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# A BILL FOR AN ACT

RELATING TO HIGHER EDUCATION.

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

**PART I**

1  
2 SECTION 1. The legislature finds that the prudent and  
3 transparent management of public funds appropriated by the  
4 legislature and expended by the University of Hawaii is a matter  
5 of statewide concern and therefore under the legislature's  
6 purview pursuant to article X, section 6, of the Hawaii state  
7 constitution.

8 The purpose of this Act, therefore, is to:

9 (1) Require that all University of Hawaii procurements for  
10 construction, including consultant services necessary  
11 for construction, shall be subject to the control of,  
12 and performed by, the department of accounting and  
13 general services on behalf of the University, subject  
14 to certain requirements; and

15 (2) Establish an independent audit committee within the  
16 board of regents of the University of Hawaii to assist  
17 the board in discharging its constitutional powers and  
18 duties with respect to the university.



**PART II**

SECTION 2. Section 304A-105, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

"(b) The board of regents shall develop internal policies and procedures for the procurement of goods, services, and construction, consistent with the goals of public accountability and public procurement practices, subject to chapter 103D.

Notwithstanding any other law to the contrary, all procurements for construction, including consultant services necessary for such construction, shall be subject to the control of, and performed by, the department of accounting and general services on behalf of the university; provided that the department of accounting and general services shall not be responsible for procurements necessary, as determined by the comptroller, for continuing ongoing university projects; provided further that contracts for construction or related construction consultant contracts that are in effect on the effective date of Act , Session Laws of Hawaii 2013, shall not be assumed by the department of accounting and general services but shall remain under the control of the university."

**PART III**



1 SECTION 3. Chapter 304A, Hawaii Revised Statutes, is  
2 amended by adding a new section to subpart A of part I to be  
3 appropriately designated and to read as follows:

4 "§304A- Independent audit committee; established. (a)

5 There is established within the board of regents of the  
6 University of Hawaii an advisory body to be known as the  
7 independent audit committee.

8 (b) The independent audit committee shall consist of at  
9 least three members but not more than five members who shall be  
10 appointed by the chairperson of the board of regents, from among  
11 the members of the board of regents, except as provided in this  
12 subsection. The chair of the independent audit committee shall  
13 be selected by and from among its members.

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

22 (c) The board of regents shall generally:



- 1        (1) Establish the charter of the independent audit  
2                    committee and set forth its members' roles and  
3                    responsibilities;
- 4        (2) Consider changes to the independent audit committee's  
5                    charter that are necessary in response to new laws,  
6                    regulations, and best practices; and
- 7        (3) Conduct an annual review of the independent audit  
8                    committee's charter to reassess its adequacy and adopt  
9                    any proposed and necessary changes to the charter.
- 10       (d) The independent audit committee shall undertake  
11 professional development to improve the financial expertise of  
12 the independent audit committee as a whole, including:
  - 13        (1) Attendance at seminars and conferences;
  - 14        (2) Attendance at educational sessions including special  
15                    speakers; and
  - 16        (3) The study of analytical tools for audit committees.
- 17       (e) The independent audit committee shall engage in  
18 operations relating to enterprise risk management, including but  
19 not limited to:
  - 20        (1) Providing oversight of risk management, including  
21                    determining overall strategy and influencing the  
22                    university's risk philosophy;



- 1       (2) Inquiring of the president of the University of  
2       Hawaii, the chief financial officer of the university,  
3       and external auditors about significant risks or  
4       exposures faced by the university;
- 5       (3) Assessing steps that the president of the University  
6       of Hawaii has taken or proposes to take to minimize  
7       those risks to the university;
- 8       (4) Periodically reviewing compliance with those steps;  
9       and
- 10      (5) Reviewing with the general counsel of the University  
11      of Hawaii, external auditors, external counsel, and  
12      the chief financial officer of the university legal  
13      and regulatory matters that, in the opinion of the  
14      president of the University of Hawaii, may have a  
15      material impact upon the financial statements, related  
16      organization compliance policies, and programs and  
17      reports received from regulators.
- 18      (f) The independent audit committee shall hold meetings as  
19      needed to address matters on its agenda, not less frequently  
20      than twice per year. The independent audit committee may  
21      request the attendance of the president of the University of  
22      Hawaii or others to provide pertinent information as necessary.



