



Minutes  
BOARD OF DIRECTORS  
Research Corporation of the University of Hawai'i  
Tuesday, December 1, 2020  
Virtual Meeting

**PRESENT:**

Eugene Bal, Kelli Goodin, Ken Hayashida, Chair Donna Ikeda, David Karl, Vice Chair Michael Maberry, Jan Sullivan, Vassilis Syrmos

RCUH Staff: Leonard Gouveia, Nelson Sakamoto, Glenn Yee, Kaylee Hull  
Attorney General's Office: Reese Nakamura

**CALL TO ORDER:**

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

**APPROVAL OF MINUTES:**

Upon motion made (Bal), seconded (Sullivan), and duly carried, the minutes of the September 1, 2020 meeting were approved as circulated.

**FINANCIAL STATEMENTS FOR MONTH ENDED 10/31/2020**

Mr. Yee reviewed the financial statements for the period ending 10/31/20. He noted that although RCUH is slightly down in total assets compared to last year, the balance sheet is stable and the fluctuation is within a normal range. Mr. Yee also announced that RCUH made a \$3 million short-term investment into a First Hawaiian Bank Short-Term Government Strategy Account in conjunction with the investment guidelines approved by the RCUH Board of Directors in December 2019. He explained that RCUH typically invests in Time Certificates of Deposits, however interest rates have been extremely low, capping out at around 0.2%. The short term investment is for very low-risk funds (e.g., U.S. treasury, U.S. agency notes) and the approximate rate of return is up to 1.75%. Mr. Yee stated that this is RCUH's first investment in this type of fund and will monitor its progress.

Mr. Yee remarked that overall activity is slightly less than expected due to a decrease in extramural expenditures; total expenditures running through RCUH (for the first four months of FY 2021) is 8-9% lower compared to last year. He added that RCUH is performing better than its anticipated budgeted loss and that the organization remains under budget in spending. Mr. Yee also reported an increase in extramural awards compared to last fiscal year (based on data from the UH Office of Research Services), and said that RCUH expects to see increased activity in November's financials.

**REPORT OF AUDIT COMMITTEE**

Audit Committee Chair Maberry reported on the committee's October 28, 2020 meeting. He noted per the Board's delegation, the Audit Committee met with N&K CPAs to accept the financial audit for FY 2020 ending June 30, 2020. Dwayne Takeno, N&K's principal CPA, presented a summary of the audited financial statements and the independent auditors report. Mr. Takeno reviewed the condensed statements of revenues, expenses, and changes in net position for fiscal years 2019 and 2020, and 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 as compared to the prior year. Mr. Takeno disclosed that N&K's independent audit report reflects that the financial statements are fairly stated (a clean audit opinion) and that they did not identify any material weaknesses or significant deficiencies.

Upon motion made (Maberry), seconded (Karl), and duly carried, the Board ratified the Audit Committee's acceptance of the financial audit for FY 2020 ending June 30, 2020.

### **EXECUTIVE DIRECTOR'S REPORT**

Mr. Gouveia discussed progress on RCUH's current strategic plan and acknowledged the significant amount of work and time that has been put into meeting these goals by RCUH Core Staff. He also provided updates on the following topics:

