Subcontractors Association of Hawai'i, Construction Managers Association of America, and Painters and Decorating Contractors Association of Hawai'i.

The University's interim procedures for qualifications-based construction procurement may be viewed in their entirety at:

<http://www.hawaii.edu/apis/apm/abol/a8200.201207/proc/A82801.pdf>;

<http://www.hawaii.edu/apis/apm/abol/a8200.201207/proc/A82802.pdf>;

<http://www.hawaii.edu/apis/apm/abol/a8200.201207/proc/A82803.pdf>.

The interim procurement procedures are no longer in effect as the limited flexibility provided by Act 82 ended on June 30, 2012. However, during the two years of the interim construction procurement procedures, the University successfully procured 21 projects system wide for a total construction cost of \$192 million.

Even with this limited implementation timeframe, this limited flexibility allowed the University to pilot innovative procedures to expedite procurement of goods and services, especially construction services while maintaining fairness and transparency. The University also believes that these construction projects aided the economy while helping the University with its capital improvement needs at a time when costs were low and financing was favorable. Furthermore, the University feels the pilot was successful and processes piloted were appropriate and effective, and hopes that they may be adopted in the future by the legislature for other state agencies.

In conclusion, while we believe the pilot allowed by Act 82, SLH 2010 was successful, the legislation has ended and the University has been operating in compliance with the state procurement code since July 1, 2012. Accordingly, we do not see the need or benefit for this amendment to the procurement code which would differentiate the University from other entities with separate chief procurement officers and authority. This would mean that the ability to prioritize, execute and administer the procurement of construction contracts for the University would no longer be within the authority and responsibility of the Board of Regents and the University's administration. The University would no longer have the ability to direct resources necessary to ensure the timely procurement of construction contracts.

The University is cognizant of the allegations made by Mr. Dennis Mitsunaga in his testimony on SB 1383 and is in the process of performing a full investigation of his allegations. We do not believe that changes to statute differentiating the University from other state entities should be made based on at this point unsubstantiated allegations against an individual.

For these reasons the University is in opposition to this bill. Thank you for the opportunity to testify on this measure.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Finance  
February 21, 2013 at 4:00 p.m.

by  
Glenn Shizumura  
Director, Office of Internal Audit, University of Hawai'i

### HB 114 HD2 – RELATING TO HIGHER EDUCATION

Chair Luke, Vice Chairs Nishimoto and Johanson, and members of the committee:

Thank you for the opportunity to present testimony on HB 114 HD2 – Relating to Higher Education.

House Bill (HB) No. 114 HD2 proposes the establishment of an Independent Audit Committee of the University of Hawai'i (University). The purpose of this testimony is to provide information to the House Committee on Finance regarding the policies and practices of the Board of Regents (BOR) Committee on University Audits (Audit Committee) and the University's Office of Internal Audit (Internal Audit). Similar written testimony dated February 7, 2013 was provided to the House Committee on Higher Education. As further discussed below and illustrated on the attached matrix (Attachment A), existing BOR Bylaws and Charters (Audit Committee and Internal Audit) address much of the proposed legislation noted in HB No. 114 HD2.

In addition, Article II, Section D(2)(g) of the Bylaws of the BOR of the University of Hawai'i (BOR Bylaws) establishes an Audit Committee. This section of the BOR Bylaws (Attachment B) coupled with the Charter of the Committee on University Audits (Attachment C) documents the function and responsibilities of the Audit Committee. Internal Audit reports directly to the Audit Committee and is thus independent of University management. The Charter of the Office of Internal Audit is included as Attachment D. Annually, Internal Audit prepares an Audit Plan that is submitted to the Audit Committee for review and approval. The Audit Plan's projects (internal as well as external audit) result from consultation with the Audit Committee, Accuity, LLP (external auditor) and University Management. All audit reports prepared by Internal Audit are forwarded to the Audit Committee for review and comment. Report acceptance occurs at Audit Committee meetings held pursuant to the provisions of Hawai'i Revised Statute Chapter 92.

Also, I would like to bring to your Committee's attention the comments provided in the last column on page 7 of Attachment A with respect to Section 2.(n) of HB 114 HD2 regarding the Audit Committee's review of complaints. The "comments" are provided for consideration by the House Committee on Finance and are intended to strengthen the Audit Committee's effectiveness in managing complaints.

Thank you for the opportunity to submit testimony on this measure.

Attachments

| HB 114 HD2 - Relating to Higher Education   | Reference                  |   |                                  | Comments   |
|---|----------------------------|---|----------------------------------|--|
|   | Board of Regent Bylaws     | Audit Committee Charter                           | Office of Internal Audit Charter |  |
| "§304A- <b>Independent audit committee; established.</b><br>(a) There is established within the board of regents of the University of Hawaii an advisory body to be known as the independent audit committee.   | Article II, Section D,2.g. |   |                                  |  |
| (b) The independent audit committee shall consist of at least three members but not more than five members who shall be appointed by the chairperson of the board of regents, from among the members of the board of regents, except as provided under subsection (e). The chair of the independent audit committee shall be selected by and from among its members.  | Article II, Section D,3.   | Membership  |                                  | The Audit Committee currently consists of seven members and will consider amending its Charter to specify that membership will consist of three to five members, |
| (c) The board of regents shall generally:<br>(1) Establish the charter of the independent audit committee and set forth its members' roles and responsibilities;<br>(2) Consider changes to the independent audit committee's charter that are necessary in response to new laws, regulations, and best practices; and<br>(3) Conduct an annual review of the independent audit committee's charter to reassess its adequacy and adopt any proposed and necessary changes to the charter. |                            | Duties and Responsibilities<br>(bullet point: 12) |                                  |  |
| (d) The independent audit committee shall be exempt from chapter 91 and from part I of chapter 92 to the extent that the independent audit committee is engaging in an investigation by the independent audit committee relating to potentially actionable civil or criminal conduct, whether or not the investigation is pending or outstanding.   |                            |   |                                  | Audit Committee to consider.   |

