

Audit Committee Meeting

**Tuesday, March 2, 2021
Virtual meeting
8:30 a.m.**



Meeting
AUDIT COMMITTEE
Board of Directors
The Research Corporation of the University of Hawaii
Tuesday, March 2, 2021
Virtual Meeting
8:30 a.m.

AGENDA

Public Testimony on Agenda Items

Due to the COVID-19 pandemic, this will be a virtual meeting. Written/oral testimony will be accepted in lieu of in-person testimony and may be submitted via email to rcuhed@rcuh.com, U.S. mail, or facsimile at (808) 988-8319 up to 24 hours in advance of the meeting. Individuals wishing to provide oral testimony for the virtual meeting must register via email to rcuhed@rcuh.com no later than 7:00 a.m. on the day of the meeting to be accommodated. Oral testimony will be limited to three (3) minutes per testifier. Individuals interested in observing the virtual meeting may email rcuhed@rcuh.com for connection information.

1. Call to Order
2. Approval of Minutes of the October 28, 2020 meeting
3. N&K Management Letter for 6/30/2020 Audit
4. N&K CPAs Fee Proposal for 6/30/2021 Audit
5. Adjournment

c: Office of the Lieutenant Governor

Individuals who require special needs accommodations may request assistance in writing to rcuhed@rcuh.com 48 hours prior to the scheduled meeting.



DRAFT Minutes
AUDIT COMMITTEE
Research Corporation of the University of Hawai'i
Wednesday, October 28, 2020
Virtual Meeting

PRESENT:

Michael Maberry, Ken Hayashida, Jan Sullivan

RCUH Staff: Leonard Gouveia, Glenn Yee, Kaylee Hull, Maile Brooks

CALL TO ORDER:

The meeting was called to order at 9:00 a.m. by Chair Maberry.

APPROVAL OF MINUTES:

Upon motion made (Hayashida), seconded (Sullivan), and duly carried, the minutes of the February 27, 2020 meeting were approved as circulated.

AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDING 6/30/2020

Dwayne Takeno of N&K CPAs presented a summary of the audited financial statements. He reviewed the condensed statements of revenues, expenses, and changes in net position for fiscal years 2020 and 2019. Mr. Takeno noted that the operating loss in FY 2020 was primarily due to salaries and wages, and additional depreciation; he added that the overall net position was pretty consistent.

In the summary of auditor's results, Mr. Takeno explained that the audit was conducted in line with generally accepted and government accepted auditing standards. N&K issued an unmodified report and auditors did not identify any material weaknesses and had no significant deficiencies to report.

As a new committee member, Director Sullivan inquired whether there were any material weaknesses or significant deficiencies from last year's audit. Mr. Yee explained that in FY 2019 RCUH recorded one significant deficiency that involved an actuary miscoding a report, and another issue raised was appropriate approval of timesheets by UH personnel.

As part of N&K's required communications, Mr. Takeno explained the auditor's evaluated management's assumptions and liabilities and the two most significant items are the liability for compensated absences, and postemployment healthcare/life insurance benefits. In terms of difficulties encountered during the audit, N&K mentioned some difficulty in retrieving information from Human Resources due to competing priorities, but Mr. Yee acknowledged that it will be addressed.

As far as corrected misstatements, N&K reported three adjusted statements:

- Accounts receivable – UH and accounts payable
- TCD reclassification from noncurrent to current
- Accounts receivable – UH and salary-related payments for compensated absences.

None of those adjustments had an effect on the income statements.

N&K also noted three uncorrected misstatements that they were not material to the financial statements:

- Allocation of core staff sick leave, salary-related payments for compensated absences, and unemployment reserves
- Fair value adjustment for TCDs
- Adjustment to reflect capital related debt in investment in capital assets

Mr. Takeno concluded the presentation by saying that N&K had no disagreements with management.

Once the floor was open for questions, Director Hayashida inquired about RCUH's requirements to be self-insured for unemployment. Mr. Yee explained that RCUH complies with state requirements to be self-insured. Ms. Brooks noted that in 1997, the state informed RCUH that it would no longer participate in the State of Hawaii unemployment insurance fund, which is when RCUH began charging a fringe benefit rate to help fund its own self-insurance. Mr. Yee added that as of June 30, 2020, the unemployment reserve was \$1.9 million and that RCUH actually pays the state.

Director Sullivan followed up with a question regarding whether RCUH follows a similar procedure for its employees' retirement contributions to the state, in addition to a supplemental retirement plan. Ms. Brooks referred to footnotes in the Financial Statement, which stated that RCUH sponsors a retirement plan for substantially all employees. The Corporation's policy is to contribute 10% of eligible employees' regular compensation, as defined, to the plan, subject to certain limitations. When Director Sullivan expressed her surprise at the high number of RCUH employees, Mr. Yee explained that although the Principal Investigator and Fiscal Administrator will be UH employees, many of the staff who perform the work on UH research projects are probably hired as RCUH employees, hence the high number.

Upon the conclusion of N&K's presentation, Mr. Yee provided a brief rundown of the audit report and management summary and analysis. While reviewing the balance sheet, he reminded the committee that although RCUH holds a high amount of assets and liability, it follows the nature of its service-oriented work (e.g., paying invoices, collecting monies). Mr. Yee explained that RCUH does not own any buildings or vehicles, but its capital assets are reflected as improvements to RCUH's IT system.

Director Sullivan inquired whether RCUH has a reserve policy for its unrestricted funds. Mr. Yee clarified that there was no formal policy, but a goal was established as part of the existing strategic plan to accumulate \$7.5 million in the reserve. If a federal shutdown were to occur, RCUH would be able to operate for a month on its reserves and its line of credit.

