



**University of Hawaii
Advisory Task Group on Operational and
Financial Controls Improvement**

July 15, 2013

Mr. James H.Q. Lee, Chair
Committee on University Audits
2444 Dole Street, Bachman Hall 209
Honolulu, Hawaii 96822

Dear Chair Lee:

The Advisory Task Group on Operational and Financial Controls Improvement ("ATG") is pleased to submit its Report on Board of Regents Policies and Practices. This report was presented to the Committee on University Audits at the meeting on July 11. Our work involved reviewing applicable statutes, Board of Regents ("BOR") Bylaws and Policies, organization charts and position descriptions, and interviews with BOR members and staff in accordance with the approved workplan. We also reviewed published materials on leading practices from organizations including the American Council of Trustees and Alumni ("ACTA"), the Association of Governing Boards ("AGB"), the State Higher Education Executive Officers Association ("SHEEO") and the Western Association of Schools and Colleges ("WASC"), among others.

This report is prepared as part of the ATG's current Operational Assessment of University's System Level operations. The purpose of the report is to provide the ATG's observations and recommendations to the BOR for its consideration to improve operations. We would welcome the opportunity to discuss with the Regents and members of the University Administration more of the details to implement operational matters referred to in the report.

Sincerely,

A handwritten signature in black ink, reading "Lawrence D. Rodriguez".

Lawrence D. Rodriguez
Chair, ATG



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BACKGROUND AND SUMMARY OF WORK PERFORMED

Background

On September 5, 2012, the University of Hawaii System (“University”) Board of Regents (“BOR” or “Board”) approved the formation of an Advisory Task Group on Operational and Financial Controls Improvement (“ATG”) to assist the BOR with its oversight of the University’s actions and improvements to policies, internal controls, and practices. The purpose and primary function of the ATG is to oversee, provide input, monitor activities, and guide the scope of an evaluation and improvement initiative specific to operational and financial processes and related internal controls of the University. The ATG reports to the BOR’s Committee on University Audits (“Committee”).

The ATG is comprised of eight members, four members from the BOR, and four from private industry with expertise in financial processes and organizational structure and internal controls. The members of the ATG are:

- James H.Q. Lee, Vice Chair, Board of Regents
- Barry Mizuno, Regent
- Randy Moore, Regent
- Saedene Ota, Regent
- Terri Fujii, Retired Managing Partner, Ernst & Young LLP, Hawaii
- Cory Kubota, Assurance Principal, Accuity LLP
- Patrick Oki, Managing Partner, PKF Pacific Hawaii LLP
- Lawrence D. Rodriguez, Business Consultant, ATG Chair

KMH LLP (“KMH”) was contracted by the University to assist the ATG with its efforts. KMH has provided staff, resources and logistical support to the ATG and conducted necessary research, data gathering and analysis. KMH personnel were present at all interviews and have been tasked with assembling ATG documents and assisting with drafting of the ATG reports.

The ATG’s first effort was to evaluate the operational and financial processes associated with the planned Stevie Wonder Concert. It issued its report to the Committee on November 12, 2012. In that report, the ATG noted that its next effort “...will include determining if the University’s current policies (Board, Executive, and Administrative) require clarification and revision with respect to the assignment or responsibility, delegation of authority, and accountability for duties performed by University personnel.”¹ Not long after that report was issued, the Senate Special Committee on Accountability issued its report on hearings held with respect to the planned Stevie Wonder Concert. That report included recommendations, among others, that the “BOR undertake a thorough review of its policies and procedures to:

- A. Provide clarity over the role and responsibilities of the BOR, President, and Chancellors;

¹ ATG Report to the Committee on University Audits, November 12, 2012



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- B. Ensure clear lines of authority between the BOR, President, and the individual Chancellors; and
- C. Ensure that the policies and procedures facilitate the University's missions."²

With the completion of its first task, the ATG has moved on to its second task, and is conducting an Operational Assessment at the System Level of the University. For purposes of this assessment, "System Level" is defined as the Board of Regents and its direct reports and the University President and her direct reports. This Operational Assessment addresses not only the ATG's original charter and plans following its initial work, but also many of the recommendations included in the Senate Special Committee Report.

While the ATG was not specifically tasked with assisting the University in addressing recommendations included in the Senate Special Committee on Accountability report, many of these recommendations have been an area of focus and will be further commented on in the final ATG report on System Administration Operating Policies and Practices.

The scope of work for this Operational Assessment includes a review of the laws, rules, and regulations governing the University's System Level operations; Board and Executive policies, practices, roles and responsibilities; and delegations of authority. It also includes research on leading practices that combines reviews of published papers from organizations knowledgeable about university governance issues with reviews of existing organizational structures and statutes applicable to a number of other states' universities. Additionally, the ATG has interviewed the Regents and is interviewing key legislators and other government officials, and University System Level management. Interviews are conducted in confidence as the purpose is to gain a better understanding of underlying themes and issues. We have also conducted interviews with presidents and/or obtained information from over 30 U.S. universities and land grant institutions.

As part of the Operational Assessment, the ATG has issued two prior reports. One presented an analysis of legislation introduced during the 2013 Legislative Session that would affect System Level operations of the University. That analysis compared the requirements of the legislation introduced to leading practices. That work, and resulting report, was performed at the request of the BOR to ensure that the ATG had a thorough understanding of the laws, existing and proposed, that affect the University's operations. That report did not contain recommendations or conclusions but included the ATG's comments as to whether the legislation introduced was consistent with, or supported by, leading practices as identified based on the research conducted with the over 30 U.S. universities and land grant institutions. The second report provided a summary of themes and issues that surfaced during our interviews with the members of the BOR. That report was prepared as an informational report for the BOR and, therefore did not include any recommendations or conclusions by the ATG. The report could be used by the BOR as part of a self-evaluation of its interactions and operations conducted pursuant to Section 2-4 of the BOR Policies. As applicable, information gathered in support of those two reports is also used in support of portions of this report.

² Senate Special Committee Report No. 2, Nov 19, 2012



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A model of good governance for the University requires that Board Policies be consistent with the State Constitution, Hawaii Revised Statutes and Hawaii Administrative Rules. Following that model, Executive and Administrative Policies of the University should be in alignment with and supportive of Board Policies. Administrative Policies are then carried out through Administrative Procedures (e.g., Standard Operating Procedures) and, at lower levels, detailed desktop and operating procedures. All of which must be in alignment. Attached as **Appendix A** is an example of such a model.

Article X, Section 6 of the Constitution of the State of Hawaii, grants the BOR *“the power to formulate policy, and to exercise control over the university through its executive officer, the president of the university, who shall be appointed by the board. The board shall also have exclusive jurisdiction over the internal structure, management and operation of the university”*. The ATG believes that this should not be interpreted or imply that the BOR involve itself in the day-to-day management, operation and administration of the University. Rather the BOR must carry out its constitutional mandate by following a model of good governance, formulating policy and exercising appropriate oversight for the system of internal controls at the University.

