

Audit Committee Meeting

Tuesday, March 7, 2023
East-West Center | Burns Hall
9:00 a.m.



Meeting
AUDIT COMMITTEE

Research Corporation of the University of Hawai'i

Date: Tuesday, March 7, 2023 | Time: 9:00 a.m.

In-Person Location: East-West Center Burns Hall 4th Floor, Makai Wing, Room 4005/4009
1601 East-West Road, Honolulu, HI 96848

A G E N D A

Public Testimony on Agenda Items

Written testimony may be submitted via email to rcuhed@rcuh.com; U.S. mail to 1601 East-West Road, Burns Hall 4th Floor, Makai Wing, Honolulu, HI 96848; or facsimile to (808) 956-0502. All written testimony submitted are public documents and will be posted on the board's website and distributed to the board. Oral testimony will be limited to three (3) minutes per testifier.

1. Call to Order
2. Approval of Minutes of the October 26, 2022 Meeting
3. Review of N&K Management Letter for FY 2022 Audit
4. Approval of N&K CPAs Fee Proposal for FY 2023 Audit
5. Adjournment

c: Office of the Lieutenant Governor

Individuals who require an auxiliary aid/service or other accommodation due to a disability should contact Kaylee Hull at (808) 956-0503 or rcuhed@rcuh.com as soon as possible, preferably by March 3, 2023. If a response is received after March 3, 2023, we will try to obtain the auxiliary aid/service or accommodation, but we cannot guarantee that the request will be fulfilled.

Upon request, this notice is available in alternate formats, such as large print, Braille, or electronic copy.



DRAFT Minutes

AUDIT COMMITTEE

Research Corporation of the University of Hawai'i

Wednesday, October 26, 2022

Remote Meeting

In-Person Location: Manoa Innovation Center, 2nd Floor Boardroom;
2800 Woodlawn Drive, Honolulu, HI 96822

PRESENT

Audit Committee members: Chair Ken Hayashida, Diane Paloma, Wally Chin (ad hoc member).
Excused: Eugene Bal

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

N&K CPAs: Dwayne Takeno, Christian Hara

CALL TO ORDER

The meeting was called to order at 7:34 a.m. by Chair Hayashida. Per the Sunshine Law, Chair Hayashida asked whether anyone over the age of 18 was present with members who were participating virtually. All remote participants confirmed that there was no one present in their location. In terms of public testimony, Ms. Hull indicated that no written or oral testimony was received.

OVERVIEW OF AUDIT COMMITTEE RESPONSIBILITIES

Chair Hayashida reminded attendees that the Audit Committee was established for the purpose of establishing that RCUH's financial, internal controls, and audit processes are in accordance with generally-accepted auditing standards in the U.S. and are in compliance with policies, statutes, and regulations. The committee is also responsible for recommending the engagement of an external auditor, reviewing all external audit findings and reports, and ensuring that appropriate action is taken.

APPROVAL OF MINUTES OF THE MARCH 1, 2022 MEETING

The minutes of the March 1, 2022 meeting were approved as circulated.

N&K PRESENTATION OF THE AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDING 6/30/2022

Mr. Hara reviewed the results of the audit and expects N&K to issue an unmodified opinion, which indicates that the financial statements are presented fairly in all material respects. He also reported that no material weaknesses were identified and no significant deficiencies were reported.

Mr. Hara highlighted some of the larger fluctuations in the financial statements. Current assets increased by approximately \$9 million, primarily due to an increase in UH receivables which fluctuates with the vendor payable balances. He reported that there were no significant fluctuations in the condensed statements of revenues, expenses and changes in net position. Mr. Hara explained that the change in investing activity is primarily because of the purchases and redemptions of Time Certificate of Deposits (TCDs).

Mr. Takeno ran through the required communications which acknowledged N&K were following Generally Accepted Auditing Standards. He recognized that RCUH adopted GASB 87 related to leases and that the corporation determined that the implementation of this standard did not have an effect on the FY 2021 or FY 2022 financial statements.

Mr. Takeno was pleased to report that the auditors experienced no significant difficulties in dealing with management in performing and completing their audit. He continued to review the summary of unrecorded misstatements, which were not material to the financial statements. Mr. Yee jumped in to provide some context on the GASB 87 issue, which had been expected to be a large item of concern for the Accounting team. The question was whether research project leases should be included in RCUH financials as well as the related liability. Mr. Yee stated that RCUH's stance was that the leases should not be included in RCUH's financials, and the auditors concurred. Mr. Takeno acknowledged that management did a good job in consulting with auditors, as well as the Governmental Accounting Standards Board (GASB) itself.

While reviewing the Summary of Corrected Misstatements and Omitted Disclosures, Mr. Yee identified the items as reclassification differences due to GASB 87 and Mr. Takeno noted that those items have been corrected.

Director Paloma asked who made the interpretation that all research project leases would not be included. Mr. Yee stated that it was management's interpretation, but it needs to be able to support that opinion. As a result, RCUH communicated directly with GASB to discuss and address the issue. Mr. Yee also inquired with the University to determine how it would handle leases for research projects, and their consensus was to include those leases in UH's financials. Mr. Takeno acknowledged that the situation is slightly unusual based on how these leases are entered into on behalf of research projects.

Mr. Yee noted that he believes UH's Chief Financial Officer created a position to address this, as UH will begin entering and signing off on lease agreements directly, rather than having RCUH enter lease agreements for UH's benefit. Mr. Gouveia asked if RCUH would have had to take on the burden of adding these leases to RCUH's financial statements if UH had not done so. Mr. Yee did not believe so since it would be UH's responsibility, but explained it would be up to UH's external financial auditors. Mr. Takeno added that there are specific provisions within GASB 87 that cover related-party issues that management had considered. Mr. Gouveia stated that RCUH will be working closely with UH on this issue and Mr. Yee acknowledged that policy changes will occur on both sides.