Mr. Yee pointed out that RCUH's revenues have been rising and pretty stable in the last three years and that the bulk of RCUH's funds come from UH extramural accounts. He added that RCUH's operating loss was better than its expected loss for FY 2020 and that interest income has risen to over \$500,000 in 2020. RCUH's strategy to improve its cash flow has been the use of ePayments, which offers a 1.1% rebate, and the establishment of a sweep account to maximize the interest income. Looking ahead, Mr. Yee noted that during budget discussions in April 2020, RCUH anticipated a decrease in revenue and proactively cut its revenue budget by 10% and reduced expenditures by 8%. This would result in a suspension of pay increases, hiring of core staff, and a reduction of nonessential expenditures, such as travel.

With the floor open to questions, Director Sullivan requested an explanation for RCUH's BlackRock Fed Fund. Mr. Yee explained that this is similar to taking a checking account and sweeping it into an investment feature with very safe, low-risk government funds and bonds. Mr. Yee confirmed that RCUH has investment guidelines that were approved by the RCUH Board of Directors last year, but it did not have a formal policy. Mr. Gouveia concluded the discussion to announce that this topic is on RCUH's list of things to address in the new strategic plan.

Upon motion made (Sullivan), seconded (Hayashida), the Committee accepted the audited financial statements for FY 2020, in accordance with its board-delegated authority.

ADJOURNMENT

The meeting adjourned at 9:55 a.m.

Kaylee Hull
Executive Administrator

NOTE: Unless otherwise noted in minutes, all motions were passed unanimously.

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII
STATE OF HAWAII**

MANAGEMENT LETTER

Fiscal Year Ended June 30, 2020



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RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI'I

STATE OF HAWAI'I

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December 16, 2020

Board of Directors and Management
Research Corporation of the University of Hawai'i
2800 Woodlawn Drive, Suite 200
Honolulu, HI 96822

In planning and performing our audit of the financial statements of Research Corporation of the University of Hawai'i (RCUH) as of and for the fiscal year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered RCUH's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RCUH's internal control. Accordingly, we do not express an opinion on the effectiveness of RCUH's internal control.

However, during our audit we became aware a matter that could be an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestions regarding that matter. This letter does not affect our report dated October 29, 2020, on the financial statements of RCUH.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the board of directors and others within RCUH, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

N&K CPAs, Inc.

Research Corporation of the University of Hawai'i
State of Hawai'i
CURRENT FINDINGS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2020

2020-001 Formalize Year-End Closing Process

During the audit, we noted that there were certain adjustments that were corrected by management to properly record year-end transactions as follows:

- An adjustment to reclassify time certificates of deposit from non-current assets to current assets as presented in the financial statements of net position.
- An adjustment to record accounts payable and related receivables due from the University of Hawai'i.
- An adjustment to accrue salary-related payments for compensated absences.

We also noted the following misstatements during our audit, all of which were not recorded by management.

- Proposed adjustments to accrue sick and unemployment reserve payables and related expenses to the Research Corporation of the University of Hawai'i core staff project accounts.
- A proposed adjustment to record the fair value adjustment for negotiable certificates of deposits.
- A proposed adjustment to include adjustment for capital related debt (accounts payable) within the invested in capital assets component of net position.
- A missing disclosure for a transaction with the University of Hawai'i.

Recommendation

We recommend management develop a formalized year-end closing and review process, including individuals and their responsibilities in order to provide the level of review and approval necessary to facilitate the review of accounting data and financial information used to prepare financial statements that are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Finding 2020-001 Formalize Year End Closing Process

During the audit, it was noted that management recorded certain proposed audit adjustments to properly report year-end balances. It was also noted that management did not record several misstatements for proposed adjustments and a missing disclosure.

Recommendation:

Management should develop a formalized year-end closing and review process, including individuals and their responsibilities in order to provide the level of review and approval necessary to facilitate the review of accounting data and financial information used to prepare financial statements that are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Management's Response:

The Director of Finance and Controller will review and improve existing procedures, and design and implement additional procedures to ensure the accuracy and efficiency of the year-end closing process and financial statement preparation. Formal procedures will include planning, communications, checklists, reviews, and approvals.

February 19, 2021

Mr. Glenn Yee
Director of Finance
Research Corporation of the University of Hawaii
Submitted via e-mail to
GYee@rcuh.com

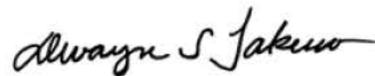
Thank you again for giving us the opportunity to express our interest in continuing to provide professional audit services for the Research Corporation of the University of Hawaii (Corporation). This letter amends our letter dated February 3, 2021 regarding our proposed fees. Based on our discussions, our revised proposed fees are will continue to be [REDACTED] for the year ended June 30, 2021.

We understand the Corporation would also like us to audit summary financial statements of the Corporation, which comprise the summary statement of financial position as of June 30, 2021, the related summary statements of revenues, expense and changes in net position, and cash flows for the year ended June 30, 2021, and the related notes to the summary financial statements. The objective of the audit of the summary financial statements is an expression of an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements from which they have been derived for inclusion in the annual report of the Corporation. Our discounted proposed fees for this service is estimated to be [REDACTED]

We would be pleased to meet with you to answer any questions you may have. We hope to have the opportunity to continue to work with you.

Sincerely,

N&K CPAs, Inc.



Dwayne S. Takeno
Principal