

Audit Committee Meeting

Wednesday, March 13, 2024
East-West Center | Burns Hall
9:00 a.m.



Meeting
AUDIT COMMITTEE

Research Corporation of the University of Hawai'i

Date: Wednesday, March 13, 2024 | 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, 2023 Meeting
3. Review of N&K Management Letter for FY 2023 Audit
4. Approval of N&K CPAs Fee Proposal for FY 2024 Audit
5. Adjournment

c: Office of the Lieutenant Governor

Reasonable accommodations for people with disabilities are available upon request. Requests for accommodations should be submitted via email to rcuhed@rcuh.com or by calling Kaylee Hull at (808) 956-0503. Requests should include a detailed description of the accommodation needed. In addition, please include a way for RCUH to contact the requester if more information is needed to fulfill the request. Last minute requests will be accepted, but may be impossible to fill.



DRAFT Minutes
Remote Meeting
AUDIT COMMITTEE

Research Corporation of the University of Hawai'i
Thursday, October 26, 2023

In-Person Location: East-West Center Burns Hall 4th Floor Makai Wing, Room 4012
1601 East-West Road, Honolulu, HI 96848

PRESENT

Audit Committee members: Kelli Goodin, Jaret Leong, Taryn Salmon, Wally Chin (ad hoc member).
Excused: Ken Hayashida

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 10:01 a.m. by Vice Chair Goodin. Per the Sunshine Law, Vice Chair Goodin checked 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

Vice Chair Goodin reminded attendees that the Audit Committee was established to ensure that RCUH's financial statements, internal controls, and audit processes are in accordance with generally-accepted auditing standards in the U.S. and are compliant with policies, statutes, and regulations. The committee is also responsible for recommending the engagement of RCUH's auditor and reviewing the audit findings and reports and ensuring that the appropriate actions are taken.

APPROVAL OF MINUTES OF THE MARCH 7, 2023 MEETING

Upon motion made (Salmon), seconded (Leong) and duly carried, the minutes of the March 7, 2023 meeting was approved as circulated.

N&K PRESENTATION OF THE AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDING 6/30/2023

N&K's Christian Hara shared that the audit hasn't been fully completed, but they do not expect any modifications to this. If a modification is reported, it will be shared with the Board. N&K issued an unmodified opinion (Clean) and no material weaknesses or significant deficiencies were reported. Christian Hara highlighted significant fluctuations from Fiscal Year 2023 to 2022 starting with current assets. This amount decreased by approximately \$2.2 million, which is primarily due to a decrease in AR from the University of Hawai'i for cost reimbursable projects. The net capital assets increased by approximately \$1 million mainly due to significant IT acquisitions. RCUH's current liabilities is comprised of AP, which can fluctuate year-to-year based on the timing of vendor payments.

On the Statements of Revenues, Expenses, and Changes in Net Position, N&K did not report any significant fluctuations, but did see a \$1.2 million increase in non-operating revenues, which is comprised mostly of interest income. Mr. Hara pointed out the swing in net cash by operating activities, due to a decrease in receivables from FY22 and an increase in investing activities comprised of Time Certificate of Deposit purchases. He also noted a reduction in investments.

N&K's Dwayne Takeno mentioned that he's been working with RCUH management and there were some changes from the draft that was distributed. There was a change in the statement of cash flows for capital assets financed by accounts payable; that ended up being a non-cash transaction. It also affected cash flows from capital and related financing activities. Mr. Takeno informed the committee that there's going to be a modification from the capital assets note to break out non-depreciable assets from depreciable assets.

In terms of required communications, Mr. Takeno shared that they are required to communicate the planned scope and timing of the audit, which was done in a letter dating March 7, 2023. As far as accounting policies, they remained the same, except for GASB statement No. 96 related to subscription-based information technology (IT) arrangements. RCUH management determined that the cumulative effect of the new statement was not material. N&K noted no transactions entered into RCUH where there was a lack of consensus or authoritative guidance and all significant transactions have been reported in a proper period. Two of the more significant estimates in the financial statements are the Supplemental Retirement Benefits and Postemployment healthcare and life insurance benefits. N&K evaluated the factors and determined it was reasonable in relation to the basic financial statements taken as a whole. Mr. Takeno stated he was pleased to report no significant deficiencies in dealing with management to complete the audit and thanked Maile Brooks and Glenn Yee for their efforts.

Mr. Takeno continued with reviewing a few unrecorded misstatements as a result of their audit procedures. He reviewed three entries, the more significant being the expensing of subscription-based information technology assets in the current year. Upon implementation of the new GASB statement, management identified certain assets that were capitalized in previous years, but cleaned it up this year. There were also some omitted disclosures primarily due to long-term liabilities.