Summary of Work Performed

The ATG obtained and reviewed the BOR Bylaws and Policies currently in effect, and applicable Hawaii Revised Statutes and Administrative Rules that affect the University. We also conducted research and obtained published materials on leading practices from organizations including the American Council of Trustees and Alumni (“ACTA”), the Association of Governing Boards (“AGB”), the State Higher Education Executive Officers Association (“SHEEO”) and the Western Association of Schools and Colleges (“WASC”). A complete list of the external papers, studies and reports reviewed is included as **Appendix B** to this report. **Appendix C** provides a list of all locally produced documents we reviewed. **Appendix D** provides a summary of leading practices (specific to board practices) that we developed from research using published studies, white papers, and other reports. As mentioned, the ATG also conducted research on leading practices with respect to legislation recently introduced that would affect University System Level operations and interviewed members and staff of the BOR. Members of the ATG have also observed BOR and Committee activities.

This report presents the ATG’s overall analysis of the BOR policies and practices and compares them to leading practices in public institutions of higher education. Unlike the two prior reports, this report draws conclusions and makes recommendations about the BOR policies and practices that do not comport with leading practices.



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ISSUES NOTED

Introduction

We found that the BOR Bylaws and Policies generally represent, or are not inconsistent with, leading practices in public institutions of higher education. The BOR extensively reviewed and updated its Policies in 2010. Mr. Terry MacTaggart, a Senior Fellow with the AGB, reviewed the revised policies and noted that they were “...consistent with the guidelines of both [AGB and WASC] organizations. In fact, they bring Board policies to closer conformity with the spirit of high performing governance that AGB and accrediting agencies expect.”³ Additionally, the Bylaws and Policies are consistent with governing laws, rules, and regulations.

The ATG did identify certain issues with the Board Policies noting the need for periodic review and updating and consideration of amending the policies for certain leading practices that are not addressed in the Board Policies. Additionally, we noted areas where changes to existing Board practices would help improve its operations and effectiveness, some of which may also require changes to policies. In this section we address the need for certain policies, and then the need for improvements in Board practices.

Issues With Board Bylaws and Policies

Board Bylaws and Policy reviews and updates

Leading practices include the periodic review and update of Board Bylaws and Policies⁴. Systematic reviews and updates of Board Bylaws and Policies should be established and required by Policy. Two specific areas needing review and update include the following:

- Board Policies, Chapter 8, Business and Finance, should include a provision for Board review of the University’s actual expenditures compared to its budget. The current policy is silent on Board responsibility once it has approved a budget for submission to the Governor. The Board approved budget can differ markedly from the University budget submitted by the Governor to the Legislature, and also from the budget actually approved by the Legislature. Additionally, the Policy is silent about the Board’s responsibility to review how the University manages expenditures to the actual budget passed into law.
- Board Policies, Chapter 9, Personnel, Section 9-9, Faculty Housing, is outdated. It does not include any discussion of the additional faculty housing on the Manoa Campus. Also, Section 9-9b, University Housing Assistance Program, should be reviewed to determine if such a program is still needed. Additionally, Chapter 9 needs to be reviewed and updated to ensure that references to Hawaii Revised Statutes are current. We understand that several sections within the Personnel policies are currently being addressed with changes and updates proposed by the Personnel Committee.

³ “University of Hawai’i Board of Regents Policy Revision Review” December 13, 2010

⁴ Here We Have Idaho, Page 16



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As noted, these are examples of Board Policies that need to be updated. Regular reviews and pruning of Board Policies are essential in ensuring that current and strategic priorities are reflected in the day-to-day activities of the administration and faculty, as applicable.⁵ A systematic process to review and update the Board's Bylaws and Policies will help ensure that they are current, relevant, reflective of management's intentions and consistent with leading practices. Board Policies currently do not include a policy on Board Policies. A policy on Board Policies would include guidelines on the purpose and content of policies and should provide for periodic reviews and updates of Board Bylaws and Policies. The Board's Bylaws are consistent with leading practices as they place the responsibility for policy research and analysis with the Board Secretary.⁶ However, there is no policy guidance on policy development or review for the Board Secretary to follow.

Two leading practices need to be reflected

Two current leading practices that are not included in Board Bylaws or Policies have their origins in corporate governance but are now considered necessary for universities. One is the need for some form of a whistleblower program,⁷ which is generally included within the charter of an "Audit Committee", and the other is the need for a policy on risk management.

The Committee receives its charter via the Bylaws of the BOR. Article II.D.2.g. of the Bylaws provides the Committee with its charter. This section of the Bylaws, however, does not provide for administration or oversight of a whistleblower program by the Committee, and the Bylaws should be reviewed and updated with respect to this. The Legislature has approved HB 114 which, if it becomes law, is effective July 1, 2013 and requires that the University establish a whistleblower program to be overseen by the Committee. As a result, the Board's Bylaws and Policies will need to be revised to address this and other requirements of the bill.

Risk management and comprehensive enterprise risk assessments have become a necessary leading practice in higher education.⁸ There is no Board Policy with respect to risk management or the need for a comprehensive annual enterprise risk assessment. The Board has previously recognized the need for a risk management process and directed the University's Internal Auditor to develop and initiate one in 2009. The Internal Auditor presented a report to the Committee on the results of its efforts on November 10, 2010.⁹ The report noted that the results of the work would be used to help develop the following fiscal year audit plan for the Internal Auditor. Minutes of the meeting of the Committee provided acknowledgement that an Enterprise Risk Assessment addresses broad risks that the University faces and that it is the responsibility of management to be engaged in the process, not only the Internal Auditor.¹⁰

⁵ Governing Public Colleges and Universities: A Trustee Perspective, Pages 5-6

⁶ Article II.C.3 Board Bylaws

⁷ NACUBO: Steps to Financial Stewardship and NACUB: Assessing Reputational Risk

⁸ The 2011 AGB Survey of Higher Education Governance, Pages 9-11 and "Enterprise Risk Management" presentation provided by Glenn Shizumura, Director of Internal Audit

⁹ University of Hawaii Office of Internal Audit Enterprise Risk Assessment Briefing Summary October 31, 2010

¹⁰ Committee on University Audits meeting minutes, November 10, 2010



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We could find no evidence that there was any follow-up or continuation of the development of an enterprise risk management process. Nor was a formal risk management policy adopted by the BOR. Interviews of the members of the BOR confirmed there is no formal documented risk management process in place.¹¹ The broad statutory responsibilities of the BOR¹² and the importance of risk management to the University on a system-wide basis support the need for a Board Policy on this matter. If HB 114 does become law, the BOR, through its Committee on University Audits, will be required to address risk management throughout the University.¹³

Recommendations

The ATG recommends that the Committee develop and recommend for adoption appropriate changes to Bylaws or Board Policies that:

1. Develop a Board Policy that provides guidance on the development of policies, including the requirement of periodic reviews of Board Bylaws and Policies for continued need, relevance and applicability, and that priority of review of existing Bylaws and Policies be given to Article II.D.2 of the Bylaws and Chapters 8 and 9 of Board Policies;
2. Include the establishment and oversight of a whistleblower program at the University in accordance with HB 114; which will require establishing and maintaining clearly defined policies, procedures and the respective operational infrastructure to ensure the effectiveness of the program; and
3. Require the establishment of a System-wide risk management process that involves leadership from the BOR and management, and the commitment of resources with the experience and knowledge to successfully implement this initiative.

