



UNIVERSITY
of HAWAII
SYSTEM

**House Committee on Higher Education & Technology
Friday, February 5, 2021, 2:00 p.m.**

Testimony by:

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

**H.B. No. 1071 – RELATING TO UNIVERSITY OF HAWAII BOARD OF REGENTS
INDEPENDENT AUDIT COMMITTEE**

Chair Takayama, Vice Chair DeCoite, and members of the Committee:

The Office of the Board of Regents (Board Office) supports H.B. No. 1071 which allows the Chair of the Independent Audit Committee (Committee) of the University of Hawaii (University) Board of Regents (BOR) to be selected in a manner consistent with the BOR's Bylaws and clarifies the Committee's oversight role with regard to the University's enterprise risk management activities.

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

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

The Board Office is requesting that an additional amendment be made to this measure. While the Committee is currently exempt from the provisions of Part I of Chapter 92, HRS, and may meet in executive session to the extent that it is engaging in discussions or proceedings arising from an investigation by the Committee relating to potentially actionable civil or criminal conduct, whether or not the investigation is pending or

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outstanding, it appears that the Committee is prohibited from meeting with internal and external auditors in executive session to discuss matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees. The Board Office is offering, for consideration, language that attempts to address this issue by explicitly exempts the Committee from Part I of Chapter 92, HRS, when the Committee is "...engaging in discussions with internal or external auditors on matters that should remain confidential, in accordance with nationally recognized best practices for independent audit committees..." and provides discretion to the chair of the Committee to determine if these discussions may take place in the absence of the president of the University of Hawaii or the chief financial officer of the university. For your convenience, draft language containing the aforementioned amendment is attached to this testimony.

Thank you for the opportunity to testify in support of H.B. No. 1071, with additional proposed amendments.

ATTACHMENT: H.B. No. 1071 - Proposed HD1

A BILL FOR AN ACT

RELATING TO THE UNIVERSITY OF HAWAII BOARD OF REGENTS
INDEPENDENT AUDIT COMMITTEE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 304A-321, Hawaii Revised Statutes, is
2 amended as follows:

3 1. By amending subsection (b) to read:

4 "(b) The independent audit committee shall consist of at
5 least three members but not more than five members who shall be
6 appointed by the chairperson of the board of regents, from among
7 the members of the board of regents, except as provided in this
8 subsection. The chair of the independent audit committee shall
9 be selected [~~by and from among its members.~~] in a manner
10 consistent with the bylaws of the board of regents.

11 The independent audit committee shall include one or more
12 individuals with financial expertise. [~~If no member of the~~
13 ~~board of regents has the requisite skills, the board of regents~~
14 ~~shall execute other arrangements, which may include the~~
15 ~~appointment of members of the general public who possess the~~
16 ~~requisite financial expertise to the independent audit committee~~
17 ~~to ensure that the independent audit committee has the capacity~~
18 ~~to carry out its duties.]"~~

19 2. By amending subsection (d) to read:

1 "(d) The independent audit committee shall be exempt from
2 chapter 91 and part I of chapter 92 to the extent that the
3 independent audit committee is engaging in discussions with
4 internal or external auditors on matters that should remain
5 confidential, in accordance with nationally recognized best
6 practices for independent audit committees, or proceedings
7 arising from an investigation by the independent audit committee
8 relating to potentially actionable civil or criminal conduct,
9 whether or not the investigation is pending or outstanding. At
10 the discretion of the chair of the independent audit committee,
11 discussions under this subsection may be held in the absence of
12 the president of the University of Hawaii or the chief financial
13 officer of the university."

14 3. By amending subsection (f) to read:

15 "(f) The independent audit committee shall engage in
16 [~~operations~~] oversight relating to enterprise risk management
17 including:

18 (1) Providing oversight of risk management, which shall
19 include determining overall strategy and influencing
20 the university's risk philosophy;

21 (2) Inquiring of the president of the University of
22 Hawaii, the chief financial officer of the university,

1 and external auditors about significant risks or
2 exposures faced by the university;

3 (3) Assessing steps that the president of the University
4 of Hawaii has taken or proposes to take to minimize
5 those risks to the university and periodically
6 reviewing compliance with those steps; and

7 (4) Reviewing with the general counsel of the University
8 of Hawaii, external auditors, external counsel, and
9 the chief financial officer of the university legal
10 and regulatory matters that, in the opinion of the
11 president of the University of Hawaii, may have a
12 material impact upon the financial statements, related
13 organization compliance policies, and programs and
14 reports received from regulators."

15 SECTION 2. Statutory material to be repealed is bracketed
16 and stricken. New statutory material is underscored.

17 SECTION 3. This Act shall take effect upon its approval.

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Report Title:

University of Hawaii Board of Regents; Independent Audit Committee

Description:

Allows the chair of the Independent Audit Committee of the University of Hawaii Board of Regents to be selected in a manner consistent with its bylaws and makes other clarifying amendments. Allows the Independent Audit Committee to engage in discussions on certain matters with the internal or external auditor on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees and allows discussions to be held in the absence of the President of the university or Chief Financial Officer of the university.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.