

MINUTES

BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT MEETING

AUGUST 2, 2018

I. CALL TO ORDER

Committee Vice Chair Wayne Higaki called the meeting to order at 9:05 a.m. on Thursday, August 2, 2018, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Michael McEnerney; Board Vice Chair Jeffrey Portnoy; Regent Douglas Shinsato.

Others in attendance: Board Chair Lee Putnam (ex-officio voting member); Regent Brandon Marc Higa; Regent Randy Moore; Regent Michelle Tagorda; Regent Ernest Wilson Jr. (ex officio committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Associate Vice President for Legal Affairs Gary Takeuchi; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH – West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. ELECTION OF COMMITTEE CHAIRPERSON

Pursuant to state law, the Chair of the Committee on Independent Audit is selected by the members of the committee.

Committee Vice Chair Higaki opened the floor for nominations.

Regent Shinsato nominated Regent McEnerney to serve as chair. There being no other nominations, Committee Vice Chair Higaki declared the nominations closed. The nomination was put to a vote and Regent McEnerney was unanimously elected to serve as the Chair of the Committee of Independent Audit.

Committee Chair McEnerney thanked the committee for their confidence in him. He recognized new committee members Regent Acoba and Regent Shinsato and welcomed back continuing committee members.

III. APPROVAL OF MINUTES OF THE MAY 18, 2018 MEETING

Committee Vice Chair Higaki moved to approve the minutes of the May 18, 2018, meeting, seconded by Regent Shinsato, and the motion carried unanimously.

IV. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office received no written testimony, and no individuals had signed up to provide oral testimony.

V. AGENDA ITEMS

A. For Approval:

1. Committee Goals & Objectives

Committee Chair McEnerney provided a handout that summarized Section 304A-321, Hawai'i Revised Statutes (HRS), and the Board Bylaws regarding the committee's charge over the course of the year. This list will be reviewed through the year to identify areas requiring special attention. He requested that new committee members be provided a copy of the American Institute of CPAs (AICPA) Audit Committee Toolkit. Accuity will be asked to make at least one presentation during the year on an item of reference.

Board Vice Chair Portnoy moved to accept the handout as the format for the committee goals and objectives, seconded by Regent Shinsato, and the motion carried unanimously.

B. For Information & Discussion:

1. Whistleblower Report

Internal Auditor Glenn Shizumura reviewed the latest whistleblower report that includes complaints made to date and their status. He noted that since the report was provided, cases 274, 266, 251, and 201 were closed. Most of the remaining cases are current, but some of the older more complex cases are pending investigation and expected to be closed out in the next month.

Regent Shinsato referenced an August 1, 2018, press announcement by the Chair of the University of Southern California Board of Trustees regarding a compliance issue and highlighted the importance of whistleblowers overcoming their fears and reporting alleged wrongdoings. He noted that UH's whistleblower process seems to be working.

Questions were raised regarding the human resources complaints and how they are processed. Internal Auditor Shizumura explained that the majority of whistleblower complaints involve human resources, and those matters are turned over to the relevant individuals who handle human resources matters at the appropriate campus. Complaints tend to be related to fellow employees or faculty, and occasionally grades, but there have been no real trends. The whistleblower hotline may not be the most appropriate venue for many of the complaints, but it is a convenient mechanism to communicate an issue. Nonetheless, complaints that come through the hotline are investigated and addressed.

President Lassner expressed his thoughts that the university is strengthened by making it easy for individuals to report a complaint, even when it results in a long list, as it makes it more likely that individuals will come forward when there is a serious situation. There are alternatives for complaints such as reporting to a supervisor, human resources, or president's office, which many individuals utilize, but the whistleblower hotline provides another reporting mechanism.

Comments were made that there does not appear to be any reported financial fraud complaints and that the results of the whistleblower hotline are encouraging.

The committee requested that information on the resolution of cases be provided to the extent possible and appropriate, to help identify if there are systemic issues and trends. Committee Chair McEnerney suggested explanation codes instead of verbiage. Committee leadership will work with administration on providing more narrative in reports and summarizing closed cases in a table format.

2. Enterprise Risk Management Report

VP Yoshimi provided an update on the board policy on cybersecurity. Administration worked on revisions to RP 11.208, Information and Communication Technologies, to include cybersecurity. Union consultation is underway and the proposed policy is expected to be ready for the next Committee on Personnel Affairs and Board Governance agenda.