Issues with Board Practices and Operational Effectiveness

General Counsel should report to President instead of BOR

Prior to February 21, 2013, the University's General Counsel ("General Counsel") reported directly to the President and the BOR. At its February 21, 2013 meeting, the BOR changed the reporting relationship such that the General Counsel now reports directly only to the BOR and has a "dotted line", or advisory and informational reporting relationship, to the President. Legislation was introduced during the 2013 Legislative Session that, if enacted into law, would have required the General Counsel to report directly to the BOR (the legislation was not passed by the Legislature). That legislation was reviewed by the ATG and it was noted that having General Counsel reporting directly to the BOR is not consistent with leading practices in institutions of higher education.¹⁴ The ATG noted that "Having the University's General Counsel reporting directly to the Board of Regents is not consistent with leading practice of universities as evidenced by the research."

¹¹ ATG Summary Report on Board of Regent Interviews

¹² Section 304A-105, HRS

¹³ HB 114, HD3, SD2, CD1, 2013 Hawaii State Legislative Session

¹⁴ ATG Report on Legislation Introduced Affecting the University of Hawaii System Level Operations



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The statute authorizing the University to have its own General Counsel states “The board of regents may appoint or retain by contract one or more attorneys who are independent of the attorney general, to provide legal services for the university.”¹⁵ The statutes likewise place all operational responsibilities with the BOR and the BOR then delegates authority to the President to carry out the operations of the University. We found no such delegation to the President with respect to the General Counsel and the ATG feels that such a delegation is warranted. The position description also needs to be updated to reflect the responsibility of this position as a Vice President to be involved with System Level strategic efforts as well as the responsibility of this position as General Counsel to provide legal advice and support to the President and others.

The issue of having the General Counsel report directly to the BOR was addressed by the Senate Special Committee on Accountability and it recommended the BOR review the reporting responsibility of General Counsel.¹⁶ While the BOR needs access to the General Counsel, it does not need to have General Counsel reporting directly to it. The University’s General Counsel should be available to the BOR to provide advice on legal matters. However, the University President needs to be able to access and utilize General Counsel in the daily conduct of business. General Counsel needs to be available to draft and review legal documents and provide legal input and advice on operational matters on a daily basis.¹⁷ Leading practice has General Counsel reporting to the President and, accordingly, the BOR should revisit its action of February 21, 2013. Additionally, the University should seek a change to Hawaii Revised Statutes, if it is deemed necessary to clarify the reporting responsibility of this position.

Establishment of a standard process for member input into BOR agendas

Currently, BOR Agendas are generally established during Agenda Development meetings of the BOR Chair and Vice-Chairs and the President. The perception among the other BOR members is that they do not have input on agenda items. Article II.C.1.e. of the BOR Bylaws gives the Chair the authority to “approve agenda items” for BOR meetings. This does not preclude members or Committee Chairs from requesting items be placed on the agenda. It also does not preclude the Executive Secretary to the BOR from soliciting and reviewing suggestions for agenda items from the BOR members. We understand that items are placed on the agenda at the request of Committee Chairs, but there is no documented process to deal with the requests.

Board operations should be open and transparent.¹⁸ Documented and understood procedures for members to request consideration of items for inclusion on meeting agendas encourage openness and transparency. The BOR should develop administrative policies and procedures for the conduct of its business that include a process for the input of members with respect to placing items on the BOR meeting agenda. The process should include a mechanism for vetting proposed agenda items. This does not mean that all items requested will be put on the agenda, but it does provide an open and transparent process for member input on the BOR agenda.

¹⁵ Section 304A-1005, Hawaii Revised Statutes

¹⁶ Senate Special Committee Report No. 2, November 19, 2012

¹⁷ Ibid

¹⁸ Here We Have Idaho, Page 17



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Committees should be utilized more

BOR agenda items often include receiving testimony and deliberating on action items instead of receiving recommendations from committees and taking action on the committee recommendations. As an example, a presentation on the University's 2013-15 proposed budget was made to the Committee on Budget and Finance in August 2012.¹⁹ No action was taken by that committee. At the October 18, 2012 BOR meeting, the University's Budget Request was presented by the Administration to the BOR for its approval.²⁰ A subject as significant as the University's two-year operating budget should have been thoroughly reviewed by the Committee on Budget and Finance and it should have brought the motion for approval to the BOR.

Effective use of committees is a leading practice that accomplishes a number of objectives.²¹ It enables the Board to focus on the needed decisions while allowing the committees to cover key responsibilities such as conducting hearings, taking testimony, and developing recommendations for Board action on key issues. Additionally, committees can be assigned responsibility to follow-up on issues previously brought to the Board's attention for action. For example, the Committee could relieve the Board of the responsibility to follow-up with the Administration on the status of implementation of recommendations included in the November 15, 2012 ATG Report. The current Bylaws provide for this to occur. Current practice however differs and the Board's time is often consumed with issues that could, and should, be dealt with by committees.

There is acknowledgement that more items are being referred to committees for action than were referred in the past. We commend this movement and encourage further assignment of workload to committees. To that end, the BOR may wish to amend its bylaws to require that appropriate BOR action items be first referred to committees for review and recommendations. In addition, in order to continually drive accountability at the committee level, we encourage each committee to maintain an annual calendar and compliance checklist to ensure all critical tasks are completed and specific duties and responsibilities are accomplished as outlined in the respective committee charters.

Shifting the primary workload to the BOR committees will undoubtedly cause a change in the workload assignments of BOR staff. The BOR should determine the nature and extent of staff resources needed to effectively support the work of the BOR and its committees. It should then evaluate its current staff resources and work assignments to determine how best to address the workload changes. From its observations and interactions with BOR staff during the course of this assessment, the ATG believes that additional staff resources will be necessary to effectively support the BOR.

