

MINUTES

opportunities and mitigate risks documented in a report dated March 9, 2023, titled "*University of Hawai'i Financial Reserves Review*". He reviewed several of the objectives of the initial audit, as well as recommended corrective actions contained within the report, and noted that the administration has implemented all of the suggested corrective actions to the satisfaction of OIA.

Regent Higaki moved to accept the University of Hawai'i systemwide financial reserves status of corrective action report, seconded by Vice-Chair Lee, and noting the excused absence of Regent Abercrombie, the motion carried with all members present voting in the affirmative.

Chair Akitake thanked VP Young and Amy Kunz, Associate Vice President for Budget and Finance/University Controller, for acting upon the recommendations contained within the audit in a timely and efficient manner.

B. Review and Acceptance of the : D L N ~~S~~ T X D U L ~~X~~ P X D U L X P

UHM administration's commitment to address the outstanding recommendations by December 22, 2023. She then asked Internal Auditor Shizumura if this deadline was met and, if not, whether there were any requests made for an extension. Internal Auditor Shizumura replied that the noted deadline was not met and he was unaware of any requests to extend the deadline. However, he noted UHM administration's provision of several progress reports to OIA and the Board Office regarding corrective action implementation since November 2023. Chair Akitake thanked Internal Auditor Shizumura for his response but emphasized the failure of UHM administration to meet their self-imposed deadline.

Referencing issues noted in the audit report with respect to the luau, Chair Akitake asked Internal Auditor Shizumura to speak to this matter further. Internal Auditor Shizumura briefly reviewed concerns related to luau events held at the Aquarium noted in the initial audit, chief among them being deficiencies in adhering to university policies related to acquiring review and approval from the university's Office of General Counsel (OGC) prior to issuing a concession contract. Subsequent to issuance of the initial audit report, the Aquarium suspended all private event facility rentals and began the process of soliciting a new luau vendor. In July 2023, the Aquarium resumed luau events under a new vendor contract for the period of July 1, 2023, through June 30, 2024, which was reviewed by OGC along with the university's Office of Risk Management (ORM). Although OGC and ORM were involved with the preparation and review of the new Aquarium luau concession contract, which addresses OIA's initial comments about this matter, concerns have arisen regarding language within the new contract pertaining to concession fees and whether the 15 percent of gross revenue option mentioned is based on a per event basis.

Chair Akitake inquired if the university was receiving all of the funds it was owed under the new luau contract. She also asked about the number of luau events held over the period of a week. Internal Auditor Shizumura stated approximately five luau events are held at the Aquarium over the course of a week. Although \$4,000 per event was being received from the vendor, it remains unclear as to whether additional funds are due to the university based upon

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to the end of the fiscal year. Internal Auditor Shizumura verbalized his belief that having such an audit conducted at the end of the fiscal year made the most sense.

Notwithstanding a decision by the Aquarium to not renew the luau concession contract for an additional year as indicated in the management response to this follow-up audit, Chair Akitake inquired as to whether it was Internal Auditor Shizumura's understanding that an accounting of possible monies owed to the university still needed to take place. Internal Auditor Shizumura replied in the affirmative stating the year-end audit mentioned earlier would allow the Aquarium to determine actual revenues generated by the luau concessionaire per event. Should 15 percent of the gross revenues received for an event exceed the \$4,000 concession fee, the concessionaire would be required to remunerate the Aquarium for the remaining balance under the current contract.

Both Chair Akitake and Regent Mawae opined on the lack of a downside to conducting a year end audit of luau concession fees as allowed under the current contract.

Discussions took place between Chair Akitake and Internal Auditor Shizumura regarding the uncertainty of the exact amount of revenues currently being generated by the luau concessionaire absent a year end audit and whether weekly or monthly inquiries by the Aquarium on this matter would be desirable. Chair Akitake and Internal Auditor Shizumura also engaged in a brief dialogue on the internal audit process, including the provision of adequate time for OIA to review management's response to any recommended corrective actions.

Vice-Chair Lee asked if there was a ti (po)0 (w)eny rhewds 4e A Mawd(e f)12 (o)6 ()1

situation. Internal Auditor Shizumura replied that, to the best of his knowledge, the administrative policy had not yet been amended and therefore retained its relevance.

Regent Paloma questioned whether the Aquarium had a dedicated administrative staff. Internal Auditor Shizumura responded in the affirmative.

