



Minutes
BOARD OF DIRECTORS
Research Corporation of the University of Hawai'i
Tuesday, December 6, 2022
Meeting Location: Mānoa Innovation Center, Presentation Room
2800 Woodlawn Drive, Honolulu, HI 96822

PRESENT: Eugene Bal, Kelli Goodin, Ken Hayashida, Jaret KC Leong, Diane Paloma, Taryn Salmon.
Excused: David Karl, Vassilis Syrmos

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

DataHouse: Eddie Ontai, Scott Fujieda

CALL TO ORDER

The meeting was called to order by Chair Bal at 9:04 a.m.

WELCOME NEW BOARD MEMBER

Chair Bal welcomed Taryn Salmon to the RCUH Board of Directors. She is the Senior Executive Vice President and Chief Information Officer at Bank of Hawaii and was appointed by Senate President Ron Kouchi to fill Joseph Pickard's open seat after his resignation.

APPROVAL OF MINUTES OF SEPTEMBER 6, 2022 MEETING

Upon motion made (Hayashida), seconded (Paloma), and duly carried, the minutes of the September 6, 2022 meeting were approved as circulated.

FINANCIAL STATEMENTS FOR OCTOBER 2022

Mr. Yee reviewed RCUH's financial statements as of Oct. 31, 2022. The corporation recorded \$32.7 million in total assets, \$2.7 million in total liabilities, and right below \$10 million for total retained earnings. RCUH's ending cash balance decreased by \$11 million compared to Fiscal Year 2022's numbers, but it is due to the timing of the collections of receivables from UH, as well as the coding of advances by UH projects.

Mr. Yee reported that RCUH currently held \$7.7 million in its working capital reserve, which included a \$1 million project contingent liability reserve. He added that he will present on this topic later in the meeting. Mr. Yee continued with reviewing the statement of revenues, expenses, and changes in net assets. He noted that RCUH slightly underspent due to core staff vacancies and that any excess cash is put into TCDs and a sweep account. In terms of volume of business, RCUH processed \$109 million in research expenditures this fiscal year (July–October), which amounts to approximately \$27 million per month. UH Extramural awards have also increased by 4.6%.

REPORT OF AUDIT COMMITTEE

Director Hayashida presented the report on behalf of the Audit Committee which met with N&K CPAs on October 26, 2022 to review and accept the audited financial statements for the 2022 Fiscal Year.

N&K reported that they expected to provide an unmodified opinion and that there were no material weaknesses or significant deficiencies found in the audit. He explained that RCUH adopted GASB 87 relating to leases and consulted with the Governmental Accounting Standards Board for an official opinion. Director Hayashida made a motion for the Board to ratify the Audit Committee's acceptance of the financial audit for Fiscal Year 2022 and Vice Chair Goodin seconded the motion. The Board unanimously voted to accept the financial audit. Director Hayashida recognized Mr. Yee and his finance staff for doing a good job on the audit.

EXECUTIVE DIRECTOR'S REPORT

ED Gouveia noted that this would be the last board meeting at the Mānoa Innovation Center (MIC) and thanked his team for their hard work transitioning to Burns Hall. The 20 RCUH employees at MIC are anticipated to move in late January. He continued by highlighting some items in the ED's Report:

- DCSA Security Review: RCUH received a Satisfactory rating in its DCSA Security Review conducted in September. The DCSA recently changed its grading system, so 80% of cleared facilities received a Satisfactory rating. The agency has also been removing facility clearances at a higher rate than in the past. RCUH updated its Insider Threat program and is scheduled to conduct its last self-inspection with ED Gouveia in his Facility Security Officer (FSO) role on Dec. 15, 2022. Ms. Hull is working on receiving the appropriate security clearance and will take over FSO duties, while ED Gouveia transitions to the Assistant FSO role.
- Revolving Funds Update: RCUH is working with UH's Office of Research Services (ORS), Fiscal Department, and IT Department on the transition of Revolving accounts from RCUH to UH. The accounts must be returned to UH by July 1, 2023, or they will be terminated. Moving forward these accounts may be service ordered to RCUH, similar to Extramural projects. From a financial standpoint, the biggest impact is that RCUH will not be able to maintain Certificates of Deposit (CDs) that support RCUH's funding.
- Replacement of AS400: The transition of the Revolving accounts ties into the replacement of the AS400 system. This has been an ongoing need for years and was recently delayed due to the pandemic. RCUH has been collaborating with UH IT on this project, which will be significantly affected by the return of Revolving accounts. This transition will require reprogramming of FREDI, the interface connecting RCUH's and UH's financial systems. ED Gouveia thanked VPIT Garret Yoshimi and DataHouse for meeting and working closely together on these issues.
- Other items:
 - HR internal efficiencies: ED Gouveia thanked everyone who contributed to these efficiencies that benefit researchers.
 - State Ethics Code Training: RCUH is working closely with UH to ensure we're on the same page and not duplicating efforts.
 - Recognition of Deputy Attorney General: ED Gouveia thanked Mr. Nakamura for working closely with UH's Office of General Counsel relating to litigation, and requests for information.

