

1 SECTION 2. Section 103D-203, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) The chief procurement officer for each of the
4 following state entities shall be:

5 (1) The judiciary--the administrative director of the
6 courts;

7 (2) The senate--the president of the senate;

8 (3) The house of representatives--the speaker of the house
9 of representatives;

10 (4) The office of Hawaiian affairs--the chairperson of the
11 board;

12 (5) The University of Hawaii--the president of the
13 University of Hawaii; provided that for contracts for
14 construction and professional services related to
15 construction the state administrator of the state
16 procurement office of the department of accounting and
17 general services shall serve as the chief procurement
18 officer;

19 (6) The department of education, excluding the Hawaii
20 public library system--the superintendent of
21 education;



- 1 (7) The Hawaii health systems corporation--the chief
2 executive officer of the Hawaii health systems
3 corporation; and
- 4 (8) The remaining departments of the executive branch of
5 the State and all governmental bodies administratively
6 attached to them--the administrator of the state
7 procurement office of the department of accounting and
8 general services."

9 SECTION 3. Section 304A-105, Hawaii Revised Statutes, is
10 amended by amending subsection (b) to read as follows:

11 "(b) The board of regents shall develop internal policies
12 and procedures for the procurement of goods[~~✓~~] and services[~~✓~~
13 ~~and construction~~], except for professional services related to
14 construction, consistent with the goals of public accountability
15 and public procurement practices, subject to chapter 103D."

16 PART II

17 SECTION 4. Chapter 304A, Hawaii Revised Statutes, is
18 amended by adding a new section to subpart A of part I to be
19 appropriately designated and to read as follows:

20 "§304A- Independent audit committee; established. (a)

21 There is established within the board of regents of the



1 University of Hawaii an advisory body to be known as the
2 independent audit committee.

3 (b) The independent audit committee shall consist of at
4 least three members but not more than five members who shall be
5 appointed by the chairperson of the board of regents, from among
6 the members of the board of regents, except as provided under
7 subsection (e). The chair of the independent audit committee
8 shall be selected by and from among its members.

9 (c) The board of regents shall generally:

10 (1) Establish the charter of the independent audit
11 committee and set forth its members' roles and
12 responsibilities;

13 (2) Consider changes to the independent audit committee's
14 charter that are necessary in response to new laws,
15 regulations, and best practices; and

16 (3) Conduct an annual review of the independent audit
17 committee's charter to reassess its adequacy and adopt
18 any proposed and necessary changes to the charter.

19 (d) The independent audit committee shall be exempt from
20 chapter 91 and from part I of chapter 92 to the extent that the
21 independent audit committee is engaging in discussions or
22 proceedings arising from an investigation by the independent



1 audit committee relating to potentially actionable civil or
2 criminal conduct, whether or not the investigation is pending or
3 outstanding.

4 (e) The independent audit committee shall include one or
5 more individuals with financial expertise. If no member of the
6 board of regents has the requisite skills, the board of regents
7 shall execute other arrangements, which may include the
8 appointment of members of the general public to the independent
9 audit committee who possess the requisite financial expertise,
10 to ensure that the independent audit committee has the capacity
11 to carry out its duties.

12 (f) The independent audit committee shall undertake
13 professional development to improve the financial expertise of
14 the independent audit committee as a whole, including:

- 15 (1) Attendance at seminars and conferences;
16 (2) Special speakers at educational sessions; and
17 (3) The study of analytical tools for audit committees.

18 (g) The independent audit committee shall engage in
19 operations relating to enterprise risk management, including but
20 not limited to:



- 1 (1) Providing oversight of risk management, including
2 determining overall strategy and influencing the
3 university's risk philosophy;
- 4 (2) Inquiring of the president of the University of
5 Hawaii, the chief financial officer of the university,
6 and external auditors about significant risks or
7 exposures faced by the university;
- 8 (3) Assessing steps that the president of the University
9 of Hawaii has taken or proposes to take to minimize
10 those risks to the university;
- 11 (4) Periodically reviewing compliance with those steps;
12 and
- 13 (5) Reviewing with the general counsel of the University
14 of Hawaii, external auditors, external counsel, and
15 the chief financial officer of the university legal
16 and regulatory matters that, in the opinion of the
17 president of the University of Hawaii, may have a
18 material impact upon the financial statements, related
19 organization compliance policies, and programs and
20 reports received from regulators.
- 21 (h) The independent audit committee shall hold meetings as
22 needed to address matters on its agenda, but not less frequently



1 than twice per year. The independent audit committee may
2 request the attendance of the president of the University of
3 Hawaii or others to provide pertinent information as necessary.
4 The board of regents shall provide in the charter of the
5 independent audit committee for the independent audit
6 committee's unanimous consent approval of actions to deal with
7 decisions required between meetings.