Mr. Takeno concluded by sharing two new accounting pronouncements that will be implemented for FY 2023: GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements; and GASB Statement No. 96, Subscription-Based Information Technology Arrangement. He does not anticipate GASB 94 having a significant effect on RCUH, but believes GASB 96 may apply to RCUH's financials with respect to software. Mr. Takeno also suggested reading through the list of exclusions since some may apply to RCUH.

ACCEPTANCE OF AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDING 6/30/2022

Upon motion made (Paloma), seconded (Chin) and duly carried, the Audit Committee voted to accept the audited financial statements for FY 2022.

ADJOURNMENT

The meeting adjourned at 7:57 a.m.

Kaylee Hull
Executive Administrator

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

**RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAI‘I
STATE OF HAWAI‘I**

MANAGEMENT LETTER

Fiscal Year Ended June 30, 2022



999 BISHOP STREET, SUITE 2200 | HONOLULU, HAWAII 96813
T (808) 524-2255 **F** (808) 523-2090 | nkcpa.com

RESEARCH CORPORATION OF THE UNIVERSITY OF HAWAII

STATE OF HAWAII

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT LETTER REPORT	
Management Letter	3
CURRENT FINDING AND RECOMMENDATION	
2022-001 Year-End Closing Process	4
MANAGEMENT’S RESPONSE	5 - 6
STATUS OF PRIOR YEAR’S RECOMMENDATION	
Status Report	7

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, 2022, 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 26, 2022, 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 RCUH 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.

N&K CPAs, Inc.

Honolulu, Hawaii
November 30, 2022

Research Corporation of the University of Hawai'i
State of Hawai'i
CURRENT FINDING AND RECOMMENDATION
Fiscal Year Ended June 30, 2022

2022-001 Year-End Reporting Process

During the audit, we noted certain misstatements that were corrected by management in the financial statements:

- Certain disclosures related to the implementation of Governmental Accounting Standards Board Statement 87, *Leases*
- Certain disclosures related to deferred outflows of resources and deferred inflows of resources related to postemployment health care and life insurance benefits

We also noted certain uncorrected misstatements in the financial statements as follows:

- Certain disclosures related to long-term liabilities
- Certain unrecorded misstatements related to investments as of June 30, 2022
- Certain unrecorded misstatements related to GASB 87 as of June 30, 2021.

Recommendation

We recommend management continue to utilize a financial statement disclosure checklist to ensure that the financial statement disclosures are in accordance with accounting principles generally accepted in the United States of America. We also recommend that management maintain an internal listing of unrecorded misstatements and missing disclosure listing when preparing the financial statements. Management could also consider utilizing an outside party assist them with the preparation of the financial statements.

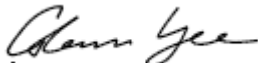
December 2, 2022
N&K CPAs, Inc.
999 Bishop Street, Suite 2200
Honolulu, HI 96813

Dear N&K CPAs:

Attached is the Research Corporation of the University of Hawai'i's response to the Management Letter for the fiscal year ended June 30, 2022.

We appreciate the opportunity to provide our response to the matter noted.

Sincerely,



Glenn Yee
Director of Finance

Finding 2022-001 Year End Closing Process

During the audit, it was noted that there were certain misstatements related to incorrect financial statement presentations and missing disclosures.

Recommendation:

Management should continue to utilize a financial statement disclosure checklist to ensure that the financial statement disclosures are in accordance with accounting principles generally accepted in the United States of America.

Management's Response:

In response to a prior year finding, the Director of Finance and Controller implemented formal year-end closing procedures such as planning, communications, checklists, reviews, and approvals. The Director of Finance and Controller will continue to evaluate and improve these procedures to ensure the accuracy of the financial statements. The Director of Finance and Controller will also exercise greater care when completing the financial statement disclosure checklist.

Research Corporation of the University of Hawai'i
State of Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2022

This section contains the current status of the prior audit recommendations. The recommendation is referenced to the page of the previous management letter for the fiscal year ended June 30, 2021, dated November 4, 2021.

Recommendations	Status
2021-001 Year-End Closing Process (page 4)	
We recommend that management exercise greater care during the year end closing process.	Partially accomplished. See current finding 2022-001.

February 23, 2023

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

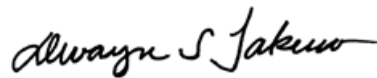
Thank you for giving us the opportunity to express our interest in continuing to provide professional audit services for the Research Corporation of the University of Hawaii (Corporation). We understand the services requested include the audit of the financial statements and schedule of management fees of the Corporation as of and for the year ended June 30, 2023. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Based on our discussions, our proposed fees are estimated to be \$49,500.

We have also enclosed the external peer review report of N&K CPAs, Inc. for the year ended June 30, 2020.

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

Enclosure: External Peer Review Report of N&K CPAs, Inc.

REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

December 2, 2020

To the Shareholders of N&K CPAs, Inc.
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of N&K CPAs, Inc. (the firm) in effect for the year ended June 30, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included audits performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act and audits of employee benefit plans

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of N&K CPAs, Inc. in effect for the year ended June 30, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies) or fail*. N&K CPAs, Inc. has received a peer review rating of *pass*.

FRANKEL ZACHARIA LLC

Frankel Zacharia, LLC