- 2022 Awards Luncheon: ED Gouveia thanked Director Leong and VPRI Syrmos for presenting the awards. RCUH played the First Place awardee videos for each category since most of the directors were unable to attend the luncheon.
- IT Administrator: RCUH hired Michael Cera as its in-house IT Administrator. ED Gouveia added that it's been helpful to have someone physically present on site to address IT issues immediately.
- Strategic Plan Updates: ED Gouveia stated that he reviewed the previous plan with Director Salmon during her orientation. The Board was provided with an update in the ED's Report that displays RCUH's progress.

Following the ED's report, Director Hayashida suggested that the DataHouse presentation be moved earlier in the agenda, prior to the RCUH Reserves presentation and Chair Bal concurred.

PRESENTATION AND APPROVAL OF DATAHOUSE AMENDMENT FOR IT INITIATIVES

DataHouse President Eddie Ontai provided a brief history of the company, which was started in 1975 by Dan Arita. He explained that DataHouse's goal was to use the power of technology to shift Hawai'i's economy and to provide high-paying jobs for local kids. Mr. Ontai stated that DataHouse partnered with RCUH in the '90s to build a web application and over time they've been able to modernize it with more common web-based technology. He explained that in the last five years, there's been a worldwide shift with digital transformation. This wave has forced businesses to adapt to more modern technologies that will enhance their business strategies and missions.

DataHouse provided RCUH with a digital transformation plan four years ago with recommendations for its various systems. It described an enterprise environment that was based on the latest technology using mobile-ready, cloud-based infrastructure. Due to evolving technologies, there are not many RPG coders around to improve or troubleshoot RCUH's current AS400 system, and DataHouse's last coder is retiring. Mr. Ontai noted that the public and private sector is moving to cloud platforms, which can support future business needs.

Mr. Ontai explained that there are two main components of this proposal: modernizing the bulk of the financial system and incorporating key enterprise integration components. This would include enhanced reporting formats and using a system that allows RCUH to build and maintain modern applications. This would be the same platform that American Samoa used to repatriate thousands of citizens and track their quarantine status. Mr. Ontai recognized that this is not the most optimal sequence of delivery due to the transition of Revolving accounts, but in this proposal concurrent teams would be working on the new FIS system and FREDI interface to meet these timelines.

Mr. Ontai reviewed the benefits of this new modernized platform and reported that the State has selected SAP due to a broader support group and resources. As this is one of the top cloud solutions, DataHouse is recommending that RCUH adopt SAP for this transition. The bulk of the work in this proposal would be to replace existing systems that have been around for nearly 40 years and developing interfaces with RCUH's HR system, UH's Kualii Financial System, and other external systems. Mr. Ontai added that in discussions with RCUH it has been made clear that the current customized user interface that researchers use has to be the same in terms of functionality.

Director Hayashida inquired about RCUH's current ongoing costs and Mr. Ontai explained that it's approximately \$400,000 to \$500,000, and that should be able to be reduced. Director Paloma asked when the State made the decision to use SAP and Mr. Ontai responded that the decision was made last year. It is important to note that DataHouse is part of the team that is helping to implement SAP with State agencies.

Due to the unique RCUH/UH relationship, ED Gouveia shared that no significant cost savings are likely to happen, but RCUH will try to utilize UH assistance and support as much as possible. He did discuss this with VPIT Yoshimi who indicated that UH would be able to assist RCUH more and concurred that ongoing costs will likely be reduced with this update.

Director Salmon expressed her appreciation for this background information and assessment, and questioned how confident DataHouse is in the pricing. Mr. Fujieda explained that they've had two years to fine-tune the numbers and that they've documented significant savings in the business processes and technical schema that will lower implementation costs. ED Gouveia noted that this aspect was considered while reviewing the option of amending DataHouse's existing contract. If this proposal was opened up to a new vendor, the pricing would significantly increase. Mr. Fujieda explained that there is significant training management for staff included in the proposal.

Director Hayashida asked whether Principal Investigators would see savings on their end. Mr. Fujieda clarified that researchers don't see the AS400 directly; instead, Financial Portal users interact with a replicated version on a modernized interface. However, there is a growing backlog of requests that DataHouse has postponed due to the anticipated platform transition.