| <b>HB 114 HD2 - Relating to Higher Education</b>  | <b>Reference</b>              |                                |   | <b>Comments</b>   |
|---|-------------------------------|--------------------------------|---|---|
|   | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b> | <b>Office of Internal Audit Charter</b> |   |
| (e) The independent audit committee shall include one or more individuals with financial expertise. If no member of the board of regents has the requisite skills, the board of regents shall execute other arrangements, which may include the appointment of members of the general public to the independent audit committee who possess the requisite financial expertise, to ensure that the independent audit committee has the capacity to carry out its duties. |                               | Membership                     |   |   |
| (f) The independent audit committee shall undertake professional development to improve the financial expertise of the independent audit committee as a whole, including:<br>(1) Attendance at seminars and conferences;<br>(2) Special speakers at educational sessions; and<br>(3) The study of analytical tools for audit committees.  |                               |                                |   | Members may comply with this provision in connection with their service on other Boards of Directors or through their jobs. |



| <b>HB 114 HD2 – Relating to Higher Education</b>  | <b>Reference</b>                  |                                    |   | <b>Comments</b>   |
|---|-----------------------------------|------------------------------------|---|---|
|   | <b>Board of Regent Bylaws</b>     | <b>Audit Committee Charter</b>     | <b>Office of Internal Audit Charter</b> |   |
| <p>(g) The independent audit committee shall engage in operations relating to enterprise risk management, including but not limited to:</p> <ul style="list-style-type: none"> <li>(1) Providing oversight of risk management, including determining overall strategy and influencing the university's risk philosophy;</li> <li>(2) Inquiring of the president of the University of Hawaii, the chief financial officer of the university, and external auditors about significant risks or exposures faced by the university;</li> <li>(3) Assessing steps that the president of the University of Hawaii has taken or proposes to take to minimize those risks to the university;</li> <li>(4) Periodically reviewing compliance with those steps; and</li> <li>(5) Reviewing with the general counsel of the University of Hawaii, external auditors, external counsel, and the chief financial officer of the university legal and regulatory matters that, in the opinion of the president of the University of Hawaii, may have a material impact upon the financial statements, related organization compliance policies, and programs and reports received from regulators.</li> </ul> | <p>Article II, Section D,2.g.</p> | <p>Duties and Responsibilities</p> |   | <p>The Audit Committee Charter requires inquires with University Management. The Audit Committee will consider amending its Charter to specifically require consultation with the Office of General Counsel with respect to legal and regulatory matters.</p> |

| <b>HB 114 HD2 – Relating to Higher Education</b>   | <b>Reference</b>              |  |   | <b>Comments</b>   |
|--|-------------------------------|--|---|---|
|  | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b>                 | <b>Office of Internal Audit Charter</b> |   |
| (h) The independent audit committee shall hold meetings as needed to address matters on its agenda, but not less frequently than twice per year. The independent audit committee may request the attendance of the president of the University of Hawaii or others to provide pertinent information as necessary. The board of regents shall provide in the charter of the independent audit committee for the independent audit committee’s unanimous consent approval of actions to deal with decisions required between meetings. |                               | Meetings                                       |   | <p>The Audit Committee Charter requires the Audit Committee to meet as often as necessary to carry out its duties and responsibilities. The Audit Committee will consider amending its Charter to require at least two meetings annually.</p> <p>The president (or designee) and the chief financial officer attend audit committee meetings.</p> |
| (i) The independent audit committee shall review its effectiveness annually and shall prepare, or oversee the preparation of, an annual report to the board of regents.  |                               | Duties and Responsibilities (bullet point: 13) |   | <p>The Audit Committee Charter includes a requirement to “review the effectiveness of the Committee”. The Audit Committee will consider amending the Charter requiring an annual review and the preparation of a report.</p>  |

**University of Hawai'i System  
HB 114 HD2- Relating to Higher Education Analysis**

| <b>HB 114 HD2 - Relating to Higher Education</b>  | <b>Reference</b>              |                                      |   | <b>Comments</b>  |
|---|-------------------------------|--------------------------------------|---|--|
|   | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b>       | <b>Office of Internal Audit Charter</b> |  |
| <p>(j) The independent audit committee annual report shall address other matters affecting the management and organization of the University of Hawaii by engaging in functions, including:</p> <p>(1) Reviewing with the president of the University of Hawaii and the external auditor the effect of any regulatory and accounting initiatives and unique transactions, including relationships with legally separate entities, to determine whether the accounting for those transactions applied best practices;</p> <p>(2) Reviewing significant related party transactions;</p> <p>(3) Reviewing with the president of the University of Hawaii and the chief financial officer of the university, any interim financial reports or reports on internal control issued with respect to the university since the last meeting of the independent audit committee; and</p> <p>(4) Reviewing with any external auditor who performs an audit the following:</p> <p>(A) All critical accounting policies and practices used by the external auditor; provided that:</p> <p>(i) All alternative treatments of financial information within generally accepted accounting principles have been discussed with the president of the University of Hawaii;</p> <p>(ii) The ramifications of each alternative are discussed; and</p> <p>(iii) The treatment preferred by the university is discussed;</p> <p>(B) Any consultation with audit firms other than the external auditor, including the reasons for, and results of, the consultation; and</p> <p>(C) Any other information relating to significant estimates and judgments.</p> |                               | Purpose, Duties and Responsibilities |   | <p>A written report is not required. However, these matters are discussed throughout the year.</p> <p>Accuity, LLP (external auditor) annually communicates their opinion regarding these matters in accordance with professional standards and authoritative literature, such as Statement on Auditing Standards No. 114.</p> |

