

STAND. COM. REP. NO.

679

Honolulu, Hawaii

MAR 04 2021

RE: S.B. No. 1225
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2021
State of Hawaii

Sir:

Your Committee on Judiciary, to which was referred S.B. No. 1225, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE UNIVERSITY OF HAWAII BOARD OF REGENTS INDEPENDENT AUDIT COMMITTEE,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Allow the chairperson of the Independent Audit Committee (IAC) of the University of Hawaii Board of Regents to be selected in a manner consistent with its bylaws;
- (2) Clarify that the responsibility of the IAC as to the University of Hawaii's enterprise risk management is to oversee, rather than engage in pertinent operations;
- (3) Exempt from chapter 91 and part I of chapter 92, Hawaii Revised Statutes, discussions between the IAC and internal or external auditors on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees; and
- (4) Allow the IAC chairperson to determine whether IAC discussions that are exempt from chapter 91 and part I of chapter 92, Hawaii Revised Statutes, may be held



without the presence of the President or Chief Financial Officer of the University of Hawaii.

Your Committee received testimony in support of this measure from the University of Hawai'i System Office of the Board of Regents.

Your Committee finds that the IAC within the Board of Regents was created in 2013 and established under section 304A-321, Hawaii Revised Statutes, as well as the Board's bylaws, in response to concerns about the Board of Regents' role in the oversight, accountability, and transparency of the University of Hawaii's fiscal and operational administration, including enterprise risk management, finance, and accounting. While the Board of Regents' Chairperson appoints the chairperson and voting members of each of the standing committees in compliance with the Board of Regents' bylaws, section 304A-321, Hawaii Revised Statutes, requires that the chair of the committee be selected by and from members of the committee.

Your Committee finds that this unique selection process for the IAC chairperson has presented challenges to the administration of IAC meetings when the IAC chairperson's term on the Board, and consequently the chairperson's term on the IAC, ends on June 30, and the IAC membership is pending election by the Board Chairperson. For other Board standing committees, the Board Chairperson may appoint the voting members and chairpersons at the first Board meeting after June 30, and the appointed chairpersons may plan and set the agenda for the committees' first meeting thereafter. Since existing law does not allow the Board Chairperson to appoint the IAC chairperson, there will be no chairperson to plan and set the agenda for the first IAC meeting. This measure prevents such problems from occurring by allowing the Board Chairperson to appoint an IAC chairperson in a manner consistent with the appointment process of other committee chairpersons.

Additionally, this measure explicitly exempts the IAC from part I of chapter 92, Hawaii Revised Statutes, when the IAC is engaging in discussions with internal or external auditors on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees and provides discretion to the chair of the committee



to determine if these discussions may take place in the absence of the President or Chief Financial Officer of the University of Hawaii.

As affirmed by the record of votes of the members of your Committee on Judiciary that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1225, S.D. 1, and recommends that it pass Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Judiciary,



KARL RHOADS, Chair