Strategic planning update process should be reviewed and Board goals established

Section 4-2 of the BOR Policies addresses strategic planning and states that "The Board will periodically approve a long range plan referred to as the strategic or master plan."²² Board

¹⁹ August 22 Committee on Budget and Finance materials and minutes

²⁰ October 18, 2012 BOR Agenda and Meeting Minutes

²¹ The 2011 AGB Survey of Higher Education Governance, Pages 20-21, Governing Public Colleges and Universities: A Trustee Perspective, Pages 9-10 and Here We Have Idaho, Pages 18-19

²² Section 4-2.a(1) Board of Regents Policies



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Policy also mandates that the strategic plan be updated at appropriate intervals, but at least every ten years.²³ The University has developed a comprehensive strategic plan that was updated in 2009. Additionally, the President has undertaken three strategic initiatives that are consistent with the strategic plan. The strategic plan can be found on the University's website at <http://www.hawaii.edu/ovppp/uhplan/>. It identifies the University's goals, actions needed to achieve those goals, and benchmarks to measure success in achieving those goals. A dashboard report measuring the University's progress against its strategic plan is provided to the BOR annually and also is available on the website. However, a majority of the BOR was not involved with the strategic planning process and believes a new or updated strategic plan needs to be prepared and the BOR's participation in the planning process needs to be established.²⁴ Given this level of interest by the BOR, a process to review and update the strategic plan that includes BOR participation may be warranted.

As a supplement to the Strategic Plan, the BOR, at the direction and leadership of the Board Chair, should consider establishing a "Board Goals & Accomplishments" annual or two-year plan. This should lay out in a clear and succinct manner what the BOR would like to see accomplished and is capable of completing in the next one- to two-year period.

Board orientation and training should be enhanced

BOR Bylaws require that new board members receive orientation within one month of the beginning of their term.²⁵ The orientation covers matters such as BOR responsibilities, accreditation standards for Board governance, and BOR Policies and practices. Leading practices include a requirement that "Every board should have a written statement of expectations & responsibility of all board members."²⁶ Leading practices also state that boards "Make it a practice to have all board members sign the statement annually."²⁷ Expectations and responsibility should include ethical conduct, mutual respect, maintenance of confidentiality of information, and other facets of board conduct.

The BOR members believe they have a good understanding of their roles and responsibilities, which are to formulate policy and exercise governance over the University and they are not responsible to "micromanage" the University.²⁸ Their views on how they should carry out these responsibilities, however, vary widely and there is recognition that additional guidance is needed on how to better carry out their responsibilities.²⁹ They believe, and the ATG concurs, that the orientation needs to be more in-depth and expanded to cover more on the BOR's role on higher education governance, strategic planning, board conduct and ethics, and dealing with issues in accordance with the Sunshine Law.³⁰

It is the ATG's view that BOR training following the orientation has been sporadic and generally consists of attending AGB meetings and/or BOR retreats with a facilitator from AGB. The BOR

²³ Section 4-2.a(3) Board of Regents Policies

²⁴ ATG Summary Report on Board of Regent Interviews

²⁵ Article II.E. Board of Regents Bylaws

²⁶ The 2011 AGB Survey of Higher Education Governance, Page 7

²⁷ Ibid

²⁸ ATG Summary Report on Board of Regents Interviews

²⁹ Ibid

³⁰ Ibid



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should receive expert advice from inside and outside the institution throughout their Board service.³¹ The BOR is receptive to this and expressed support of the concept that the training be supplemented with presentations by non-university related personnel who have relevant areas of expertise³² (e.g., corporate CEOs who sit on other corporate boards).

The BOR has acknowledged the need for improved orientation and training and has demonstrated its support for this practice. Current board orientation topics and delivery should be reviewed and updated to incorporate stated needs of the BOR. Consideration should be given to providing outside expertise in Board Governance practices. Additionally, annual board updates on matters such as ethics and board operations should be scheduled as an integral component of the BOR's schedule. The topics and subject matter of board orientation and training can also be used to educate the public about the BOR's roles and responsibilities as a means to help the public understand the BOR's responsibilities are of governance and oversight versus perceptions of the need for the BOR to micromanage University operations.

The ATG also acknowledges that the BOR members come from different backgrounds and will have different expertise and knowledge. The ATG believes that, while additional periodic training should be provided to the entire BOR, it is incumbent upon members of the BOR to individually seek additional external training and updates in areas they have identified as needed.

Enhancement to financial reporting

As pointed out earlier in this report, the BOR's current policy with respect to operating budgets requires only that the BOR prepare a budget for submission to the Governor. The policy does not require the BOR to periodically review the budget against actual expenditures. Article II.D.2.b. of the BOR Bylaws does require the Committee on Budget and Finance to examine expenditure plans and to discuss the implementation of budgetary decisions with the University administration. Leading practices encourage "boards to ensure alignment of institutional priorities and budget expenditures to make sure money is strategically invested in the mission, vision, and plan."³³ This would require an understanding of the entirety of the University's revenue streams, expenditures by categories and programs, and expected outcomes from those expenditures.

In addition to the BOR becoming knowledgeable about the impact of changes made to the budget it initially approved, it should also then be able to review, compare and analyze actual expenditures compared to the University's legislatively approved budget. Leading practices also suggest that the BOR have full access to accurate financial reports, including balance sheets, income statements, and records of cash flow (or equivalents for all three).³⁴ Periodic submission and review of key reports, including balances sheets and income statements, and reports comparing budgeted expenditures to actual expenditures will help serve that purpose.

³¹ Here We Have Idaho, Page 17

³² Ibid

³³ The 2011 AGB Survey of Higher Education Governance, Page 33 and Asking Questions Getting Answers: A Guide for Higher Ed Trustees, Page 9

³⁴ Asking Questions Getting Answers: A Guide for Higher Ed Trustees, Page 9



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To promote board accountability, the BOR should also help develop and support key performance indicators to be included in the reports.³⁵

Opportunities to improve Board meeting time utilization

During our interviews, review of BOR practices, observations at BOR meetings, and other discussions, the ATG identified certain other practices that, if changed, could provide more time for the BOR to deal with necessary action items. These items may not rise to the level of leading practices, but can improve board operations. They are presented here.

Ensuring follow-up reports pursuant to BOR request or direction

The BOR often receives reports and makes comments and provides direction for follow-up and feedback by the Administration. Board effectiveness is strengthened when such items are scheduled for follow-up and review. As mentioned before, committees can help by performing the follow-up. However, the follow-up items must be placed on the appropriate agenda. The Board Secretary is responsible to maintain the calendar of the BOR's unfinished business³⁶ which would include the need for follow-up on prior directives. The Board Chair should work with the Board Secretary to ensure that such unfinished business be placed on the appropriate BOR or committee agendas.

Changing how certain items on the agenda are handled

The BOR currently has recurring agenda items at each meeting. For example, the UH Foundation and President each provide informational reports at each regularly scheduled meeting. Informational reports are useful, but they may also be submitted in writing and can be acknowledged and accepted by a motion and vote. If the BOR wants the benefit of presented testimony and the ability to ask questions, the reports can be referred to appropriate committees and the committees may bring the motion to accept the reports to the full Board.³⁷ Other options would be to receive the reports less frequently than every meeting, or to place reports on a consent agenda.