| HB 114 HD2 - Relating to Higher Education   | Reference              |  |                                  | Comments  |
|---|------------------------|--|----------------------------------|---|
|   | Board of Regent Bylaws | Audit Committee Charter  | Office of Internal Audit Charter |   |
| <p>(k) The independent audit committee shall also review with any external auditor and the chief financial officer of the university matters affecting the internal control and internal audit, including:</p> <p>(1) The adequacy of the University of Hawaii's internal controls, including computerized information system controls and security; and</p> <p>(2) Any related significant findings and recommendations of the external auditor and internal audit services, together with the responses of the president of the University of Hawaii.</p>   |                        | <p>Duties and Responsibilities<br/>                     (bullet points: 3, 4, 11)</p>      |                                  |   |
| <p>(l) The independent audit committee shall also review matters affecting the accounting policies and procedures of the University of Hawaii by:</p> <p>(1) Ensuring that accounting policies, procedures, and related controls are documented and reviewed with the independent audit committee;</p> <p>(2) Reviewing accounting controls annually;</p> <p>(3) Reviewing with the president of the University of Hawaii policies and procedures with respect to officers, key employees, and disqualified persons as defined under section 4958 of the Internal Revenue Code of 1986, as amended; and</p> <p>(4) Inquiring of the president of the University of Hawaii and the chief financial officer regarding the financial health of the university.</p> |                        | <p>Purpose, Duties and Responsibilities<br/>                     (bullet points: 3, 4)</p> |                                  | <p>The University will consult with its external auditors (Accuity, LLP) for guidance with respect to Internal Revenue Code Section 4958.</p> |
| <p>(m) The independent audit committee shall review the University of Hawaii's antifraud programs and controls and aid in discovery and remedy if incidences of fraud should occur.</p>   |                        |  |                                  | <p>Audit Committee to consider.</p>   |

| <b>HB 114 HD2 - Relating to Higher Education</b>   | <b>Reference</b>              |                                |   | <b>Comments</b>   |
|--|-------------------------------|--------------------------------|---|---|
|  | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b> | <b>Office of Internal Audit Charter</b> |   |
| <p>(n) Notwithstanding part V of chapter 378, the independent audit committee shall review:</p> <p>(1) Procedures for the receipt, retention, and treatment of complaints received by the University of Hawaii regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the university; and</p> <p>(2) Any complaints that may have been received, the current status of such complaints, and the resolution of such complaints, if any resolution has been reached; provided that complaints under this section shall be accorded the same protections as under part V of chapter 378.</p> |                               |                                |   | <p>Audit Committee to consider. In addition, the effectiveness of this provision may be strengthened by providing the audit committee with the ability to establish or review procedures for complaints rather than reviewing all complaints as indicated by (n)(2). Accordingly, the audit committee could establish a complaint mechanism (such as an anonymous whistleblower hotline) whereby complaints would be managed confidentially by an independent external organization that performs quality checks on all complaints. The organization would be required to provide periodic complaint reports to the Office of Internal Audit and audit committee.</p> |

| HB 114 HD2 - Relating to Higher Education  | Reference              |   |   | Comments   |
|--|------------------------|---|---|--|
|  | Board of Regent Bylaws | Audit Committee Charter   | Office of Internal Audit Charter  |  |
| <p>(o) With regard to internal control and internal audit, the independent audit committee shall also:</p> <p>(1) Review with any external auditor, the chief financial officer of the university, and the comptroller the audit scope and plan of the internal auditors;</p> <p>(2) Address the coordination of audit efforts to ensure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources; and</p> <p>(3) Discuss with the chief financial officer of the university and the external auditor opportunities for reliance by the external auditor on the audit activities of any internal audit.</p>  |                        | <p>Duties and Responsibilities, (bullet points: 5 - 8)</p>        |   |  |
| <p>(p) For internal audits, the independent audit committee shall review the following with the president of the University of Hawaii and the chief financial officer of the university:</p> <p>(1) Significant findings of internal audits conducted during the university's previous and current fiscal year and the president's responses;</p> <p>(2) Whether internal auditors have encountered difficulties in discharging their responsibilities in the course of their audits, such as any restrictions on the scope of their work or access to required information;</p> <p>(3) Any changes required in the scope of internal audits;</p> <p>(4) The budget and staffing of internal audit operations;</p> <p>(5) An audit plan to govern internal audits; and</p> <p>(6) The compliance of internal audits with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.</p> |                        | <p>Duties and Responsibilities (bullet points: 5 - 8, 10, 11)</p> | <p>Responsibilities (bullet points: 4 - 6)</p> <p>Professional Standards and Ethics</p> | <p>Internal Audit has procedures (planning, resource allocation, documentation, supervision, review and reporting) to conform to <i>IIA Standards</i>.</p> |

| HB 114 HD2 - Relating to Higher Education   | Reference                  |  |                                    | Comments   |
|---|----------------------------|--|------------------------------------|--|
|   | Board of Regent Bylaws     | Audit Committee Charter                                    | Office of Internal Audit Charter   |  |
| (q) Internal auditors shall meet separately with any external auditor to coordinate audit plans to optimize the ability of the external auditor to rely upon the results of the internal audit team.  |                            |  | Responsibilities (bullet point: 9) |  |
| (r) The independent audit committee shall annually evaluate the performance of the internal audit, including:<br>(1) The adequacy of the audit plan;<br>(2) The management of the execution of the audit plan;<br>(3) The adequacy of human and other resources available to execute the audit plan;<br>(4) The ability of any external auditor to rely upon the internal audit work product in the external auditor's annual audit; and<br>(5) The nature of the findings or results of any internal audits.   | Article II, Section D,2.g. | Duties and Responsibilities (bullet points: 5 - 8, 10, 11) |                                    |  |
| (s) Subject to approval by the board of regents, the independent audit committee shall select one or more external auditors to be retained by the University of Hawaii. The independent audit committee shall:<br>(1) Approve the audit plan;<br>(2) Establish the audit fees of any external auditor;<br>(3) Pre-approve any non-audit services provided by the external auditor, including tax services, before such services are rendered;<br>(4) Review with the president of the University of Hawaii the significance of contracting out audit services; and<br>(5) Ensure that single audit obligations are incorporated into the annual audit plan. | Article II, Section D,2.g. | Duties and Responsibilities (bullet points 1, 4, 6)        |                                    | The Audit Committee currently performs these functions. The Audit Committee will consider amending its Charter to specify that the Audit Committee will approve the audit fees of external auditors. |

