



Minutes
AUDIT COMMITTEE
Research Corporation of the University of Hawai'i
Tuesday, March 1, 2022
Virtual Meeting

PRESENT

Audit Committee members: Chair Ken Hayashida, Gene Bal, Michael Maberry (non-voting), Wally Chin (ad hoc member). Excused: Joseph Pickard

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

CALL TO ORDER

The meeting was called to order at 8:31 a.m. by Chair Hayashida.

PUBLIC COMMENT PERIOD (IF APPLICABLE)

No written or oral testimony was received.

APPROVAL OF MINUTES

The minutes of the October 28, 2021 meeting were approved as circulated.

N&K MANAGEMENT LETTER FOR 6/30/2021 AUDIT

Mr. Yee highlighted several bullets in the N&K Management letter. He explained that the first bullet was an adjustment of was an adjustment to the accounts payable and receivable balances to and from the University of Hawai'i. The auditors performed a search for unrecorded liabilities to ensure our liabilities at the end of the fiscal year are properly stated. Mr. Yee categorized it as a processing error since RCUH is dependent on the UH projects for information on unrecorded liabilities. Because the process is decentralized, in terms of how the payables function, this will be a recurring comment. Mr. Yee noted that it has been commented in the past. He added that staff has caught the larger unrecorded liabilities, but there may be some that will slip through.

The second bullet point is a comment on RCUH's cash flow statement and was categorized as a technical accounting error. Mr. Yee explained that RCUH has a laddered Certificates of Deposit (CD) program that have CDs essentially maturing monthly, and the issue stems from how these maturing and re-purchase of CDs are recorded in RCUH's cash flow statement. Historically, RCUH has recorded the renewal of CDs with the same bank as a redemption as well as a purchase. However, accounting standards indicate that this method should only be used when the purchase of the CD is with a different bank. While the previous auditor did not flag this as an issue, RCUH staff agreed with the comment and made the change.

The third bullet point is another technical accounting error. Mr. Yee explained that RCUH records sick leave and vacation leave accruals based on an employee's pay. N&K had inquired previously whether the fringe benefits (employer's portion of taxes at 7.6%) should be included in that accrual. Mr. Yee stated that RCUH did not make an adjustment in the Fiscal Year 2020 audit since the entry was not material, however the adjustment was made for the Fiscal Year 2021 audit. However, RCUH had recorded accruals to the wrong account since some of the accruals are related to the prior year and should have been made to the balance sheet (i.e. Net Position account). Adjustments have been made to fix the error.

Lastly, N&K concluded the letter with a recommendation to exercise greater care during the year-end closing process. Mr. Yee acknowledged the comment and shared that RCUH will try to be more careful with its processes. Staff currently use a checklist to close out the year and will incorporate

some of N&K's recommendations to that document. N&K had previously recommended that RCUH incorporate the use of a checklist.

UPDATE ON NEW ACCOUNTING STANDARD FOR LEASES (GASB 87)

Mr. Yee recalled that this topic was briefly touched upon at the last committee meeting with the auditor. He reported that the Government Accounting Standards Board (GASB) released a new pronouncement on how to treat leases. Prior to this change, RCUH had recorded leases as an expense in its financial statements. The new standard calls on RCUH to set up leases as an asset in our books and a liability to the lessor.

In the last meeting, we touched upon it briefly with the auditor there about this GASB 87. GASB is the government accounting standards board. They have put out a new pronouncement in terms of how we treat leases. Prior to this standard, our leases were treated on our financial statements as an expense. GASB has instituted a new policy where leases are to be reflected as an asset as well as a liability to the lessor. This change will be reflected in this year's financial statements for the FY ending 2022. We will be restating prior year's financials for 2021 for this change. We have been in discussions with UH regarding leases on the research projects that RCUH services for the UH. RCUH is in a unique position where RCUH enters into lease agreements for the benefit of UH's research projects, RCUH is working with UH to determine how or if these leases should be reflected on RCUH's financial statements.

N&K CPAS FEE PROPOSAL FOR 6/30/2022 AUDIT

Mr. Yee explained that RCUH annually approves the auditor and fee proposal, but if a proposal is deemed unsatisfactory by the committee, RCUH can initiate a new Request for Proposal. N&K CPAs proposed a 4% increase from last year's fees. The auditor initially proposed a 5.5% increase, but the rate was negotiated down to 4%. Mr. Yee believes this is a reasonable proposal since N&K was willing to accept no increase for FY 2021's audit in an effort to decrease RCUH's costs.

Mr. Chin inquired whether RCUH staff was satisfied with N&K's service level and Ms. Brooks stated she was happy with N&K's services. Mr. Yee added that they were reasonable and understanding in trying to accommodate delays on RCUH's end. Although they have the ability to charge RCUH for delays, they have not done so as of yet. Director Bal cited a few best practices, which included the changing of auditors and changing of managers every five years or so. He stated that this will be the third year RCUH has used N&K as its auditor, after previously working with Accuity for seven years. Chair Hayashida concurred that RCUH should definitely put out an RFP at the five-year mark.

Upon motion made (Bal), seconded (Chin), and duly carried, the auditor and fee proposal were approved by the Audit Committee, to be ratified by the RCUH Board of Directors.

ADJOURNMENT

The meeting adjourned at 8:49 a.m.

/s/ Kaylee Hull

Kaylee Hull
Executive Administrator

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