Chair Bal recalled that one of the reasons RCUH chose not to migrate to UH's Kualii system in the past is the preference PIs have for the RCUH Financial System. He thanked Mr. Ontai as his narrative solidified the proposal and allayed many of his initial concerns. Chair Bal followed up by asking about the associated risks related to the July 1st deadline.

Mr. Fujieda stated that from a risk standpoint the AS400 transition will not occur before July 1st. This means that DataHouse will have to work on a direct interface with the AS400 to ensure that data is able to transfer over in the future, once completed. Once DataHouse is in the process of implementation and migration to SAP, the automated interface will already be running and close to real-time. The biggest risk is to ensure there is a duplicated interface to test that the new interface will work as planned. Chair Bal supported this strategy.

Chair Bal questioned whether there will be a strain on personnel resources or if this work has already been anticipated. Mr. Fujieda stated that DataHouse is ready and has anticipated this project for some time. He also recognized that RCUH's Finance staff will have to go through the change management with project staff in terms of training and familiarity with new tools.

Director Salmon asked DataHouse what they have put in place to ensure they can support the current transition. Mr. Fujieda explained that an AS400 technician will be available as a back-up independent contractor to support this project for DataHouse. However, he stressed the importance of starting as soon as possible due to pending retirements and having the ability to leverage the experience and institutional knowledge from current staff. Mr. Ontai added that it comes down to business risk, since RCUH won't be able to address certain new requirements or business needs due to timing.

Director Leong asked whether running parallel systems is built into the proposed cost. Mr. Ontai responded that to a certain extent it has, as they're currently looking at a 12-month transition period. While the implementation is a fixed price, they have not considered the changes in cost if the project were to be delayed another six months.

ED Gouveia shared that from a RCUH perspective, they expect to modify the current contract with DataHouse. After evaluating the contract and situation, he believes an amendment looks like the appropriate way to proceed. As mentioned earlier, there are concerns about the costs if the contract were to be subject to open competition. ED Gouveia stated that he is willing to answer any questions regarding the procurement and that RCUH is trying to save as much money as possible.

Chair Bal expressed that the Board wants to make sure there's no contractual requirements regarding the procurement of this agreement. ED Gouveia acknowledged the Board's concerns and reported that he will continue to work with Mr. Nakamura to ensure that RCUH is following the appropriate legal path. He will provide an update to Chair Bal before making any final decisions to proceed with a contract with DataHouse, and RCUH can come back to the Board if Chair Bal feels it is necessary.

Upon motion made (Hayashida), seconded (Paloma), and duly carried, DataHouse's proposal to proceed with the FIS Strategic Enhancements was unanimously approved by the Board, contingent that the contractual process is vetted and approved through Reese Nakamura (AG's Office) to be sure there is no violation of any state policy.

Following the vote, Chair Bal called for a brief recess at 10:43 a.m. The meeting resumed at 10:53 a.m.

RCUH RESERVES PRESENTATION

Mr. Yee explained that RCUH has always had a working capital reserve, but it was not memorialized in a formal policy. He also emphasized that RCUH is set up and operates very differently from the University and it's important to understand the differences. This presentation was developed due to prior questions by board members on whether it's appropriate for RCUH to have a reserve and if so, what the appropriate amount would be for a working capital reserve.

Mr. Yee explained that RCUH's working capital reserve is defined as RCUH's unrestricted net position. Within the working capital reserve, there is a project contingent liability reserve that was established in 1998 by the RCUH Board of Directors. The intent of that reserve was to be used for emergencies and unforeseen expenditures (e.g., a lawsuit that is not covered by insurance). Mr. Yee reminded the Board that RCUH has two additional reserves for (1) workers' compensation and unemployment claims, and (2) postemployment healthcare and life insurance benefits, but those are covered in RCUH's assets.

Mr. Yee noted that one of the 2017-2021 Strategic Plan goals was to have a \$7.5 million working capital reserve. He discussed the basis of the \$7.5 million amount with former Finance Director Doug Tonokawa, who indicated that it was based upon RCUH's core operating expenditures and the ability to cover one semi-monthly payroll for all RCUH employees.

Mr. Yee displayed a chart that reflected several fluctuations in RCUH's Unrestricted Net Position between 2003 and 2022. He shared the circumstances behind two of these variations:

- With RCUH's working capital reserve increasing from \$5.6 million in 2003 to \$10.4 million in 2006, the Internal Agreement was adjusted and RCUH reimbursed the University \$3 million in 2007. RCUH is still operating under the same Internal Agreement.
- RCUH saw a decrease of nearly \$2 million in working capital in 2018 that was attributed to IT improvements as part of the strategic plan.