**University of Hawai'i System  
HB 114 HD2- Relating to Higher Education Analysis**

| <b>HB 114 HD2 - Relating to Higher Education</b>   | <b>Reference</b>              |   |   | <b>Comments</b>   |
|--|-------------------------------|---|---|---|
|  | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b>                    | <b>Office of Internal Audit Charter</b> |   |
| (t) The independent audit committee shall review all material written communications between any external auditor and the president of the University of Hawaii, such as any management letter or schedule of unadjusted differences.  | Article II, Section D,2.g.    |   |   | Accuity, LLP annually communicates these items to the Audit Committee as required by Statement on Auditing Standards No. 114.   |
| (u) The independent audit committee shall annually evaluate any external auditor; provided that communications with the external auditor in the evaluation shall be done so as to maintain the open flow of communication between the external auditor and the independent audit committee.  | Article II, Section D,2.g.    |   |   |   |
| (v) The independent audit committee shall review the following matters relating to the annual audit with the president of the University of Hawaii and any external auditor:<br>(1) The university's annual financial statements and related footnotes;<br>(2) The external auditor's audit of the financial statements and the external auditor's report;<br>(3) The external auditor's judgments about the quality of the university's accounting principles as applied in the university's financial reporting;<br>(4) Any significant changes required in the external auditor's audit plan;<br>(5) Any serious difficulties or disputes with the president of the University of Hawaii encountered during the audit; and<br>(6) Matters to be discussed by Statement on Auditing Standards No. 114, The Auditor's Communication with those Charged with Governance (AICPA, Professional Standards), related to the conduct of the annual audit. | Article II, Section D,2.g.    | Duties and Responsibilities (bullet points: 1, 4) |   | Accuity, LLP annually communicates their opinion regarding these matters in accordance with professional standards and authoritative literature, such as Statement on Auditing Standards No. 114. |



| <b>HB 114 HD2 - Relating to Higher Education</b>   | <b>Reference</b>              |                                |   | <b>Comments</b>  |
|--|-------------------------------|--------------------------------|---|--|
|  | <b>Board of Regent Bylaws</b> | <b>Audit Committee Charter</b> | <b>Office of Internal Audit Charter</b> |  |
| (w) The independent audit committee may hire external auditors, legal counsel, or other consultants as necessary, to address any issues arising from:<br>(1) The execution of the whistleblower protection procedures established under subsection (n);<br>(2) Any statutory or contractual procedures when engaging external resources; and<br>(3) The detection of fraud.  |                               |                                |   | Audit Committee to consider.                                     |
| (x) The independent audit committee shall submit an annual report to the board of regents and the legislature no later than twenty days prior to the convening of each regular session on matters that include the following:<br>(1) All instances of material weakness in internal control, including the responses of university management to these instances; and<br>(2) All instances of fraud, including the responses of university management to these instances." |                               |                                |   | Audit Committee to consider the form and content of this report. |

**BYLAWS OF THE BOARD OF REGENTS OF THE UNIVERSITY OF HAWAI'I**  
(as of February 23, 2012)

**Table of Contents**

- Article I. Definitions
  
- Article II. Membership and Organization
  - A. Membership
  - B. Officers, Organization
    - 1. Term
    - 2. Vote
    - 3. Succession
  - C. Duties of Officers
    - 1. Chairperson
    - 2. Vice-Chairperson(s)
    - 3. Secretary of the Board
  - D. Standing Committees of the Board
    - 1. Establishment of Standing Committees
    - 2. Standing Committees
      - a. Committee on Academic Affairs
      - b. Committee on Budget and Finance
      - c. Committee on Long-Range Planning and Facilities
      - d. Committee on Personnel
      - e. Committee on Student Affairs
      - f. Committee on Community Colleges
      - g. Committee on University Audits
    - 3. Appointment of Committee Members
    - 4. Meetings
    - 5. Referrals to Committees
    - 6. Progress Reports
    - 7. Task Groups
  - E. New Board Member Orientation
  
- Article III. Advisory Committees and Consultants
  - A. Creation
  - B. Consultant Services
  
- Article IV. Meetings
  - A. Number and Place of Meetings
  - B. Special Meetings
  - C. Call for Committee Meetings
  - D. Public Notice of Meetings

Article V. Quorum

Article VI. Voting

Article VII. Legal Counsel

- A. The University General Counsel
- B. Requests for Written Legal Opinions
- C. Conflicts

Article VIII. Robert's Rules of Order

Article IX. Amendments

Article X. Conflicts of Interest

- A. Standard of Conduct
- B. Fiduciary Responsibility
- C. Disclosures
- D. Determination of Conflicts
- E. Restraint on Participation
- F. Sanctions and Remedies

**BYLAWS OF THE BOARD OF REGENTS  
UNIVERSITY OF HAWAI'I**

**ARTICLE I. Definitions**

As used in these Bylaws:

“Board” means the Board of Regents, University of Hawai'i;

“University” means the University of Hawai'i system and its various campuses;

“President” means the President of the University of Hawai'i;

“Chairperson” means the Chairperson of the Board; and

“Secretary” means the Executive Administrator and Secretary of the Board.

“Meetings” shall not include rule-making hearings, declaratory rulings or contested cases under Chapter 91, Hawai'i Revised Statutes (“HRS”).

**ARTICLE II. Membership and Organization**

- A. Membership. The membership of the Board shall be as required by Chapter 304-3, HRS. The members of the Board shall serve without pay, but shall be entitled to reimbursement for necessary expenses while attending meetings and while in the discharge of duties and responsibilities.

Notwithstanding the term of office, the term of a Board member shall expire upon the failure of the member, without valid excuse, to attend three consecutive meetings duly noticed to all members of the Board. The Chairperson or acting Chairperson of the Board shall determine if the absence of the member is excusable. The expiration of the member's term shall be effective immediately after the third consecutive unattended meeting and unexcused absence.

- B. Officers, Organization. As required by Section 304A-104, HRS, the Officers of the Board shall consist of a Chairperson, up to two Vice-Chairpersons, and a Secretary (who shall be appointed by the Board and shall not be a member of the Board). The Chairperson and up to two Vice-Chairpersons shall be elected by the Board at a meeting preceding July 1 of each year and whose terms shall be from July 1 to June 30 of the next year or thereafter until their successors are elected and have qualified and whose election shall be immediately certified by the Board to the Lieutenant Governor. The President shall act as the chief executive officer of the Board.

1. Term. The term of the office of Chairperson and up to two Vice-Chairpersons shall be for one year. A Chairperson may serve more than one term, but not more than two consecutive terms.
2. Vote. Votes for the Chairperson and up to two Vice-Chairpersons of the Board shall be by ballot if more than one person is nominated for an office.
3. Succession. In the event of a vacancy in the office of the Chairperson, the First Vice-Chairperson shall succeed as Chairperson for the unexpired term. In the event that the First Vice-Chairperson is the immediate past Chairperson, he/she may succeed to the office of Chairperson, Section B.1. notwithstanding. The Board shall conduct an election as soon as possible to elect a new Vice-Chairperson.