Mr. Takeno reported no disagreements with RCUH management and will be receiving a representation letter hopefully later today. However, N&K still needs a few pieces of information to complete the audit so the report date may change. There was no consultation with other independent accountants and N&K's responsibilities for required supplemental information was basically comparing the information for consistency with management's responses. He added that GASB statement No. 101 for compensated absences is on the horizon, but is pleased to report that there won't be a significant GASB statement to implement next year.

Mr. Yee asked whether the changes made to the draft at this juncture will affect the opinion and Mr. Takeno affirmed that was not the case. Vice Chair Goodin inquired on the information N&K is waiting on to complete the audit. He explained that one of the more significant pieces to the audit is that N&K will actually confirm the amounts due from the University, which usually acknowledges that they're okay. The auditors just received the confirmation letter yesterday and so they will need Ms. Brooks to assist in reconciling those differences. Mr. Takeno expected that it will be primarily timing differences, but they weren't able to confirm all of the balances this year. N&K will be working with management to resolve that and does not expect there to be an adjustment.

[Mr. Hara and Mr. Takeno exited the meeting at this time.]

Vice Chair Goodin was surprised that the audit was not completed yet, but could not recall if that was typical. Mr. Yee reported that it is pretty typical as there are usually things to tie up before the actual report goes out. Ms. Brooks added that whatever the auditors asked from RCUH management, RCUH was able to produce, but this piece of data is coming externally from UH. Vice Chair thanked Mr. Yee and Ms. Brooks for their response and wanted to ensure the delay wasn't coming from RCUH's end.

ACCEPTANCE OF AUDITED FINANCIAL STATEMENT FOR FISCAL YEAR ENDING 6/30/2023

Upon motion made (Chin), seconded (Salmon) and duly carried, the Audit Committee voted to accept the audited financial statements for Fiscal Year 2023.

ADJOURNMENT

ED Gouveia thanked Ms. Brooks and Mr. Yee for their work on this audit and providing the information in a timely fashion. Mr. Yee noted that the next committee meeting will be in March to approve the auditors for the upcoming fiscal year. N&K is in the last year of its contract and up for renewal. They typically send a request for an increase in fees, which is then negotiated with RCUH. If the requested increase is unacceptable, RCUH has the right to cancel the contract and go out for an RFP. The meeting adjourned at 10:21 a.m.

/s/

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, 2023



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	
2023-001 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, 2023, 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 31, 2023, 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
December 19, 2023

Research Corporation of the University of Hawai'i
State of Hawai'i
CURRENT FINDING AND RECOMMENDATION
Fiscal Year Ended June 30, 2023

2023-001 Year-End Reporting Process

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

- Disclosure of acquisition of capital assets financed with accounts payable of approximately \$826,000.
- Misstatements in cash provided by operating activities and cash used in capital related and financing activities due to the capital assets financed with accounts payable of approximately \$826,000.
- Reclassification of capital assets that are not being depreciated from capital assets being depreciated.

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

- Information of long-term liabilities
- Certain disclosures related to long-term liabilities
- Certain unrecorded misstatements related to the capitalization of computer software development in progress as of June 30, 2022

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. This should be reviewed by an individual other than the person that prepared the disclosure checklist. 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 19, 2023

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, 2023.

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

Sincerely,

A handwritten signature in black ink that reads "Glenn Yee".

Glenn Yee
Director of Finance

Finding 2023-001 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 should also maintain a listing of unrecorded misstatements and missing disclosures when preparing the financial statements.

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 year-end checklist will be updated to add a procedure to review prior year unrecorded misstatements and missing disclosures to ensure any misstatements or disclosures are properly incorporated into the financial statements. The Director of Finance and Controller will also exercise greater care when completing and reviewing the financial statement disclosure checklist.

Research Corporation of the University of Hawai'i
State of Hawai'i
STATUS REPORT
Fiscal Year Ended June 30, 2023

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, 2022, dated November 30, 2022.

Recommendations	Status
2022-001 Year-End Closing Process (page 4)	
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.	Partially accomplished. See current finding 2023-001.

Audit Fee History & Analysis

FY	Audit Fees	%		Average
2020	45,000.00	-	45,000.00	-
2021	45,000.00	0.0%	 46,656.29	3.7%
2022	46,800.00	4.0%	 48,373.55	3.7%
2023	49,500.00	5.8%	 50,154.01	3.7%
2024	52,000.00	5.1%	 52,000.00	3.7%
2025	RFP for Audit			