The consent agenda is a tool used to streamline meeting procedures by collecting routine, procedural, informational and self-explanatory non-controversial items into a group whereby all are passed with a single motion and vote.

Schedule "informational only" meetings

Scheduling informational only meetings allows the BOR, and its committees, to publicly notice meetings and yet does not require public input or testimony other than invited testimony or informational briefings. These meetings can be used for the members to meet, ask questions of those presenting, and learn about issues without the need to take any action.

Standardized reporting formats

The BOR receives documents for review in various formats and styles. Reports that the BOR should review need to be consistent and comparable. They should also be linked, when

³⁵ Governing Public Colleges and Universities: A Trustee Perspective, Page 3

³⁶ Article II.C.3.h. Board Bylaws

³⁷ The 2011 AGB Survey of Higher Education Governance, Page 21 and Asking Questions Getting Answers: A Guide for Higher Ed Trustees, Page 11



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applicable, to the University's Strategic Plan. To that end, standardized reporting templates can assist the BOR in its review. Using templates provides for more presentation consistency and comparability as like information (e.g., revenues, costs, trends, and key statistics) is presented in the same location and sequence, thus enabling quicker review and understandability by the BOR. It also can be used to identify the linkage between the report elements and the University's Strategic Plan.

The ATG recognizes the BOR currently receives standardized action memos for certain items and dashboard reports on the Strategic Plan. The ATG understands that the nature and content of standardized reports will need to be developed through a collaborative dialogue between the BOR and University management. The ATG supports extending these concepts of standardization to other agenda reporting requirements and is willing to assist the dialogue between the BOR and Administration to discuss preferences on what and how information is presented.

Establish a prescribed total amount of time for public input

The BOR currently allows public input at the beginning of each meeting. It does limit the time for each person's input to three minutes. However, it does not have a prescribed total limit on the amount of time for all public input. As a result, there are times that the public input portion of the agenda goes to the point that other agenda items may have to be carried over to future meeting dates. Limiting the total amount of time on the agenda, and noting clearly on the agenda that only that amount of time is available for public input will provide more time for action items that follow.

Recommendations

The ATG recommends that the Committee present the following recommendations to the BOR for consideration and action to improve its practices and operational effectiveness:

1. The Board work with the BOR Secretary to develop a process for maintenance of unfinished business and ensuring that such unfinished business be placed on the appropriate BOR or committee agenda for follow-up and completion.
2. The BOR approve having the University's General Counsel report directly to the University President and delegate the authority necessary to the President to oversee this position. The General Counsel should have a dotted line reporting responsibility to the BOR to be able to provide it with advice and bring matters to its attention.
3. The BOR adopt an administrative procedure that members may follow to request that items be placed on the BOR Agenda. The procedure should also include a section for feedback to members on disposition of the requests.
4. The BOR amend its bylaws to require appropriate action items be first referred to committees for review and recommendations. Each committee should maintain an annual calendar and compliance checklist to ensure all critical tasks are completed and specific duties and responsibilities are accomplished as outlined in the respective committee charters.