C. Duties of Officers.

1. Chairperson. The Chairperson, in addition to presiding at all regular and special Board meetings, shall:
  - a. Appoint the chairperson and members of the standing committees and any other committees.
  - b. Acknowledge communications, petitions, requests, and proposals on behalf of the Board and, except in emergencies, refer same to the President or Secretary or an appropriate Committee of the Board for action or recommendation so as not to detract from the Board's governance and fiduciary responsibilities.
  - c. Maintain liaison with the President to see that there is an effective working relationship between the University administration and the Board.
  - d. Approve all press releases and public statements made by the Board.
  - e. Approve agenda items for any regular or special meeting of the Board.
  - f. Coordinate the efforts of the Board's standing committees to strengthen the roles and functions of same.
2. Vice-Chairperson(s). The First Vice-Chairperson will assume the duties and responsibilities of the Chairperson in the absence of the Chairperson and will undertake such other duties as may be assigned by the Chairperson. If there is a second Vice-Chairperson, he/she will assume the duties and responsibilities of the First Vice-Chairperson in the absence of the First-Vice Chairperson and will undertake such other duties as may be assigned by the Chairperson or First Vice-Chairperson.

3. Secretary. The Secretary shall serve under the direction of the Board through the Chairperson and shall provide the necessary administrative support services to the Board. The Secretary shall:
  - a. Prepare and distribute the agenda for each of the regular and special Board and standing and other committee meetings.
  - b. Schedule regular and special Board meeting dates in consultation with the Chairperson.
  - c. Record and prepare minutes and reports for each of the regular and special Board and standing and other committee meetings.
  - d. Be responsible for securing information from the University administration.
  - e. Acknowledge and answer routine correspondence directed to the Chairperson and/or Board.
  - f. Serve as liaison between the University administrative staff and the Board.
  - g. Review policy proposals submitted by the University administration.
  - h. Maintain a calendar of the Board's unfinished business.
  - i. Conduct research and analysis of policies relating to the governance of the University by the Board.
  - j. Review rules and regulations affecting the University in accordance with the Hawai'i Administrative Procedures Act.
  - k. Maintain, collect, and preserve the official records of the Board.
  - l. Collate and index policies which are adopted by the Board.
  - m. Serve as "Records Officer" under the State archives program.
  - n. Serve as "Certifying Officer" of official University documents.
  - o. Perform additional duties as assigned by the Chairperson and the various standing and other committee chairpersons.

D. Standing Committees of the Board.

1. Establishment of Standing Committees. To facilitate consideration of policy matters that must be approved by the Board, seven standing committees are established. Authority to act on all matters is reserved for the Board, and the

- functions of each standing committee shall be to consider and make recommendations to the Board.
2. Standing Committees. The following are the standing committees of the Board and their functions:
- a. Committee on Academic Affairs
    - (1) Review and make recommendations on all new academic and research program proposals.
    - (2) Examine and evaluate the academic and research aims, objectives, and activities of the University.
    - (3) Review program evaluation reports and termination of programs, and make recommendations related to existing programs.
    - (4) Review, evaluate and make recommendations on the articulation of academic and research programs throughout the University.
    - (5) Review and make recommendations on programs, objectives and activities relating to international education, research and training.
  - b. Committee on Budget and Finance
    - (1) Work in concert with the University administration relating to operating and capital improvement budgets.
    - (2) Examine the budgetary process, budget proposals, expenditure plans, and development plans.
    - (3) Discuss the implementation of the budgetary decisions with the University administration, especially amendments thereto or when circumstances require deviations from expenditure plans.
    - (4) Review matters related to business affairs, endowment funds, and other financial assets of the University.
    - (5) Exercise general oversight and policy direction over the University's financial systems and programs.
  - c. Committee on Long-Range Planning and Facilities
    - (1) Review, study, and make recommendations to the Board relative to the long-range plans for the development of the University,

considering academic needs, priorities, and fiscal capabilities of the State.

- (2) Review, study, and make recommendations to the Board relative to the physical facilities master plans for each campus in the University system and to periodically review approved campus master plans in order to recommend revisions, if necessary, to meet the needs of the University.
- (3) Review proposals relative to naming of University improvements and facilities and make its recommendations to the Board.
- (4) Review policies and make recommendations to the Board on matters pertaining to the use of University facilities and ensure an environment that is complementary to the educational mission of this institution.

d. Committee on Personnel

- (1) Review and consider policies and practices relating to University personnel.
- (2) Consider matters pertaining to collective bargaining.

e. Committee on Student Affairs

- (1) Serve as a liaison between the Board and appropriate student organizations.
- (2) Consider matters of student life, including, but not limited to, student organizations, student housing, extra-curricular activities, student concerns in community, and other matters affecting students.
- (3) Recommend policies governing all aspects of student life at the University.

f. Committee on Community Colleges

- (1) Review proposals relative to policies pertaining to Community Colleges and make recommendations to the Board.
- (2) Review and evaluate the academic and vocational aims, objectives, and activities of the Community Colleges.
- (3) Review, study and make recommendations to the Board relative to the State Plan for Vocational Education.



- (5) Review, study and make recommendations to the Board relative to the evaluation report of the State Advisory Council on Vocational Education.
- g. Committee on University Audits
- (1) Advise the Board regarding the Board's responsibilities to oversee:
    - (a) the quality and integrity of the University's compliance with legal, regulatory and policy requirements, financial reporting and financial statements, and internal controls related to risks;
    - (b) the function, disclosures, and performance of the University's compliance, internal control, and risk management systems regarding ethics and compliance, risk, finance, and accounting, and the adequacy of such systems; and
    - (c) the independent certified public accountant's qualification, independence and performance, as well as performance of the internal audit function.
  - (2) Review the annual internal audit plan and the extent to which it addresses high risk areas.
  - (3) Review the annual report of the internal audit department and discuss significant issues of internal controls with the Internal auditor and management.
  - (4) Discuss the planned scope of the annual independent audit with the independent certified public accountants and review the results of the audit with the independent certified public accountants and management.
  - (5) Receive and review the annual certified financial reports with the independent certified public accountants and management.
  - (6) Recommend to the Board the certified public accountants to serve as the independent auditor, and their fees.
  - (7) Revise the scope of their annual audit, and approve any services other than audit and audit related services provided by the certified public accountants.
  - (8) Provide recommendations to the Board regarding approval of the internal audit mission statement, the committee's charter, and other

governance documents related to both internal and external compliance and auditing activities at the University.