To provide some context, Mr. Yee shared that UH recently updated its Board of Regents Policy 8.203, which identifies three reserves: an emergency reserve, mandatory reserve, and operating reserve.

While determining the appropriateness of RCUH's working capital reserve, Mr. Yee shared some factors and considerations that the Board should consider, such as RCUH's \$6.2 million semi-monthly payroll, cash flow for necessary expenditures, and the line of credit that is maintained for emergency operating purposes. This line of credit, which has been used in the past, requires a contractual covenant that requires RCUH to maintain a total net position of \$8.9 million.

Mr. Yee added that the transition of Revolving accounts from RCUH to UH will be a significant outflow of cash for the organization. The cash from these accounts are held in trusts, and allows RCUH the flexibility to accommodate any large cash variances. The other point Mr. Yee made was that RCUH supplements its budget with earned interest from Revolving account balances, which is estimated to reach at least \$500,000 this year.

While developing options to present to the Board, Mr. Yee reviewed previous Board minutes and referred to an idea that the reserve could be based upon RCUH's core operating expenditures. However, he believes that the maximum amount of \$2.5 million would be rather low since it's not enough to cover one payroll for core and project staff. Mr. Yee stated that if RCUH were to proceed with this route, it would have to rely on UH to reimburse RCUH timely on research operating expenditures.

Chair Bal suggested that Mr. Yee confer with VP Kalbert Young on the interpretation of the minimum and maximum operating reserves. He does not believe that the 5% and 16% are combined and that the maximum reserve should be 16% of operating expenditures. Mr. Yee said that he will confer with VP Young, who had previously discussed the reserves relating to the Executive Policy, but not the Board of Regents policy.

Mr. Yee continued to present Option #2, which would be a hybrid approach based on core operating expenditures and average bi-monthly payroll. Chair Bal sought clarification whether the average bi-monthly payroll is the two-week payroll period for both research staff and core staff. Mr. Yee concurred and mentioned that the core staff's payroll was removed from operating expenditures on the slide.

Mr. Yee presented Option #3, which is another hybrid approach that includes the items in Option #2, as well as \$3 million in planned capital expenditures for the replacement of the AS400. Chair Bal questioned why the \$3 million would be carried over eternally after the project is completed, as opposed to including it in RCUH's budget. Mr. Yee shared that the idea would be to secure the

funding to ensure RCUH is able to complete the initiative and once completed, the reserve can be reduced to a smaller level.

Chair Bal emphasized that he wouldn't want RCUH to carry something along that is allotted for a specific period of time and is allocated to be spent. Mr. Yee referred to Option #2 as a possibility, but it would restrict RCUH's flexibility in terms of cash flow.

Director Leong suggested that RCUH appears to conduct a major IT improvement every four years, but Mr. Yee clarified that RCUH's IT investments have only occurred in one time period. ED Gouveia shared that it's his understanding that RCUH frequently patched the AS400, but did not make many IT investments until the last 5-year strategic plan. He added that he spoke with VPRI Syrmos about this presentation and VPRI Syrmos had suggested that RCUH should prepare for other capital expenditures in the future. ED Gouveia anticipates that most IT expenses moving forward will be for maintenance and doesn't anticipate any major investments based on conversations with VPIT Yoshimi and Mr. Ontai.

Director Hayashida pointed out that RCUH will have common maintenance costs, similar to a building, but the organization will have to identify when to implement major expenditures moving forward. ED Gouveia agreed that RCUH has to come up with a plan for computer systems and recognized that costs are rising everywhere.

Chair Bal noted that the presentation was for informational purposes and no action is required at this meeting. However, directors should be prepared in the future to take action on this item.

EXECUTIVE SESSION

Upon motion made (Salmon), seconded (Hayashida), and duly carried, the RCUH Board of Directors convened in executive session to consider the hire, evaluation, dismissal, or discipline of an officer or employee, where consideration of matters affecting privacy will be involved, pursuant to Section 92-5(a)(2), Hawai'i Revised Statutes (HRS).

During the Executive Session, the Board took the opportunity to review and discuss the ED Gouveia's performance evaluation based on the self-assessment and survey results that were provided. Chair Bal announced that the Board of Directors is very pleased with ED Gouveia's performance. Chair Bal and Vice Chair Goodin, who chaired the personnel committee, will schedule a meeting to provide direct feedback. NOTE: Director Paloma left the meeting during the Executive Session.

ADJOURNMENT

The meeting adjourned at 12:08 p.m.

/s/ Kaylee Hull

Kaylee Hull
Executive Administrator

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