8 (i) The independent audit committee shall review its
9 effectiveness annually and shall prepare, or oversee the
10 preparation of, an annual report to the board of regents.

11 (j) The independent audit committee annual report shall
12 address other matters affecting the management and organization
13 of the University of Hawaii by engaging in functions, including:

14 (1) Reviewing with the president of the University of
15 Hawaii and the external auditor the effect of any
16 regulatory and accounting initiatives and unique
17 transactions, including relationships with legally
18 separate entities, to determine whether the accounting
19 for those transactions applied best practices;

20 (2) Reviewing significant related party transactions;

21 (3) Reviewing with the president of the University of
22 Hawaii and the chief financial officer of the



1 university, any interim financial reports or reports
2 on internal control issued with respect to the
3 university since the last meeting of the independent
4 audit committee; and

5 (4) Reviewing with any external auditor who performs an
6 audit the following:

7 (A) All critical accounting policies and practices
8 used by the external auditor; provided that:

9 (i) All alternative treatments of financial
10 information within generally accepted
11 accounting principles have been discussed
12 with the president of the University of
13 Hawaii;

14 (ii) The ramifications of each alternative are
15 discussed; and

16 (iii) The treatment preferred by the university is
17 discussed;

18 (B) Any consultation with audit firms other than the
19 external auditor, including the reasons for, and
20 results of, the consultation; and

21 (C) Any other information relating to significant
22 estimates and judgments.



1 (k) The independent audit committee shall also review with
2 any external auditor and the chief financial officer of the
3 university matters affecting internal control and the internal
4 audit, including:

5 (1) The adequacy of the University of Hawaii's internal
6 control, including computerized information system
7 controls and security; and

8 (2) Any related significant findings and recommendations
9 of the external auditor and internal audit services,
10 together with the responses of the president of the
11 University of Hawaii.

12 (1) The independent audit committee shall also review
13 matters affecting the accounting policies and procedures of the
14 University of Hawaii by:

15 (1) Ensuring that accounting policies, procedures, and
16 related controls are documented and reviewed with the
17 independent audit committee;

18 (2) Reviewing accounting controls annually;

19 (3) Reviewing with the president of the University of
20 Hawaii policies and procedures with respect to
21 officers, key employees, and disqualified persons as



1 defined under section 4958 of the Internal Revenue
2 Code of 1986, as amended; and

3 (4) Inquiring of the president of the University of Hawaii
4 and the chief financial officer regarding the
5 financial health of the university.

6 (m) The independent audit committee shall review the
7 University of Hawaii's antifraud programs and controls and aid
8 in discovery and remedy if incidences of fraud should occur.

9 (n) Notwithstanding part V of chapter 378, the independent
10 audit committee shall review:

11 (1) Procedures for the receipt, retention, and treatment
12 of complaints received by the University of Hawaii
13 regarding accounting, internal accounting controls,
14 auditing matters, or suspected fraud that may be
15 submitted by any party internal or external to the
16 university; and

17 (2) Any complaints that may have been received, the
18 current status of such complaints, and the resolution
19 of such complaints, if any resolution has been
20 reached;

21 provided that complaints under this section shall be accorded
22 the same protections as under part V of chapter 378.



1 (o) With regard to internal control and internal audit,
2 the independent audit committee shall also:

3 (1) Review with any external auditor, the chief financial
4 officer of the university, and the comptroller the
5 audit scope and plan of the internal auditors;

6 (2) Address the coordination of audit efforts to ensure
7 the completeness of coverage, reduction of redundant
8 efforts, and the effective use of audit resources; and

9 (3) Discuss with the chief financial officer of the
10 university and the external auditor opportunities for
11 reliance by the external auditor on the audit
12 activities of any internal audit.