3. Appointment of Committee Members. The chairperson and members of each standing committee shall be appointed by the Chairperson and shall serve for one year or until the appointment of their successors. The Chairperson shall be an ex-officio, voting member of all standing committees in accordance with Robert's Rules of Order. The President, as chief executive officer of the University, shall assign a member of the University administrative staff to each standing committee who shall be the administrative liaison with the chairperson of the committee.

The Committee on Community Colleges shall include Regents from the four major islands.

4. Meetings. Each standing committee shall schedule meetings as appropriate. The Committee on Community Colleges meetings shall be held at the various community college campuses.
5. Referrals to Committees. Each standing committee shall consider all matters referred to it by the Chairperson and shall make appropriate recommendations within a reasonable time to the Board.
6. Progress Reports. Each standing committee shall make progress reports to the Board periodically or when requested by the Chairperson.
7. Task Groups. Task groups may be established by the Chairperson upon authorization by the Board with such powers and duties as determined by the Board. The tenure of a specific task group shall expire at the completion of its assigned task.

E. New Board Member Orientation

New Board members shall be scheduled to receive an orientation within one month of the beginning of their term. The orientation shall include, among other things, an overview of the University system, BOR responsibilities, accreditation standards for Board governance, and BOR policies and practices. New Board members shall also be provided with a Reference Guide covering these and other topics.

**ARTICLE III. Advisory Committee and Consultants**

- A. Creation. The Board may create an advisory committee, as necessary, which shall serve as advisory to the Board. The committee membership shall be appointed by the Chairperson, subject to approval by the Board. The tenure of the advisory committee shall expire at the completion of the assigned task.

- B. Consultant Services. The Board may engage the services of consultants as it deems necessary.

#### **ARTICLE IV. Meetings**

- A. Number and Place of Meetings. The Board shall meet not less than ten times annually (July 1, thru June 30) and may from time to time meet in each of the counties of Honolulu, Hawai'i, Maui, and Kaua'i. The Board shall at each meeting set the time and place for its next regular meeting.
- B. Special Meetings. Special meetings may be called by:
  - 1. The Chairperson;
  - 2. The Secretary, upon request by a majority of the members of the Board; or
  - 3. Any Board member, with the consent of the Chairperson.
- C. Call for Committee Meetings. Standing committee meetings shall be called by the Secretary in consultation with the committee chairperson. In the event of a joint meeting, the Chairperson shall designate the presiding committee chairperson.
- D. Public Notice of Meetings. All meetings of and public appearances before the Board and its standing committees shall comply with chapter 92, HRS, and shall be as set forth in the Rules of Practice and Procedure of the Board of Regents (Hawai'i Administrative Rules, Title 20, Subtitle 1, Chapter 1).

#### **ARTICLE V. Quorum**

A majority of all the members to which the Board or its standing committees are entitled shall constitute a quorum.

#### **ARTICLE VI. Voting**

Voting by the Board and its standing committees shall be as set forth in the Rules of Practice and Procedures of the Board of Regents (Hawai'i Administrative Rules, Title 20, Subtitle 1, Chapter 1).

#### **ARTICLE VII. Legal Counsel**

- A. The University General Counsel. The University General Counsel shall be designated as legal counsel for the Board. The University General Counsel or the University General Counsel's representative(s), in the capacity of legal counsel for the Board, shall be present at all regular and special meetings and certain standing committee meetings of the Board.

- B. Requests for Written Legal Opinions. Requests for any written legal opinion of the University General Counsel shall be made by the Chairperson or designee with the full knowledge of the Board. Whenever a legal opinion is rendered by the University General Counsel, such opinion shall be in writing and along with a copy of the written request for such opinion, distributed immediately to all Board members.
- C. Conflicts. By policy and organizational structure, the University General Counsel serves the Board as well as the University administration. Understandably, there may be occasions when it becomes necessary to avoid a perception of conflict or to obtain specialized legal expertise. At such times, the Board may exercise its discretion in securing the services of independent legal counsel.

### **ARTICLE VIII. Robert's Rules of Order**

Robert's Rules of Order shall apply in situations not covered by these bylaws, applicable statutes, or rules.

### **ARTICLE IX. Amendments**

These bylaws may be amended only by two-thirds (2/3) vote of all the members to which the Board is entitled. Any proposed amendment to the bylaws shall be submitted in writing for consideration and vote by the members at a Board meeting.

### **ARTICLE X. Conflicts of Interest**

- A. Standard of Conduct. Members of the Board shall comply with the provisions of these bylaws and are subject to the standards of conduct and financial interest disclosure requirements of Chapter 84, HRS (State Ethics Code) and must act in accordance with Chapter 84, HRS.
- B. Fiduciary Responsibility. Members of the Board serve a public interest role and thus have a clear obligation to conduct all affairs of the University in a manner consistent with this concept. Members of the Board are expected to place the welfare of the University above personal interests, the interests of family members, or others who may be personally involved in affairs affecting the University. All decisions of the Board shall be made solely on the basis of a desire to promote the best interests of the University and the public good.
- C. Disclosures. In the event the Board must consider any matter for the University which also directly involves:
  - 1. a regent or a member of the regent's family (which shall be a spouse, parents, siblings and their spouses, children and their spouses, and any household member);

2. a public or private organization with which a regent is affiliated, as defined below; or
3. a regent's personal financial interest as defined under chapter 84, HRS;

Any affected regent, at the first knowledge of the matter, shall fully disclose, as noted below, the precise nature of the interest or involvement.

For purposes of this article, an affiliation exists if a regent or a member of the regent's family is an owner (which shall be an ownership interest valued at more than \$5,000 or 10% or more ownership of the business), officer, director, trustee, partner, employee (which shall also include legal counsel, consultant, contractor, advisor, or representative) or agent of such organization.