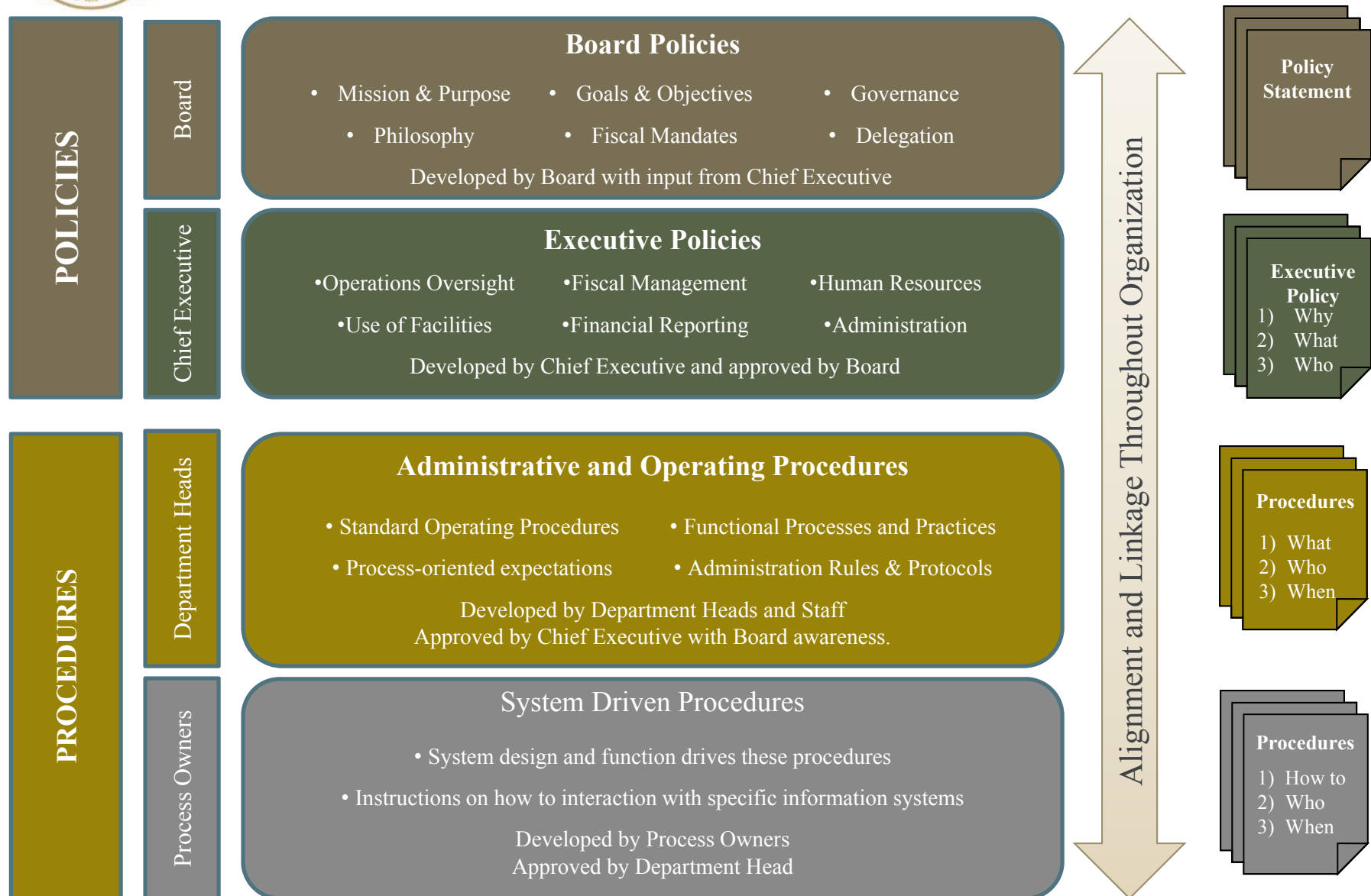


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5. The BOR determine the nature and extent of staff support needed to support the additional workload of the committees and evaluate its current staff resources and assignments to determine changes needed to support the committee's workload.
6. The BOR work with Administration to ensure the Strategic Plan be regularly reviewed and updated with Board involvement. The Board, at the direction and leadership of the Board Chair, establish a "Board Goals & Accomplishments" annual or two-year plan.
7. The Board orientation content be reviewed and updated and that annual board training updates be made part of its annual schedule. The BOR should also ensure that its members annually sign a statement affirming their responsibilities and commitment to meeting the expectations placed upon them as Regents.
8. The BOR improve its accountability and financial oversight of University operations by additional involvement by the Committee on Budget and Finance and improved periodic financial reporting mechanisms (the exact nature of the financial reports should be developed collaboratively by the Committee on Budget and Finance and University Administration but should also include reports comparing budgeted expenditures against actual expenditures).
9. The BOR take steps to improve the effectiveness of its scheduled meetings such as:
 - a. Referring informational items to committees, requiring less frequent reports of a recurring nature, or the use of a consent agenda.
 - b. Scheduling certain meetings as "informational only" meetings with no action items.
 - c. Expanding the use of standardized reports to enable quicker comprehension and understandability.
 - d. After considering compliance with all appropriate legal guidance, establish a prescribed total amount of time for public input at each meeting.



University of Hawaii
Board of Regents – ATG Operational Assessment
Appendix A: Basic Policy and Procedure Framework





University of Hawaii
Board of Regents – ATG Operational Assessment
Appendix B: External Information Reviewed

List of Documents Reviewed:

| Source | Title |
|--|--|
| ACTA | Governance in the Public Interest |
| ACTA | Governing Public Colleges and Universities: A Trustee Perspective |
| ACTA | Here We Have Idaho: A State Report Card on Public Higher Education |
| ACTA | Made in Maine: A State Report Card on Public Higher Education |
| ACTA | At a Crossroads: A State Report Card on Public Higher Education |
| ACTA | Show Me: A State Report Card on Public Higher Education |
| ACTA | For the People: A State Report Card on Public Higher Education |
| ACTA | Shining a Light: A State Report Card on Public Higher Education |
| ACTA | Serving as a Responsible Trustee |
| ACTA | The Basics of Responsible Trusteeship |
| ACTA | Asking Questions Getting Answers: A Guide for Higher Ed Trustees |
| ACTA | Assessing the Presidents' Performance: A "How To" Guide for Trustees |
| ACTA | Strategic Planning and Trustee Responsibility |
| ACTA | Cutting Costs: A Trustee's Guide to Tough Economic Times |
| AGB | State Governance Action Report 2011 |
| AGB | Board of Directors' Statement on Conflict of Interest |
| AGB | Governing in the Sunshine: Open Meetings, Open Records, and Effective Governance in Public Higher Education |
| AGB | Policies, Practices, and Composition of Governing Boards of Public Colleges, Universities, and Systems |
| AGB | Survey of Higher Education Governance |
| AGB | Statement on Institutional Governance |
| AICPA | Audit Committee Toolkit: Government Organizations, 2 nd Edition |
| CASE | Trends in Foundation Structure and Operations |
| NACUBO | The SOX Act of 2002: Recommendations for Higher Education |
| NACUBO | College and University Business Administration: Governance |
| NACUBO | Taking the Right Path: Sarbanes Summit |
| NACUBO | Meeting the Challenges of Enterprise Risk Management in Higher Ed |
| NACUBO | Steps to Financial Stewardship |
| NACUBO | Assessing Reputational Risk |
| Pennsylvania Department of the Auditor General | A Special Report: Recommendations for Governance Reform at the Pennsylvania State University After the Child Sex Abuse Scandal |
| Purdue University | Organizational Excellence |
| SHEEO | Excellence at Scale: What is required of public leadership and governance in higher education? |
| SHEEO | Leadership Qualities of Presidents and Chancellors |
| SHEEO | Board Development Checklist |
| UC Davis | Enterprise wide Risk Assessment: Briefing Summary for Senior Management August 11, 2006 |
| University of Michigan | IT Governance Structure |
| University of Wisconsin-Madison | Enterprise IT Decision-making – Current State Final Report – Executive Summary |
| URIMA | ERM in Higher Education |
| WASC | Accreditation Reports from 2011, 2010, and 2007 |



University of Hawaii
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Appendix C: Locally Produced Documents

List of Documents Reviewed:

| Document Title |
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| Achieving our Destiny, The University of Hawaii at Manoa 2011-2015 Strategic Plan |
| Board of Regents Bylaws |
| Board of Regents Policies |
| Board of Regents Reference Guide |
| Chapters 92 and 304A Hawaii Revised Statutes |
| Enterprise Risk Management Presentation by Glenn Shizumura, Director Internal Audit |
| Hawaii Community College Strategic Plan 2008-2015 |
| Hawaii State Constitution |
| Honolulu Community College Strategic Plan 2008-2015 |
| Internal Audit Office Report on Enterprise Risk Assessment, October 31, 2010 |
| Kapiolani Community College Strategic Plan 2002-2010 |
| Kauai Community College Strategic Plan 2003-2010 |
| Leeward Community College Strategic Plan 2008-2015 |
| Listing of Pending Legislation Potentially Impacting the University of Hawaii, March 19, 2013 |
| Maui Community College Strategic Plan 2003-2010 |
| Minutes from Board of Regents Meetings and Committee Meetings for 2013, 2012, and 2011 |
| Online Community Feedback Forum for Discussion on the Strategic Goals of the University of Hawaii |
| Planning for Hawaii's Future: Second Decade 2010-2020 |
| Position Descriptions for Executive Administrators Reporting Directly To the President |
| Risk Assessment - Items for Consideration, Prepared by Internal Audit |
| Risk Assessment Instructions, Survey, Questionnaire, Prepared by Internal Audit |
| Senate Special Committee Report No. 2013-0139 |
| Title 20 Hawaii Administrative Rules |
| UH Foundation Trustee Self-Assessment |
| University of Hawaii Executive Policies |
| University of Hawaii Hilo Strategic Plan 2011-2015 |
| University of Hawaii Listing of Potential Risks, Prepared by Internal Audit |
| University of Hawaii Manoa: Strategic Plan Timeline |
| University of Hawaii Strategic Goals Brochure 2008-2015 |
| University of Hawaii System Strategic Outcomes and Performance Measures, 2008-2015 |
| University of Hawaii System Strategic Plan: Entering A Second Century |
| University of Hawaii System wide Organizational Chart |
| University of Hawaii West Oahu Strategic Plan 2002-2010 |
| University of Hawaii, Strategic Plan 2005-2009, Presentation Slides |
| University of Hawaii, Strategic Plan 2008-2015, Presentation Slides |
| University of Hawaii: Measuring our Progress 2010 |
| Windward CC Strategic Plan Action Outcomes |