1 The board of regents shall provide in the charter of the  
2 independent audit committee for the independent audit  
3 committee's unanimous consent approval of actions to deal with  
4 decisions required between meetings.

5 (g) The independent audit committee shall review its  
6 effectiveness annually and shall prepare, or oversee the  
7 preparation of, an annual report to the board of regents.

8 (h) The independent audit committee annual report shall  
9 address other matters affecting the management and organization  
10 of the University of Hawaii by engaging in functions, including:

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

17 (2) Reviewing significant related party transactions;

18 (3) Reviewing with the president of the University of  
19 Hawaii and the chief financial officer of the  
20 university, any interim financial reports or reports  
21 on internal control issued with respect to the



1 university since the last meeting of the independent  
2 audit committee; and

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

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

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

12 (ii) The ramifications of each alternative are  
13 discussed; and

14 (iii) The treatment preferred by the university is  
15 discussed;

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

19 (C) Any other information relating to significant  
20 estimates and judgments.

21 (i) The independent audit committee shall also review with  
22 any external auditor and the chief financial officer of the



1 university matters affecting internal control and the internal  
2 audit, including:

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

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

10       (j) The independent audit committee shall also review  
11 matters affecting the accounting policies and procedures of the  
12 University of Hawaii by:

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

16       (2) Reviewing accounting controls annually;

17       (3) Reviewing with the president of the University of  
18       Hawaii policies and procedures with respect to  
19       officers, key employees, and disqualified persons as  
20       defined under section 4958 of the Internal Revenue  
21       Code of 1986, as amended; and





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

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

7       (l) Notwithstanding part V of chapter 378, the independent  
8       audit committee shall review:

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

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

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

21       (m) With regard to internal control and internal audit,  
22       the independent audit committee shall also:



- 1        (1) Review with any external auditor, the chief financial
- 2                    officer of the university, and the comptroller the
- 3                    audit scope and plan of the internal auditors;
- 4        (2) Address the coordination of audit efforts to ensure
- 5                    the completeness of coverage, reduction of redundant
- 6                    efforts, and the effective use of audit resources; and
- 7        (3) Discuss with the chief financial officer of the
- 8                    university and the external auditor opportunities for
- 9                    reliance by the external auditor on the audit
- 10                   activities of any internal audit.
- 11        (n) For internal audits, the independent audit committee
- 12 shall review the following with the president of the University
- 13 of Hawaii and the chief financial officer of the university:
- 14        (1) Significant findings of internal audits conducted
- 15                    during the university's previous and current fiscal
- 16                    year and the president's responses;
- 17        (2) Whether internal auditors have encountered
- 18                    difficulties in discharging their responsibilities in
- 19                    the course of their audits, such as any restrictions
- 20                    on the scope of their work or access to required
- 21                    information;
- 22        (3) Any changes required in the scope of internal audits;



- 1        (4) The budget and staffing of internal audit operations;  
2        (5) An audit plan to govern internal audits; and  
3        (6) The compliance of internal audits with the Institute  
4        of Internal Auditors' International Standards for the  
5        Professional Practice of Internal Auditing.
- 6        (o) Internal auditors shall meet separately with any  
7        external auditor to coordinate audit plans to optimize the  
8        ability of the external auditor to rely upon the results of the  
9        internal audit team.
- 10       (p) The independent audit committee shall annually  
11       evaluate the performance of the internal audit, including:
- 12       (1) The adequacy of the audit plan;  
13       (2) The management of the execution of the audit plan;  
14       (3) The adequacy of human and other resources available to  
15       execute the audit plan;
- 16       (4) The ability of any external auditor to rely upon the  
17       internal audit work product in the external auditor's  
18       annual audit; and
- 19       (5) The nature of the findings or results of any internal  
20       audits.
- 21       (q) Subject to approval by the board of regents, the  
22       independent audit committee shall select one or more external