All disclosures required under this article must be directed in writing to the Secretary who, together with the University General Counsel, shall be responsible for the administration of this bylaw.

Matters covered under this article shall be reported initially to the Chairperson for appropriate action. Should the Chairperson be the regent with a potential conflict, the matter shall be reported to the Vice Chairperson. Should both the Chairperson and the Vice Chairperson have a potential conflict, the matter shall be reported to the chairperson of a Board standing committee in the order as listed in Article II, Section D of the bylaws of the Board.

Information disclosed to the Secretary shall be held in confidence to the extent authorized by law.

This disclosure requirement shall not apply to any regent who declares a conflict of interest and recuses himself/herself from consideration of the matter before the Board.

- D. Determination of Conflicts. Questions concerning possible conflicts of interest shall be directed to the Secretary. The Board shall resolve the questions by majority vote at a Board meeting in compliance with Chapter 92, HRS. Where any matter covered by Chapter 84, HRS, is involved, the potential conflict shall be referred to the State Ethics Commission for disposition. Questions of potential conflict not covered by Chapter 84, HRS, may be referred to the University General Counsel for a legal opinion, except that questions of conflict under Section 78-5, HRS, shall be referred to the University General Counsel for a legal opinion.

Restraint on Participation. A member of the Board who has declared a conflict of interest and recused himself/herself or who has been found to have a conflict of interest in any matter before the Board shall refrain from participating in the consideration of the proposed matter. The regent may not vote on such matters

before the Board and may not be present during the Board's deliberation and at the time of vote.

- E. Sanctions and Remedies. Any Board action favorable to a regent obtained in violation of this bylaw is voidable on behalf of the Board; provided that in any proceeding to void a Board action pursuant to this bylaw, the interests of third parties who may be damaged thereby shall be taken into account. Any proceeding to void a Board action shall be initiated within sixty (60) days after the determination of a violation under this bylaw. The Board may pursue all legal and equitable remedies and/or sanctions through the University's legal counsel. Any Board action imposing a remedy or sanction under this section must be initiated within one year after the action of the Board that is affected by a violation.

**Charter of the Committee on University Audits  
of the Board of Regents of the  
University of Hawai‘i**

**Purpose**

The purpose of the Committee on University Audits (Committee) is to assist the Board of Regents of the University of Hawai‘i (University) in fulfilling its oversight responsibilities as follows (Bylaws of Board of Regents, Article II, Section D, 2.f.):

- (1) Review and monitor the University’s financial, management, internal controls, and audit processes.
- (2) Review and monitor the University’s compliance with policies, statutes, and regulations. Secure external auditors and determine the disposition of all resulting audit findings and reports.

**Authority**

The Committee has authority to conduct or authorize investigations into any matter within its scope of responsibility with unrestricted and timely access to all University functions, books, records, information systems, data, personnel, and property as necessary to carry out its duties.

**Membership**

The Committee shall be comprised of at least three members of the Board of Regents as determined by the Board of Regent Chairperson. All Committee members will be financially literate, and at least one member will have accounting or related financial management experience.

The chairperson and members of the Committee shall be appointed by the Board of Regent Chairperson and shall serve for one year or until the appointment of successors. The Board of Regent Chairperson shall be an ex-officio, voting member of the Committee. The President, as chief executive officer of the Board, shall assign a member of the University administrative staff to the Committee who shall be the administrative liaison with the chairperson of the Committee (Bylaws of Board of Regents, Article II, Section D, 3.).

**Meetings**

The Committee shall meet as often as it determines necessary to carry out its duties and responsibilities. To encourage open communications, the Committee shall meet periodically with (i) University Management (President, Senior Management Team, Council of Chancellors), (ii) the Director of the Office of Internal Audit, and (iii) the external auditors. The Committee, in its discretion, may ask others to attend its meetings (or portions thereof) and to provide pertinent information as necessary.

All meetings of and public appearances before the Board and Committee shall comply with chapter 92, Hawai‘i Revised Statutes, and shall be as set forth in the Rules of Practice and Procedure of the Board of Regents (Hawai‘i Administrative Rules, Title 20, Subtitle 1, Chapter 1).

### **Duties and Responsibilities**

The Committee shall provide assistance to the Board of Regents in fulfilling its fiduciary responsibility, relating to risk management, accounting, reporting practices, and the quality and integrity of the financial reports of the University. It is also the responsibility of the Committee to maintain free and open means of communication among the Board of Regents, University Management, Director of the Office of Internal Audit, and the external auditors.

In carrying out its duties and responsibilities, the Committee's policies and procedures should remain flexible, so that it may be in a position to best address, react or respond to changing circumstances or conditions.

The following are the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may modify or supplement them as appropriate:

- advise the Board of Regents on the selection, retention, and termination of the external auditors who audit the financial records of the University.
- inquire with the Board of Regents, University Management, Director of the Office of Internal Audit, and the external auditors about significant risks or exposures facing the University; assess the steps University Management has taken or proposes to take to minimize such risks to the University; and review compliance with such steps.
- review with the Vice President of Budget and Finance/Chief Financial Officer, Director of the Office of Internal Audit and the external auditors the adequacy of the University's internal controls over financial reporting, including computerized information system controls and security.
- review with the Vice President of Budget and Finance/Chief Financial Officer and other University Management as deemed appropriate, Director of the Office of Internal Audit, and the external auditors the following as it relates to engagements performed by external auditors:
  - audited financial statements and related footnotes;
  - reports as required pursuant to the requirements of *Government Auditing Standards* and Federal audit requirements (*OMB Circular A-133*);
  - other reports promulgated by the *American Institute of Certified Accountants* (AICPA), such as reports on agreed upon procedures;
  - remediation plans to address audit findings and internal control deficiencies;
  - effect of any regulatory and accounting initiatives, as well as other unique transactions and financial relationships, if any;
  - external auditor judgments about the quality, not just the acceptability, of the University's accounting policies and principles as applied in its financial reporting.
- review the internal audit function of the University, including the independence, authority and organizational reporting lines.
- review and approve the annual external and internal audit plans and all significant changes to the plans.