13 (p) For internal audits, the independent audit committee
14 shall review the following with the president of the University
15 of Hawaii and the chief financial officer of the university:

16 (1) Significant findings of internal audits conducted
17 during the university's previous and current fiscal
18 year and the president's responses;

19 (2) Whether internal auditors have encountered
20 difficulties in discharging their responsibilities in
21 the course of their audits, such as any restrictions



1 on the scope of their work or access to required
2 information;

3 (3) Any changes required in the scope of internal audits;

4 (4) The budget and staffing of internal audit operations;

5 (5) An audit plan to govern internal audits; and

6 (6) The compliance of internal audits with the Institute
7 of Internal Auditors' International Standards for the
8 Professional Practice of Internal Auditing.

9 (q) Internal auditors shall meet separately with any
10 external auditor to coordinate audit plans to optimize the
11 ability of the external auditor to rely upon the results of the
12 internal audit team.

13 (r) The independent audit committee shall annually
14 evaluate the performance of the internal audit, including:

15 (1) The adequacy of the audit plan;

16 (2) The management of the execution of the audit plan;

17 (3) The adequacy of human and other resources available to
18 execute the audit plan;

19 (4) The ability of any external auditor to rely upon the
20 internal audit work product in the external auditor's
21 annual audit; and



1 (5) The nature of the findings or results of any internal
2 audits.

3 (s) Subject to approval by the board of regents, the
4 independent audit committee shall select one or more external
5 auditors to be retained by the University of Hawaii. The
6 independent audit committee shall:

7 (1) Approve the audit plan;

8 (2) Establish the audit fees of any external auditor;

9 (3) Pre-approve any non-audit services provided by the
10 external auditor, including tax services, before such
11 services are rendered;

12 (4) Review with the president of the University of Hawaii
13 the significance of contracting out audit services;
14 and

15 (5) Ensure that single audit obligations are incorporated
16 into the annual audit plan.

17 (t) The independent audit committee shall review all
18 material written communications between any external auditor and
19 the president of the University of Hawaii, such as any
20 management letter or schedule of unadjusted differences.

21 (u) The independent audit committee shall annually
22 evaluate any external auditor; provided that communications with



1 the external auditor in the evaluation shall be done so as to
2 maintain the open flow of communication between the external
3 auditor and the independent audit committee.

4 (v) The independent audit committee shall review the
5 following matters relating to the annual audit with the
6 president of the University of Hawaii and any external auditor:

7 (1) The university's annual financial statements and
8 related footnotes;

9 (2) The external auditor's audit of the financial
10 statements and the external auditor's report;

11 (3) The external auditor's judgments about the quality of
12 the university's accounting principles as applied in
13 the university's financial reporting;

14 (4) Any significant changes required in the external
15 auditor's audit plan;

16 (5) Any serious difficulties or disputes with the
17 president of the University of Hawaii encountered
18 during the audit; and

19 (6) Matters to be discussed by Statement on Auditing
20 Standards No. 114, The Auditor's Communication with
21 those Charged with Governance (AICPA, Professional



1 Standards), related to the conduct of the annual
2 audit.

3 (w) The independent audit committee may hire external
4 auditors, legal counsel, or other consultants as necessary, to
5 address any issues arising from:

6 (1) The execution of the whistleblower protection
7 procedures established under subsection (n);

8 (2) Any statutory or contractual procedures when engaging
9 external resources; and

10 (3) The detection of fraud.

11 (x) The independent audit committee shall submit an annual
12 report to the board of regents and the legislature no later than
13 twenty days prior to the convening of each regular session of
14 the legislature on matters that include the following:

15 (1) All instances of material weakness in internal
16 control, including the responses of university
17 management to these instances; and

18 (2) All instances of fraud, including the responses of
19 university management to these instances."

20 SECTION 5. Statutory material to be repealed is bracketed
21 and stricken. New statutory material is underscored.



1 SECTION 6. This Act does not affect rights and duties that
2 matured, penalties that were incurred, and proceedings that were
3 begun before its effective date.

4 SECTION 7. This Act shall take effect upon its approval.



Report Title:

University of Hawaii Board of Regents; Independent Audit Committee

Description:

Repeals the authority of the president of the university of Hawaii to serve as the chief procurement officer for construction contracts and professional services related to construction contracts. Specifies that the State Procurement Officer shall assume those responsibilities. Establishes an Independent Audit Committee within the Board of Regents of the University of Hawaii. (HB114 HD3 Proposed)

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