1 auditors to be retained by the University of Hawaii. The  
2 independent audit committee shall:

- 3 (1) Approve the audit plan;
- 4 (2) Establish the audit fees of any external auditor;
- 5 (3) Pre-approve any non-audit services provided by the  
6 external auditor, including tax services, before such  
7 services are rendered;
- 8 (4) Review with the president of the University of Hawaii  
9 the significance of contracting out audit services;  
10 and
- 11 (5) Ensure that single audit obligations are incorporated  
12 into the annual audit plan.

13 (r) The independent audit committee shall review all  
14 material written communications between any external auditor and  
15 the president of the University of Hawaii, such as any  
16 management letter or schedule of unadjusted differences.

17 (s) The independent audit committee shall annually  
18 evaluate any external auditor; provided that communications with  
19 the external auditor in the evaluation shall be done so as to  
20 maintain the open flow of communication between the external  
21 auditor and the independent audit committee.



1        (t) The independent audit committee shall review the  
2 following matters relating to the annual audit with the  
3 president of the University of Hawaii and any external auditor:

- 4        (1) The university's annual financial statements and  
5        related footnotes;
- 6        (2) The external auditor's audit of the financial  
7        statements and the external auditor's report;
- 8        (3) The external auditor's judgments about the quality of  
9        the university's accounting principles as applied in  
10       the university's financial reporting;
- 11       (4) Any significant changes required in the external  
12       auditor's audit plan;
- 13       (5) Any serious difficulties or disputes with the  
14       president of the University of Hawaii encountered  
15       during the audit; and
- 16       (6) Matters to be discussed by the Statement on Auditing  
17       Standards No. 114, The Auditor's Communication with  
18       those Charged with Governance (AICPA, Professional  
19       Standards), related to the conduct of the annual  
20       audit.



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

4       (1) The execution of the whistleblower protection  
5 procedures established under subsection (1);

6       (2) Any statutory or contractual procedures when engaging  
7 external resources; and

8       (3) The detection of fraud.

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

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

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

18                                   **PART IV**

19       SECTION 4. The administrator of the state procurement  
20 office shall submit a report of the administrator's findings and  
21 recommendations, including any proposed legislation, relating to  
22 the transparency, efficiency, and compliance of the University



1 of Hawaii's procurement of construction contracts and  
2 construction-related consultant services pursuant to chapter  
3 103D, Hawaii Revised Statutes, and improvement, if any, in  
4 adhering to the requirements in section 2 of this Act.

5 **PART V**

6 SECTION 5. In printing this Act, the revisor of statutes  
7 shall insert in section 2 of this Act the corresponding act  
8 number of this Act.

9 SECTION 6. New statutory material is underscored.

10 SECTION 7. This Act does not affect rights and duties that  
11 matured, penalties that were incurred, and proceedings that were  
12 begun before its effective date.

13 SECTION 8. This Act shall take effect upon its approval;  
14 provided that section 2 of this Act shall be repealed on July 1,  
15 2015, and section 304A-105(b), Hawaii Revised Statutes, shall be  
16 reenacted in the form in which it read on the day prior to the  
17 effective date of this Act.



**Report Title:**

University of Hawaii; Procurement; Independent Audit Committee

**Description:**

Amends section 304A-105(b), HRS, to require all University of Hawaii procurements for construction, including consultant services necessary for construction, to be subject to the control of, and performed by, the department of accounting and general services on behalf of the University, subject to certain requirements. Requires a report on the impacts of and compliance with the amendments to section 304A-105(b), HRS, to the legislature. Repeals the amendments to section 304A-105(b), HRS, on July 1, 2015. Establishes an independent audit committee within the board of regents of the University of Hawaii. (SD1)

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