Provost Bruno briefly spoke about management's response to the follow-up audit pointing out areas where the administration agreed with the review's findings and providing some explanation for the delays in completing all of the corrective actions by the deadline he had committed to.

Chair Akitake asked if her understanding that the luau concession contract failed to adhere to recommended corrective actions contained within OIA's initial audit despite being entered into after the issuance of the status of corrective actions report was correct. Provost Bruno responded that he did not believe Chair Akitake's interpretation of the situation was correct. Internal Auditor Shizumura clarified for Chair Akitake that the initial audit's corrective action is a non-issue because, subsequent to the release of the first audit report, there was a suspension of all private events at the Aquarium, including the luau. However, upon resumption of luau events in 2023, a new concession contract with a luau contractor was issued. While the new contract addressed the concerns raised in the initial audit, questions arose regarding the specificity of concession fee remuneration amounts which is what has been identified in the follow-up audit report currently before the committee.

Mentioning earlier questions about the luau event fees, Chair Akitake requested Provost Bruno to provide his understanding of the situation. Provost Bruno replied that, as he understood it, the luau concessionaire was being assessed a fee of \$4,000 fee per event. An audit would then be conducted at the end of the year to specifically examine the vendor's gross revenues per event to determine whether 15 percent of the proceeds collected exceeded the \$4,000 fee. If such a determination was made, the university would then collect the additional revenues owed to the Aquarium under the conditions contained within the contract. He also noted the UHM administration never intended for monthly audits to be conducted on the luau event.

Given this response, Chair Akitake stated it was not her intention for monthly audits to be conducted on the luau event. Rather, she was suggesting the Aquarium make more frequent inquiries about the revenues being generated by the luau so as to ensure the university was receiving proper compensation as determined by the contract. She then asked if the Aquarium or UHM administration was aware of the monthly proceeds generated by the luau concessionaire. Byron Apo, : D L N ^ N ^ \$ T X D U L X P \$ G P L Q L V W Officer, responded that the Aquarium is provided with monthly revenue statements from the luau vendor, which is currently operating at a loss. He confirmed the Aquarium has been receiving \$4,000 per event; mentioned the implementation of internal procedures to monitor luau attendance, which can provide an estimate of whether or not 15 percent of an event's gross revenue exceeds the event fee stipulated in the luau contract; noted there have only been a few instances over the past nine months where this has occurred; and stated the Aquarium is currently in the process of billing the concessionaire for monies due in those situations. He also reemphasized the purpose

of the year-end audit which is intended to capture every situation where 15 percent of the gross revenues for an event exceeded the \$4,000 fee. In addition, Administrative Officer Apo stated the Aquarium has developed clarifying language to address OIA's concerns relating to the 15 percent figure for concession fees for incorporation into luau contracts should any be issued in the future and is forwarding the noted language to OGC for review.

In view of Administrative Officer Apo's statements, Chair Akitake inquired of Internal Auditor Shizumura as to whether the process implemented by the Aquarium to basically take a head count of luau attendance was an appropriate way of determining the total revenues generated by an event in order to verify whether or not the Aquarium was due additional monies. Internal Auditor Shizumura replied that, as noted by Administrative Officer Apo, the internal processes developed by the Aquarium can provide an estimate of revenues generated based upon headcount but does not provide enough information to determine the exact amount of monies generated for each event. However, as Administrative Officer Apo also correctly stated, the year-end audit is intended to capture this information thus allowing the Aquarium to seek recompense for any funds due in accordance with the luau vendor's contract.

Chair Akitake asked Provost Bruno if the UHM administration was committed to doing an audit of the luau vendor's gross revenues at the end of this fiscal year. Provost Bruno replied in the affirmative stating that UHM administration is already planning on requiring the luau concessionaire

procedure in place at the time of the review. Thus, the findings regarding this particular administrative procedure were included in the report. Should the procedure be eliminated or a new procedure take its place, OIA would need to reassess its findings on this specific issue.

In view of UHM CBO French's response, Chair Akitak ek4 (ed)90 (r7)2 ((f)-1i)4 (eb v)4 (i)6 (ew)6

Office of Internal Auditing for Minnesota State Colleges and Universities and continued to urge committee members and the administration to think of the committee less in an adversarial light and more as an integral partner in the overall system, making the university better and stronger. She also thanked regents for their support of her efforts; provided context to