University of Hawaii
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Appendix D: Comparing UH Practice with Leading Practice

| Leading Practice | UH Existing Board Practice |
|--|--|
| Recruiting and Orientation of Board Members: <ul style="list-style-type: none"> Every board should have a written statement of expectations & responsibility of all board members and should discuss it with all potential new members. <ul style="list-style-type: none"> Make it a practice to have all board members sign the statement annually. Trustees should be oriented in their new role and receive expert advice from inside and <i>outside the institution</i> throughout their board service. Trustees should abide by statutes, mission statement, by-laws, regulations, and policy. Vest authority in the governor to appoint the Board and trustees to ensure leadership and accountability. | <ul style="list-style-type: none"> Currently, not a practice to sign written statements of expectations & responsibility, but will be recommended. The authority to appoint board members resides with the Governor of Hawaii. The Governors' appointee is confirmed by the Senate. (HRS 304A-104(a)). "New Board members shall be scheduled to receive an orientation within one month of the beginning of their term. The orientation shall include, among other things, an overview of the University system, BOR responsibilities, accreditation standards for Board governance and BOR policies and practices. New Board members shall also be provided with a Reference Guide covering these and other topics." (BOR Bylaws II. E.) Board orientation should be enhanced to include such matters as board operations and ethics and annual training updates should be conducted. |
| Transparency of Operations: <ul style="list-style-type: none"> Names and contact information of board members should be publicly available and easily accessible. | <ul style="list-style-type: none"> The names of the board members are publicly available at (http://www.hawaii.edu/admin/regents/index.php). The board of regents contact information is available at (http://www.hawaii.edu/offices/bor/). Transparency could be improved through open agenda setting processes and better use of committees. |
| Board Composition: <ul style="list-style-type: none"> The board meets frequently, at least quarterly, and calling other meetings as necessary. Board members attend meetings regularly and there should be a formal process to address members that do not fulfill their obligations. Board should generally be no fewer than seven and not greater than 15. | <ul style="list-style-type: none"> The board is to meet, at a minimum, 10 times annually (BOR Bylaws IV. A.). By law the Board of Regents is designed to consist of 15 members HRS 304A-104(a). Currently there are 15 members. "The Chairperson or acting Chairperson of the Board shall determine if the absence of a member is excusable. The expiration of the member's term shall be effective immediately after the third consecutive unattended meeting and unexcused absence." (BOR Bylaws II. A.) Attendance at Board meetings has not been an issue based on review of board minutes and observation at meetings. |

| Leading Practice | UH Existing Board Practice |
|---|--|
| <p>Strategic Planning:</p> <ul style="list-style-type: none"> • Effective and “high-performing” boards are adamant about defining and monitoring success, progress and failure, and acting accordingly. Accountability reports or checklists are an important part of this process. Leading experts recommend “Dashboards” or “Balanced Scorecards” which are a regular part of board meetings, and not simply reserved for perfunctory annual accountability reports. • Trustees have a responsibility to clarify the mission, articulate the vision, and set broad strategic goals for the institution in achieving that vision. • The approved strategic plan should become the guiding plan that drives decision-making and evaluation processes. • Trustees should evaluate how new courses are introduced and ensure that only courses relevant to the institution’s mission and board-endorsed strategic plan are approved. | <ul style="list-style-type: none"> • A strategic planning process is established and defined. (BOR Policy 4-2) <ul style="list-style-type: none"> ○ The Board will periodically approve a long-range plan referred to as the strategic or master plan. ○ The President, in consultation with the Board, is responsible for updating the strategic plan at appropriate intervals, at least every ten years. ○ The President or their designee must report annually to the Board on accomplishments in carrying out strategy and achieving goals. • Significant strategic planning effort occurred in 2009 with annual updates. • Each Campus has a Strategic Plan that is approved by the Board of Regents. • New courses are presented to the BOR during meetings. Following the presentation a vote is taken to either accept or reject the new course. • Improvements in oversight may be achieved by formal linkage between Board agenda items and the Strategic Plan and involvement of the BOR during Strategic Plan reviews and updates. |
| <p>Risk Management & Oversight:</p> <ul style="list-style-type: none"> • Boards should be engaged in strategic discussions of institutional risk. Boards and Presidents should develop board processes for overseeing risk, identifying a board committee that will make this part of its annual agenda, and charging that committee to report annually to the full board. • Leading institutions have a formal documented process for annual comprehensive risk-assessments. Consideration should be given to internal and external factors that pose risks to the achievement of strategic objectives. | <ul style="list-style-type: none"> • The Committee on University Audits has responsibility to oversee University’s risk management systems, and approve the annual internal audit plan that addresses high risk areas. (BOR Bylaws II.D.2.g.) • There is no formal risk management process in place. An enterprise risk assessment process was begun by Internal Audit at the Board’s direction in 2010. However, although a report was presented, the initiative appeared to lose traction and the Board has not adopted a formal risk management policy. |
| <p>Board Review:</p> <ul style="list-style-type: none"> • The board as a whole should conduct periodic self-assessment. Many effective boards do this annually, but at a minimum once every 2 years. • All boards should conduct periodic assessments of their individual members. • Leading practice assessments are based on the board’s statement | <ul style="list-style-type: none"> • The Board shall conduct a self-study of its stewardship every two years. (BOR Policy, 2-4b) • The Board did a complete review of its bylaws and policies in 2010 which were reviewed and given a positive endorsement by a Senior Fellow of the AGB. • The Board has not conducted a full self-assessment recently. It may schedule that as part of its continued training. |