- UH Cancer Center Clinical Research Facility: The project received approval from the UH Board of Regents (BOR) to be service-ordered to RCUH and the agreement is being routed for signatures. Mr. Gouveia stated that these types of agreements typically do not require RCUH Board approval and noted that the document has been looked at very carefully by both RCUH and the Attorney General's Office.
- 2022-2026 Strategic Plan: RCUH has held discussions with Dr. Peter Adler, a facilitator with more than 25 years of experience who helped develop RCUH's current strategic plan with Dr. Sylvia Yuen. Mr. Gouveia declared that he plans to hire Dr. Adler to facilitate the strategic planning process, unless there are any objections by the Board (no objections were made).
- RCUH Single Location: Mr. Gouveia reported that RCUH's Human Resources Department is the only office currently working in-person at the East-West Center (EWC) and the building is essentially closed down. During a follow-up discussion with EWC's Director of Management Operations Bob Riley in late October, Mr. Riley explained that while they are not able to accommodate any moves at this time, he assured RCUH that space will become available; it's a matter of where that space will be and when a move will be possible. Chair Ikeda asked for the projected cost to move to the EWC and Mr. Gouveia replied that the cost is undetermined at this time. He added that the office furniture at the Mānoa Innovation Center (MIC) is more than 20 years old and will need to be addressed in the near future. Chair Ikeda followed up with an inquiry on the rental cost compared to MIC and Mr. Gouveia disclosed that it looks like the EWC will be cheaper. He assured the Board that details will be provided before any decision is finalized.
- 2020 RCUH Outstanding Employee of the Year Awards: RCUH typically holds a luncheon to recognize its Outstanding Employee of the Year nominees, but the annual event was canceled due to the pandemic. In lieu of an in-person event, RCUH worked with the nominators of the three first-place awardees to schedule surprise Zoom meetings that would be "crashed" by Mr. Gouveia, who would announce their award. He stated that all of the awardees were very happy and grateful to receive such recognition.
- Expanding services to non-UH projects: Mr. Gouveia stated that he has spoken with numerous parties outside of UH who are interested in RCUH's services. He stressed that these individuals need to understand that any agreements must follow the master agreement between the State of Hawai'i and RCUH.

Following the updates, Mr. Gouveia commenced his presentation focusing on questions that have been raised by the UH Board of Regents in recent meetings. He planned to address four key points:

- RCUH Fee Structure/Construction Expenditures
- RCUH Budget for Software Costs
- RCUH Employee Retirement Benefits
- RCUH Salary for Researchers

### RCUH Fee Structure/Construction Expenditures

During the UH Board of Regents Planning & Facilities Meeting on September 3, 2020, a recommendation was made for BOR approval of service ordering the UH Cancer Center Ho'ola: Early Stage Clinical Research Project to RCUH. Although approval was granted, the following concerns were raised:

- Regent Sullivan asked what RCUH's fees were for in providing services to the project. She also referenced past issues regarding management of construction projects by RCUH.
  - Short answer: The fees for the procurement activities are related to the project, they are not for construction management.
- Regent Acoba requested further clarification on the specific amount of fees being charged by RCUH for the transfer of this project funding from UH. VP Syrmos provided the fees to be applicable to the NIH grant funds (between 2.8–3.7%, and CIP [standard fee of 3.2%]), which he stated equates to a few hundred thousand dollars for this project.
  - Short answer: This amount was not accurate, the closer estimate is \$30,000, which was arranged through the negotiation of the current agreement.
- Regent Moore expounded on comments made regarding the management of construction contracts by RCUH in the past, noting that the issue at that time was that RCUH lacked the expertise to properly manage construction projects. He then remarked that if the University was responsible for the overall management of construction for the project, perhaps the fees paid to RCUH should be reduced.
  - Short answer: RCUH does NOT manage construction projects, it helps to administer construction expenditures for construction projects; there is a critical difference between the two. Mr. Gouveia stated that in his opinion UH West O'ahu was an exception to the rule for RCUH due to circumstances beyond RCUH's control. As far as overall management, UH (or their hired contractor) is ultimately responsible.

To address the question of how much RCUH makes on fees for UH Construction Projects, Mr. Gouveia explained that RCUH earns fees from four types of projects: Extramural (UH), Intramural (UH), Revolving Accounts (UH), and Direct Projects (non-UH). He emphasized that RCUH does not receive any direct funding from the state legislature.

He followed up with a review of RCUH's fee structure, which is dictated by the UH/RCUH Internal Agreement and the State of Hawai'i/RCUH Master Agreement. The Internal Agreement dictates how UH compensates RCUH using three schedules (i.e., Schedule A, B, or C). The Master Agreement dictates what RCUH can and cannot do. The fees in both agreements are based upon Modified Total Direct Cost (MTDC), which is a defined term under the Code of Federal Regulations (CFR 200.68). The two agreements also incorporate a (indirect) cost rate. Mr. Gouveia stated that MTDC is important because under the definition **MTDC excludes equipment and capital expenditures** (among other exclusions). This means that RCUH is not allowed to charge projects for any portion that is being utilized for construction expenditures.

Mr. Gouveia provided a summary of the fees that RCUH charges based on project type. He noted that the percentages can change on occasion and highlighted the cost rate for UH Extramural projects, which is listed in the Internal Agreement. Mr. Gouveia added that RCUH will likely evaluate the current Internal Agreement during the strategic planning process to determine if it's still appropriate.

He reiterated that RCUH does not manage construction projects, rather it administers assistance to UH for construction expenditures. Although RCUH does not earn any fees on construction costs because of the MTDC exclusion, RCUH has the ability under Schedule C of the Internal Agreement to negotiate a fee for large construction projects. In the past the fee has ranged from \$2,500 to \$6,000 per month, but very few projects have utilized the Schedule C fee structure as it has been limited to major construction projects.

Mr. Gouveia continued with an overview of the UH Cancer Center's Ho'ola Project. He explained that half of the \$13 million funding came from the National Institute of Health (UH Extramural funds) while the other half came from the State of Hawai'i (UH Intramural funds). During preliminary discussions, UH Cancer Center's Clifford Martin stated that the entire \$13 million will likely be coded under capital expenditures, which would mean RCUH receives \$0 fees unless Schedule C is used. RCUH negotiated with UH General Counsel and the UH Cancer Center to an agreed upon \$2,500 per month for direct costs that RCUH incurs. This is an estimated amount based upon projected work so the monthly cost could increase or decrease. Mr. Gouveia noted that a lot of time was spent on this project and that RCUH is not being paid for the time that is incurred during contract negotiations. He added that RCUH is trying to be as reasonable as possible and that there are many items RCUH does not get paid for.

He moved onto a table of the five major construction projects that utilized Schedule C and showed that the total expenditures for all projects amounts to \$509.2 million, while RCUH has received an approx. \$682,778.

In his final points on this issue, Mr. Gouveia emphasized that the negotiated fees on construction projects are minimal (less than 0.25% of construction expenditures). He stated that RCUH made approximately \$100,000 per year in the last 10 years (\$1 million total) providing administrative services to process construction expenditures on UH Construction Projects (excluding negotiated fees from Schedule C).

Director Karl asked whether these fees were billable time or if they're a fixed amount per month. Mr. Gouveia replied that OGC wanted RCUH to implement a billable hourly fee, which takes a lot more time, and noted that RCUH is not set up for that. He added that given the small number of major construction projects that RCUH processes, it wouldn't be worth the time and effort into developing this system, especially for the minimal amount of revenue. Mr. Gouveia explained that RCUH will provide a summary of the staff's work, while Mr. Yee clarified that the monthly fee will be charged based on an estimated amount of work hours by RCUH staff.

Director Goodin inquired whether RCUH would have to show receipts for actual costs in order to get reimbursed for the \$2,500 monthly fee for the UH Cancer Center facility. Mr. Yee responded that UH had initially requested actual expenditures, but it was explained to them that RCUH is not set up to accumulate all of that information. He said that RCUH cannot track on a cost-plus basis so both parties agreed to an estimated cost for RCUH to help administer the project's expenditures.

Chair Ikeda asked Mr. Yee how he can ensure that RCUH is not losing money since it's only looking at direct costs. She explained that if the payment doesn't cover everything or at least allow for a small cushion, RCUH could be losing money, which will need to be passed on somewhere. Mr. Yee clarified that he estimated an hourly rate by dividing the fiscal year's budget by total available hours of core staff time. He acknowledged that it could be a low figure if staff spend a lot of time on the project, but added that RCUH is a not-for-profit that strives to support the University. Chair Ikeda reminded him that although RCUH is a not-for-profit, RCUH should not be accommodating losses. Mr. Gouveia reiterated that the cost could increase if work changes or decrease if work is minimal. The fee is an estimated amount and not fixed, so there is flexibility to recoup costs if necessary. Chair Ikeda was satisfied with that clause, which would prevent any losses for RCUH.

Mr. Gouveia proceeded to address three general questions prompted by Regent Sullivan at the UH BOR Committee on Research and Innovation Meeting on November 4, 2020. He began with a list of HRS citations applicable to RCUH, with the most recent versions of 304A-3005 and 304A-3006, before transitioning to the next key point regarding RCUH's budget for software costs.

#### **RCUH Budget for Software Costs**

The question posed at the Nov. 4<sup>th</sup> meeting stated "RCUH budgets significant funds for software costs annually. What options are there to decrease this cost that eventually is passed onto UH?" Mr.

Gouveia explained that RCUH's current IT spending is driven by the 2017-2021 Strategic Plan that was completed under the direction of Dr. Sylvia Yuen in response to a recommendation in the 2015 Hawai'i State Auditor's Report. In light of COVID-19, RCUH significantly reduced IT expenditures in FY 2021 compared to FY 2020, specifically in the Human Resources Department. Mr. Gouveia stated that HR budgeted a little over \$1 million in IT in order to maintain and operate RCUH's PeopleSoft HCM system, as well as the servers, network, etc. He added that it's important to note that RCUH's human resources system handles an annual payroll of over \$117 million, and over \$29 million in taxes and fringe benefits, which supports a workforce in Hawai'i and an additional 31 states and 17 locations outside of the U.S. The PeopleSoft system also processes over 16,337 personnel actions online, which saves considerable work hours per year. Mr. Gouveia briefly referenced a table that displayed the major HR deliverables per fiscal year.

He remarked that if RCUH were to make any additional cuts for the remainder of FY 2021, the only saving opportunities would be to cancel or postpone capital expenditure projects, which RCUH strongly believes is not a reasonable option due to the considerable impact that could occur. Mr. Gouveia said that if RCUH is asked to look at future savings beyond FY 2021 it should be part of a broader discussion addressed in the upcoming strategic plan session, with consideration of the IT Transformation Plan completed in June 2020.

Chair Ikeda commented that the cost increases and upgrading of the software was a policy decision made by the RCUH Board due to the organization's previously outdated platforms. She wanted to make clear that it was a conscious policy decision that has received positive results based on the satisfaction rate from RCUH's clients. Mr. Gouveia agreed that there has been a lot of support for RCUH in the short time he's been here and that individuals have been really happy with the system.

Director Bal agreed with Chair Ikeda's statement, however he suggested that there may be a broader question as to why RCUH has different financial and HR systems from UH. He stated that if both entities were to use the same systems there could be savings opportunities. Director Bal added that he is fully aware of the research and analysis that was done in querying Principal Investigators (PIs) on this IT initiative, but the topic should be considered in the next strategic planning activity.

Mr. Gouveia agreed that he would like to bridge the gap between UH and has already spoken to VPIT/CIO Garret Yoshimi and DataHouse President Eddie Ontai. He hopes to find a solution that makes sense for the organization and will include it in RCUH's strategic planning discussions. Mr. Gouveia added that he's had similar thoughts about the differing IT systems over the years but understands that there are IT issues across the board, including at UH.

To provide context as to why she raised this question, Director Sullivan explained that while reviewing RCUH's audit report and analyzing its operating expenses for the past three years, she found it unusual that data processing services were so high (i.e., \$1.6 million in FY 2020, \$1.5 million in FY 2019, \$1.2 million in FY 2018). She stated that this accounted for approx. 18% of RCUH's operating expenses and about 20% of the total fee that UH pays. Director Sullivan was also interested in how RCUH calculates UH's fee. Since the MTDC excludes capital expenditures, she interpreted the audit to mean that 100% of RCUH's budget falls under operating expenses, which means that UH is paying for all of this through its fees. She believes that there should be a better way to operate and drive costs down to a more reasonable level. When Director Sullivan previously served on the RCUH Board years ago, she had inquired whether this action would require a significant capital expenditure, such as a one-time investment to upgrade the systems. She presented an example in which UH could front the capital costs using Research and Training Revolving Funds (RTRF) and be reimbursed over a period of years in a lower operating expense cost. She hopes that RCUH involves VP Yoshimi and others in this discussion, and believes that by working together both parties could benefit in the long run.

Director Syrmos stated that Director Sullivan's claim is one of the reasons why the negotiated rate RCUH receives from the federal government is so low. He said that if RCUH were to include those

expenses into the negotiated federal rate, the rate will start coming up through these capital investments. He added that he is unsure why this was decided 20 to 30 years ago, but these expenses were never included in the indirect cost recovery. Instead, they were a direct charge through the management fee of the University. Director Syrmos remarked that as an organization it would be more beneficial to have those expenses incorporated into its indirect cost recovery as opposed to being a direct charge for a certain fee or service.

Mr. Gouveia noted that all of these points were well taken and that they will be a critical component in RCUH's strategic plan. He reiterated that every agency has IT issues and that federal compliance requirements are extremely expensive. Mr. Gouveia agreed that RCUH and UH will have to work together and come up with a solution moving forward.

### **RCUH Employee Retirement Benefits**

Mr. Gouveia proceeded to address the second question: "What are the parameters around retirement benefits? Why does RCUH show 2000+ employees that are qualified when it has 40+ permanent staff? Is this just medical benefits for soft money researchers and not vested 'retirement?' Does RCUH offer additional benefits beyond what UH/the State offers – if so, why?"

He stated that the short answer is "No." RCUH does not offer more benefits to its employees than those provided to UH/State employees. The "40+" are RCUH's Corporate (Core) Staff who provide all of the administrative work (not to be confused with field employees who support UH projects). RCUH provides a defined contribution 401(a) non-contributory retirement plan and also offers an elective non-subsidized medical plan to qualified retirees and spouses. Mr. Gouveia provided information on RCUH's Group Retirement Annuity (GRA) and Supplemental Retirement Annuity (SRA) plans offered to eligible regular-status employees. He also displayed a chart that compared RCUH Retiree GRA benefits versus University/State Retiree Benefits. Mr. Gouveia noted that the biggest difference between the RCUH and UH/State retiree medical benefit is that this is NOT subsidized by RCUH. Retirees are responsible for the full cost of the medical plan's premiums. Mr. Sakamoto added that RCUH currently has 63 retirees and 8 spouses enrolled in its retiree medical plan.

Director Sullivan asked whether the budget for fringe benefits is paid to the State every year. Mr. Sakamoto replied that there is an implicit benefit rate that RCUH must cover as a liability, but fringe benefits are charged to the projects and goes directly into their employee's retiree accounts. Mr. Yee clarified that the fringe benefits reflected in RCUH's financial statement is for its Core Staff. He compared RCUH's services to those offered by ALTRES, which has an administrative staff that hires individuals based on their client's needs. Mr. Yee added that the majority of RCUH's funding comes from the University, but confirmed that it does not receive any appropriated funds from the State and does not have any General-Funded positions.

### **RCUH Salary for Researchers**

Mr. Gouveia moved on to the third question initiated at the R&I Committee meeting: "Why is RCUH's salary for researchers not subject to parameters that are consistent with UHPA or other UH employees?" He explained that unlike UH employees funded primarily on the State's General Fund (G-Fund), the majority of RCUH employees are funded on short-term grants. Often referred to as "soft money," these grant-funded positions start and end with no guarantee for future funding. Mr. Gouveia expressed that this is one of the critical aspects and significance of RCUH to the University in regards to conducting research—probably the primary reason. RCUH is able to help researchers hire employees for their projects without having to deal with APT positions or other State/union concerns, as no RCUH employee is paid on G-Funds. This "soft money" environment is best illustrated by the composition of the RCUH workforce. Over the last five years, RCUH's average total manning is 2,663 individuals. However, each year RCUH averages 1,499 terminations (56.3% of the total workforce) and 1,408 new hires. The average length of service of an RCUH employee is less than six years, which could be inflated due to the permanent positions of RCUH's Core Staff.