- review and discuss with the Director of the Office of Internal Audit the scope, progress, and results of the projects included in the internal audit plan, as well as the progress and results of the external audit plan.
- review the Office of Internal Audit activities, staffing, organizational structure, and credentials.
- submit the minutes of all meetings of the Committee to, or discuss the matters raised at each Committee meeting with the Board of Regents.
- review and approve the Office of Internal Audit charter, and other governance documents related to its activities.
- with respect to reports and other deliverables prepared by the Office of Internal Audit, read and review reports summarizing the results of the procedures performed by the Office of Internal Audit. At the discretion of the Committee’s Chairperson, final reports and other information may be requested from the Office of Internal Audit and disseminated to other members of the Committee and Board of Regents.
- obtain the Board of Regents’ approval of this charter and review and assess this charter as conditions dictate (at least annually).
- review the effectiveness of the Committee.
- perform such other functions as assigned by the Board of Regents and/or its bylaws.

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While the Committee has the duties and responsibilities set forth in this charter, the Committee is not responsible for preparing or certifying the financial statements, planning or conducting the audit or determining whether the University’s financial statements are complete, accurate and in accordance with accounting principles generally accepted in the United States of America.

In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are volunteers and are not employees of the University. Furthermore, it is not the duty or responsibility of the Committee or its members to conduct “field work” or other types of auditing or accounting reviews or procedures or to set auditor independence standards. Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within and outside the University from which it receives information and (ii) the accuracy of the financial and other information provided to the Committee, in either instance absent actual knowledge to the contrary.

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## Charter of the Office of Internal Audit of the University of Hawai'i

### Mission

The mission of the University of Hawai'i (University) Office of Internal Audit is to assist the University's Board of Regents and University Management (President, Senior Management Team, Council of Chancellors) in fulfilling their oversight, management, and operating responsibilities. This is accomplished through providing independent and objective assurance and consulting services conducted in a systematic and disciplined approach to evaluate, add value, and improve the University's operations.

### Organization

The Office of Internal Audit reports directly to the Committee on University Audits (Committee) of the Board of Regents and is supported administratively by the Vice President for Budget and Finance/Chief Financial Officer (CFO).

### Authority

The Office of Internal Audit functions under the authority of the Committee and is authorized to:

- have unrestricted and timely access to University functions, books, records, information systems, data, personnel, and property as required to accomplish its mission.
- review and evaluate compliance with policies, procedures, statutes, and regulations of any University activity, program or function.
- have unrestricted access to the Committee.
- obtain the necessary assistance of personnel within the University, as well as specialists from outside the University to assist in providing its assurance and consulting services.
- allocate resources of the office, set frequencies and determine the scope of work for all assurance and consulting services.

### Responsibilities

The Office of Internal Audit has a responsibility to:

- obtain input from the Committee and University Management regarding significant risks or exposures facing the University.
- discuss the adequacy of the University's internal controls over financial reporting, including computerized information system controls and security with the Committee and the CFO.
- review and discuss the following with the Committee and the CFO, as it relates to engagements performed by external auditors:
  - audited financial statements and related footnotes;
  - reports as required pursuant to the requirements of *Government Auditing Standards* and Federal audit requirements (*OMB Circular A-133*);
  - other reports promulgated by the *American Institute of Certified Public Accountants (AICPA)*, such as reports on agreed upon procedures;
  - remediation plans to address audit findings and internal control deficiencies.

- develop the annual external and internal audit plans and submit the plans to the Committee for review and approval.
- implement the approved annual audit plan, including, as appropriate, any special tasks or projects requested by the Committee and/or University Management based on risk or control concerns.
- provide the Committee with a periodic status on the scope, progress, results of projects included in the internal audit plan, as well as the progress and results of the external audit plan.
- perform requested consulting services to assist the Board of Regents and/or University Management in meeting their responsibilities to the University.
- assist in the investigation of alleged fraudulent activities within the University, if any, as appropriate, and notify the Committee, the Vice President for Legal Affairs/University General Counsel and the CFO of its findings and results.
- with respect to external auditors, the Director of the Office of Internal Audit shall:
  - coordinate all audit activities related to the University;
  - foster a cooperative working relationship;
  - reduce the incidence of duplication of effort; and
  - promote appropriate sharing of information.

### **Professional Standards and Ethics**

The Office of Internal Audit has adopted the following:

#### **Principles**

- **Integrity**  
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity**  
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality**  
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency**  
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

## **Rules of Conduct**

### Integrity

- Perform work with honesty, diligence, and responsibility.
- Observe the law and make disclosures expected by the law and the profession of internal audit.
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession or to the University.
- Respect and contribute to the legitimate and ethical objectives of the University.

### Objectivity

- Not participate in any activity or relationship that may impair or be presumed to impair an unbiased assessment. Participation includes those activities or relationships that may be in conflict with the interests of the University.
- Not accept anything that may impair or be presumed to impair professional judgment.
- Disclose all material facts known, that if not disclosed, may distort the reporting activities under review.

### Confidentiality

- Exercise prudence in the use and protection of information acquired during the performance of duties.
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the University.

### Competency

- Engage only in services for which auditors possess sufficient knowledge, skills, and experience.
- Continually improve the proficiency, effectiveness, and quality of services.

## **Reporting**

The Office of Internal Audit will communicate and distribute the results of services provided by external audit organizations and the Office of Internal Audit to appropriate University personnel. This includes:

### External Audits

- Receive and distribute external auditor reports to the Committee, the auditee, appropriate members of University Management and others as directed by the Committee.
- Gather and follow up on comments and questions raised by the Committee, the auditee, University Management and other University personnel regarding external reports.
- Communicate the comments and questions to the external auditors.
- Provide responses to the Committee, the auditee, University Management and other personnel regarding their comments and questions.
- Review proposed corrective action responses related to findings and recommendations prepared by University Management and other University personnel.

### Internal Audits

- Provide periodic summary reports to the Committee Chairperson documenting the results of the procedures performed with respect to projects performed by the Office of Internal Audit pursuant to the internal audit plan.
- At the discretion of the Committee's Chairperson, provide final reports and other information to the Committee Chairperson and other members of the Committee and Board of Regents.
- Distribute draft reports to the auditee for review and comments.
- Review proposed corrective action responses related to findings and recommendations prepared by the auditee and if applicable, University Management.
- Distribute final reports to the auditee and members of University Management as appropriate.