VP Gouveia introduced the UH System Interim Director of Risk Management, Darren Suzuki, who provided the FY18 Office of Risk Management annual report outlining the university's risk financing program including the types and levels of liability and property insurance coverage. He noted that the State of Hawai'i excess insurance for general liability, employment practices liability, and management liability increased from \$7 million to \$9 million. Tort, auto, and property claims have gone down for the second year in a row. Auto claims had the highest numbers and administration is working with the state risk manager on mitigation of those claims. There have been no crime liability claims in the past seven years. At the end of 2017, the state purchased a new \$50 million cyber liability policy. UH is covered by this policy and has not made any claims under this policy. Claims for various exposures that are excluded from coverage by UH and the state have also decreased.

Mr. Suzuki indicated that the Risk Management Office has made presentations to administrators, staff, and faculty on the various campuses to promote systemwide consistency. The feedback from the field has been positive and the plan is to continue offering these sessions in the fall.

Questions were raised regarding whether legal fees were covered in the cyber liability policy, how claims are handled, whether there is insurance coverage for losses suffered due to criminal acts by a third party, and when the enterprise risk management heat map will be updated. Mr. Suzuki indicated that these policies generally cover legal fees if outside counsel is retained. He noted that UH has self-insured retention amounts for general liability, employment practices liability, and management liability, after which

UH's primary insurance kicks in, followed by the state's excess insurance. He did not believe that UH has any insurance coverage for criminal acts by a third party other than property damage.

VP Gouveia explained that after the last heat map was updated and identified cybersecurity as one of the top risks, administration opted into the state's cyber liability policy. She noted that this annual report is not intended to include an update on the heat map, but provides a report on loss history for UH, which is a good indicator of risks. Updates on the heat map will be presented at the next meeting of the Committee on Independent Audit and specific risk category updates will be provided at the appropriate subject-matter committee meetings.

A question was raised regarding insurance for breach of contract and wrongful discharge. Mr. Suzuki indicated that breach of contract claims and wrongful discharge are generally not coverable in the insurance industry. VP Gouveia noted that wrongful discharge claims based on a protected class, sexual harassment, or retaliation would be covered, but general termination would not be covered for those employees covered by collective bargaining agreements. President Lassner added that all but 200 employees are covered by collective bargaining agreements and terminations are handled through that process. The status of settlements and other high-risk matters would be included in the quarterly litigation update done by the Office of the General Counsel.

A question was raised regarding whether anyone from administration attends the annual Black Hat USA cybersecurity conference in Las Vegas. VP Yoshimi responded that historically UH has not attended the conference, but a large number of individuals from the local community regularly attend. UH has chosen not to attend due primarily because of some of the exposures in a large audience, and prefers the conversations to be at the individual level with law enforcement and private entities.

A question was raised regarding whether administration had any success finding data on how UH compares with peers. VP Gouveia responded that administration has found data on the levels of insurance purchased and policy limits, but actual claim or loss history data is typically not publicly available. Mr. Suzuki noted that the brokers informed administration that other insurance companies have not entertained covering other colleges or universities for a self-insured retention less than \$1 million, whereas UH has been allowed to purchase with a \$250,000 self-insured retention for quite some time.

A concern was raised about the impact the recent open carry case could have on the university if it is upheld. President Lassner noted that the state could still appeal the ruling. In most of the states with open carry laws, there are provisions about places that are not open carry such as schools and college campuses. Administration will keep the board informed as things develop.

3. Committee Annual Review

This item was deferred and committee leadership will contact the current committee members for input and bring a revised review back to the committee. There were no objections.

VI. EXECUTIVE SESSION

Upon motion by Committee Vice Chair Higaki, seconded by Board Vice Chair Portnoy, the committee unanimously approved convening in executive session, pursuant to Section 92-5(a)(2), HRS, to discuss personnel matters. The committee convened in executive session at 9:53 a.m. Following a motion to come out of executive session by Committee Vice Chair Higaki, seconded by Board Vice Chair Portnoy, and the motion carried unanimously, executive session was adjourned at 10:49 a.m.

The meeting reconvened at 10:50 a.m. Committee Chair McEnerney stated that the board went into executive session to discuss personnel matters as indicated on the agenda.

VII. ADJOURNMENT

There being no further business, Board Vice Chair Portnoy moved to adjourn, and Regent Acoba seconded, and with unanimous approval, the meeting was adjourned at 10:50 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents