



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.

/s/ Kaylee Hull

Kaylee Hull
Executive Administrator

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