

Honolulu, Hawaii

FEB 19 2021

RE: S.B. No. 1225
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2021
State of Hawaii

Sir:

Your Committee on Higher Education, to which was referred
S.B. No. 1225 entitled:

"A BILL FOR AN ACT RELATING TO THE UNIVERSITY OF HAWAII BOARD
OF REGENTS INDEPENDENT AUDIT COMMITTEE,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Allow the chairperson of the Independent Audit Committee (IAC) of the University of Hawaii Board of Regents (Board) to be selected in a manner consistent with the Board's bylaws; and
- (2) Clarify that the IAC's responsibility as to the University's enterprise risk management is to oversee, rather than engage in the pertinent operations.

Your Committee received testimony in support of this measure from the University of Hawai'i System Office of the Board of Regents (Board Office). Your Committee received testimony in opposition to this measure from one individual.

Your Committee finds that the IAC is an advisory body established under section 304A-321, Hawaii Revised Statutes, as well as the Board's bylaws, to provide oversight of the University's compliance with, and internal controls relating to,



various areas of risk management, finance, and accounting. The members of the IAC are appointed by the Board Chairperson from among the Board members. While the chairpersons of the Board's other standing committees are appointed by the Board Chairperson, current law requires that the chairperson of the IAC be selected by the members of the IAC from among the members of the IAC itself.

Your Committee finds that this unique selection process for the IAC chairperson has presented challenges to the administration of IAC meetings when the IAC chairperson's term on the Board, and consequently the chairperson's term on the IAC, ends on June 30, and the IAC membership is pending election by the Board Chairperson. For other Board standing committees, the Board Chairperson may appoint the voting members and chairpersons at the first Board meeting after June 30, and the appointed chairpersons may plan and set the agenda for the committees' first meeting thereafter. However, since existing law does not allow the Board Chairperson to appoint the IAC chairperson, there will be no chairperson to plan and set the agenda for the first IAC meeting. This measure prevents such problems from occurring by allowing the Board Chairperson to appoint an IAC chairperson in a manner consistent with the appointment process of other committee chairpersons. Your Committee also finds that the IAC's responsibility is to oversee, rather than engage in the operations related to, the University's enterprise risk management activities, and that this measure clarifies the distinction.

Your Committee notes the concerns raised by the Board Office that the existing statute does not explicitly exempt from part I of chapter 92, Hawaii Revised Statutes, discussions between the IAC and internal and external auditors on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees. Your Committee also acknowledges the Board Office's request that the IAC chairperson be given authority to determine whether executive sessions that are exempt from chapter 91 and part I of chapter 92, Hawaii Revised Statutes, may occur without the presence of the President or Chief Financial Officer of the University.



Accordingly, your Committee has amended this measure by:

- (1) Exempting from chapter 91 and part I of chapter 92, Hawaii Revised Statutes, discussions between the IAC and internal or external auditors on matters that should remain confidential in accordance with nationally recognized best practices for independent audit committees;
- (2) Allowing the IAC chairperson to determine whether IAC discussions that are exempt from chapter 91 and part I of chapter 92, Hawaii Revised Statutes, may be held without the presence of the President or the Chief Financial Officer of the University; and
- (3) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Higher Education that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1225, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1225, S.D. 1, and be referred to your Committee on Judiciary.

Respectfully submitted on
behalf of the members of the
Committee on Higher Education,



DONNA MERCADO KIM, Chair



The Senate
Thirty-First Legislature
State of Hawai'i

Record of Votes
Committee on Higher Education
HRE

Bill / Resolution No.:*	Committee Referral:	Date:		
SB 1225	HRE, JDC	2/16/21		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Pass, unamended 2312</div> <div style="text-align: center;"><input checked="" type="checkbox"/> Pass, with amendments 2311</div> <div style="text-align: center;"><input type="checkbox"/> Hold 2310</div> <div style="text-align: center;"><input type="checkbox"/> Recommit 2313</div> </div>				
Members	Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)	/			
KIDANI, Michelle N. (VC)	/			
KEITH-AGARAN, Gilbert S.C.	/			
WAKAI, Glenn	/			
FEVELLA, Kurt	/			
TOTAL	5	0	0	0
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: Michelle N. Kidani				
<div style="display: flex; justify-content: space-between; font-size: 0.8em;"> <div>Distribution:</div> <div>Original</div> <div>Yellow</div> <div>Pink</div> <div>Goldenrod</div> </div> <div style="display: flex; justify-content: space-between; font-size: 0.7em; margin-top: 2px;"> <div>File with Committee Report</div> <div>Clerk's Office</div> <div>Drafting Agency</div> <div>Committee File Copy</div> </div>				

*Only one measure per Record of Votes