RCUH recognizes that UH PIs work in a highly competitive, grant-funded scientific environment. Sponsor funding relies on providing successful deliverables and outcomes, which correlates to attracting and retaining highly-talented research staff who work and live within Hawai'i's high cost of living. Mr. Gouveia noted that it would be virtually impossible to hire these employees through the State since there would be nowhere to place an employee once a project ends or when the "soft money" runs out. He claimed that this is the most important aspect of RCUH—the ability to provide PIs with a means to attract, recognize, reward, and retain highly-qualified research staff in the middle of the Pacific Ocean.

Mr. Gouveia mentioned that RCUH provides PIs with Salary Adjustment Guidelines each year based on local and national compensation surveys. PIs will only provide employee pay adjustments depending on their current and future funding and they're in the best position to know whether their project can accommodate such adjustments. He added that the parameters governing compensation for University employees would not be practical or applicable to RCUH employees. If PIs received a federal grant with budgeted salaries/positions and the government does not cut their positions, there would be no basis to reduce salaries resulting in a contractual issue. Mr. Gouveia noted that he understands these discrepancies cause problems when different rules apply to different people in the same office and historically this issue has existed as long as he can remember. He acknowledged that the situation isn't fair, but doesn't see a viable solution.

Director Syrmos agreed with Mr. Gouveia that PIs are welcome to spend extramural funds according to their budgeted proposals. However, he stated that the issue stems from RCUH employees paid by appropriated funds like RTRF. Director Syrmos reported that appropriated funds within the University have been frozen at this time and that there is no hiring for G-Funded, Tuition, RTRF, or APT positions. He added that UH employees paid by RTRF will be receiving furloughs, while RCUH employees paid by RTRF may be unaffected and possibly receive an increase in salary. Director Syrmos stated that this is an issue within the University, but noted that UH PIs typically make that decision. He recognized that there is no good answer to Director Sullivan's question, but said that there is an obligation to reach out to PIs who are using RTRF and ensure they treat their RCUH employees on RTRF accordingly. Mr. Gouveia concurred that those are good points and that there is no quick solution at this time. He is aware that it causes morale problems and that both UH and RCUH will have to explore what's most reasonable and fair.

Director Karl asked whether it would be possible to offset salary reductions for UH employees with funding from extramural grants. Director Syrmos replied that in the past UH established that any reductions/furloughs will not affect parts of the salary or overload that are covered by extramural funds, but anything else will be affected (e.g., G-Funds, Tuition, RTRF). He believes that UH President David Lassner will follow the same rule from the past. Director Syrmos also noted that he's not sure how PIs can supplement salaries, unless they were to charge employee time to an extramurally funded activity. Mr. Gouveia added that it would benefit PIs who have flexibility on their extramural awards, but it would not apply to the masses and potentially create more unfairness. Mr. Sakamoto remarked that some projects have already experienced salary reductions or furloughs due to the nature of their funding and/or their drop in workload.

Mr. Gouveia concluded his presentation by declaring that RCUH is a valued partner to UH and the State of Hawai'i. He believes that RCUH's fees are very reasonable and would argue that no one could provide the services that RCUH does for UH at a better price, and certainly not at the same level of expertise and efficiency. Mr. Gouveia acknowledged that improvements are still needed, which is why the upcoming strategic planning process will be so critical. He stated that RCUH is committed to improve its services and support for UH and the State of Hawai'i in an open and transparent manner. He added that the UH Regents raised good questions and he looks forward to engaging in these types of discussions so that RCUH can offer better solutions. Mr. Gouveia thanked the Board for their questions and participation, and noted that he will communicate with Director Syrmos regarding the official response to the UH Board of Regents (a memo was sent to the UH BOR on Dec. 8, 2020).

Chair Ikeda remarked that this meeting provided a good foundation for RCUH's next strategic plan. She thanked staff and the RCUH Board for their cooperation and recognized that although there are extremely tough challenges ahead, challenges also present opportunities. Chair Ikeda also thanked Attorney General Reese Nakamura for working on the terms of the UH Cancer Center agreement.

**ADJOURNMENT**

The meeting adjourned at 10:22 a.m.

/s/ *Kaylee Hull*

Kaylee Hull  
Executive Administrator

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