| Leading Practice | UH Existing Board Practice |
|--|---|
| <p>of expectations & responsibility, and include an opportunity to comment on leadership potential, contributions to the strategic capacity of the board, committee assignments, and the board member's engagement in the culture and work of the board.</p> <ul style="list-style-type: none"> Boards should periodically review bylaws and policies which ensure that boards are abiding by the laws and rules they have set for themselves. Regular reviews and pruning of board and campus policies are essential in ensuring that current and strategic priorities are reflected in the day-to-day actions of the faculty and administration. Effective boards have a professional policy person who reports to the board chair and works collegially with administrative staff. | <ul style="list-style-type: none"> The Board's Bylaws and Policies do not include a "Policy on Policies" to guide it in the development, review, and update of bylaws and policies. The review of its bylaws and policies in 2010 was due, largely to the efforts of the Board Chair and were not the result of a review mandated by policy. The Board Secretary has the responsibility to review proposed Executive Policies and conduct research and analysis of policies relating to board governance. (Bylaws II.C.3.g. and i.) |
| <p>President Selection and Review:</p> <ul style="list-style-type: none"> It is the responsibility of the board to hire, fire, and evaluate the president, and the board should employ both annual and comprehensive presidential assessments throughout the span of a president's service. It is important to allow the president to conduct his or her own self-evaluation. In addition, the President should always be included in setting goals and in designing the processes for their annual and comprehensive assessments. Performance indicators pertaining to institutional progress should be reviewed and included as part of the president's review. A representative sampling of administrators, faculty, staff, students, and alumni should be interviewed to get feedback on the president. A report outlining the presidents' strengths and weaknesses should be written and approved by the board. After the evaluation process is complete, the whole board should approve a development plan for the president. | <ul style="list-style-type: none"> The President is designated the CEO of the University and shall exercise power under the Board. (BOR Policy, 2-2) Guidelines for Presidential Review. (BOR Policy 2-3) <ul style="list-style-type: none"> The President shall submit, based on consultations with the Board, a report stipulating the goals, objectives, and special concerns, both short-term and long-term, for discussion, periodic review, and to be addressed during the subsequent three years. The President submits a self-assessment annually to the board. The board shall provide the President with an evaluation annually. At least every three years the Board must undertake a more in-depth performance evaluation of the President. The President is evaluated annually by the Board. |
| <p>Leading Practice in setting Presidential Compensation:</p> <ul style="list-style-type: none"> Leading practices allow for the full board to be informed of the details of the compensation package for the President. Boards of public institutions (like UH) should be aware of whether the IRS guidelines related to the process of decision making on compensation matters affect them. It is best to follow the process for rebuttable presumption. | <ul style="list-style-type: none"> As a public institution, the compensation of the President is public information. Board policy gives the Board final approval of the compensation of the President. (BOR Policy 9-III.E.1.b) |

| Leading Practice | UH Existing Board Practice |
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| <p>Committee Structure:</p> <ul style="list-style-type: none"> Effective boards have in place a strategic committee structure to focus on what really matters. In creating its committee structure, a board should make sure it supports the major areas of board and institutional focus while still covering key board responsibilities. A leading practice is to have the board structure mirror the institution's strategic priorities using ad hoc committees or task forces for work with a specific, time-limited focus to address pressing issues. To make the best use of board time, be strategic in how committees report. If there is no action item or critical information, include the committee's written report in board materials without an oral report. | <ul style="list-style-type: none"> Defines and establishes the committees of the Board. (BOR Bylaws II.D.) <ul style="list-style-type: none"> The BOR has seven standing committees. The Board could better utilize the committees to enhance board effectiveness as recommended by the ATG. |
| <p>The Audit Committee:</p> <ul style="list-style-type: none"> Leading practice for boards of all institutions is to have audit committees separate from finance committees. The audit committee should report at least annually to the full board on the audit and on financial-accountability matters, although it should meet at least three times annually to ensure that it meets its overall responsibilities and charter. Appoint members with needed expertise and independence. Monitoring board and administration compliance with conflict-of-interest policies. | <ul style="list-style-type: none"> Establishes and defines the role of the Committee on University Audits ("Committee"). (BOR Bylaws II.D.(g)) The Committee reports to the board at least annually on the internal and external audits that have occurred and for approval of the annual plan for the internal audit office. Recently enacted legislation will require the Committee to oversee a whistleblower program for the University. Members of the Committee include those with the financial expertise and experience similar to those required by the SEC for public corporations. |
| <p>Ethics:</p> <ul style="list-style-type: none"> Institutions should adopt a statement of ethical values to which everyone on campus would be held accountable. | <ul style="list-style-type: none"> Members of the Board shall comply with the provisions of these bylaws and are subject to the standards of conduct and financial interest disclosure requirements of Chapter 84, HRS, State Ethics Code, and must act in accordance with Chapter 84, HRS. (BOR Bylaws X.A.) Reinforcement of ethics and ethical conduct through annual board training updates is desirable. |
| <p>Strategic Finance:</p> <ul style="list-style-type: none"> Ensuring board accountability and the value of the price of a college education requires boards to ensure alignment of institutional priorities and budget expenditures to make sure money is strategically invested in the mission, vision, and plan. Boards need to engage with their president, administration, and faculty to determine whether the degrees and programs that were approved piecemeal during times of growth meet current market | <ul style="list-style-type: none"> The BOR has a Committee on Budget and Finance. The committee is to: <ul style="list-style-type: none"> work with the administration relating to operating and capital improvements budgets; Examine the budgetary process, budget proposals, expenditure plans, and development plans; Exercise general oversight and policy direction over the University's financial systems programs. (BOR Bylaws |

| Leading Practice | UH Existing Board Practice |
|---|---|
| <p>demands and fiscal constraints.</p> <ul style="list-style-type: none"> Trustees should have full access to accurate financial reports, including balance sheets income statements, records of cash flow (or equivalents for all three) and audit reports. The board should look at expense categories, and it should assess comparative trends in how funds are allocated to such categories as “instructional support” and “administrative support.” | <p>II.D.2.b.)</p> <ul style="list-style-type: none"> Board oversight of finances could be enhanced through improved review of the legislatively adopted budget and enhanced reporting requirements and follow-up on budget to actual variances. |
| <p>The Board Chair:</p> <ul style="list-style-type: none"> The board chair should communicate regularly about board business. Provide the president with feedback for improvement throughout the president’s tenure, not just during a performance assessment. | <ul style="list-style-type: none"> Board Chair and Vice Chairs have Agenda Development meetings with the President at which Board agenda items are discussed. Based on interviews with Regents, other members are not always informed of the results of the meetings and often feel they have no input on board agendas. |
| <p>Accountability:</p> <ul style="list-style-type: none"> Effective boards don’t confuse effort with results and they focus on the big picture, ensure that budgets and financial incentives are consistent with board priorities, and evaluate outcomes. To promote better accountability, trustees should help develop and support key performance indicators. Develop performance standards to assess the following: <ul style="list-style-type: none"> Actions to improve academic quality. Actions to assess student learning. Actions to control costs and increase efficiency. | <ul style="list-style-type: none"> Metrics for the Strategic Plan are measured for progress and certain financial reports are received and reviewed. Improved reporting through standardized dashboard reports that track financial and operational results to plan would improve board oversight. Standardized reports, where applicable, should be linked to the Strategic Plan. |
| <p>Other Matters:</p> <ul style="list-style-type: none"> The board secretary should be hired and rewarded by, and be responsible only to, the board-not the university president or chancellor. The board should periodically review faculty hiring, review, and promotion procedures to ensure their integrity. | <ul style="list-style-type: none"> The board has its own Secretary (BOR Bylaws II.C.3) The board reviews and approves personnel actions at board meetings. |