MINUTES

BOARD OF REGENTS’ COMMITTEE ON INDEPENDENT AUDIT MEETING

JANUARY 27, 2016

I. CALL TO ORDER

Committee Chair Stanford Yuen, called the meeting to order at 2:03 p.m. on Wednesday, January 27, 2016, at the University of Hawai’i Cancer Center, 701 Ilalo Street, Sullivan Conference Center, Honolulu, HI 96813.

Committee members in attendance: Committee Chair Stanford Yuen, Committee Vice Chair Ben Kudo; Regent Wayne Higaki; Regent Michael McEnerney; Regent Jeffrey Portnoy.

Others in attendance: Board Chair Randy Moore; Board Vice Chair Jan Sullivan; Regent Simeon Acoba; Regent Lee Putnam; Regent Michelle Tagorda; Regent Ernie Wilson, Jr.; Regent David Iha (ex officio committee members); President David Lassner; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; UH Mānoa (UHM) Chancellor Robert Bley-Vroman; UH Hilo (UHH) Chancellor Donald Straney; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

Committee Chair Yuen reminded everyone that the purpose of this meeting was: to receive the consultant report on the condition of the UH Cancer Center (Center); to receive the consultant’s recommendation on the business plan as stated in its letter; to address the current plans that President Lassner and UHM Chancellor Bley-Vroman will recommend; and to provide the opportunity for the committee members and other regents to ask questions on the report and the recommended plan. There will be no decisions made at this meeting.

On another matter, and in view of the recent and past misunderstanding regarding the role of the Board of Regents, Committee Chair Yuen clarified that I remind everyone that the board’s role is governance and oversight by setting board policies that the board interprets. The board’s policy is to exercise control over the university system through its executive officer, which is the president of the university, including the understanding that the president has the principal responsibility to apply the policies, rules and regulations adopted by the Board of Regents. He read aloud board policy that “the regents must not concern themselves directly with the administration of the university, or individually or take part collectively, in administration, provided that it is the responsibility of the board to satisfy itself, through proper channels, that the principles, law, and policies established by the board are, in fact, being administered and that the administration is adequate.” He concluded that the Board of Regents does governance on a macro level and not on a micro level.

Regarding the consultant report on the Center, Committee Chair Yuen indicated that he read the materials and it appears that the business plan the consultant recommends
would take many years, but time is critical because the reserves for the Center will run out
in less than the projected time. He also read in the materials that the consultant
recommended some immediate steps, and it appears that the chancellor and the dean of
the medical school are working on these steps. He also understood that the chancellor
and dean’s “bridge plan” is being reviewed by external stakeholders. He noted that there
has been much misinformation and misconceptions, and hoped this meeting will help
clarify things for everyone.

II. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the
Board Office received written testimony from 8 individuals which was distributed to the
regents and posted on the board’s public website, late written testimony from 4 individuals
that was distributed to the regents and will be posted on the board’s public website within
24 hours.

The following individuals provided oral testimony:

1. A. James Wriston, member and former Chair of the Friends the UH Cancer
   Center Board, testified in support of the Center and maintaining NCI designation.
2. Unhee Lim testified regarding her disappointment in the business plan and the
   importance of supporting the new Center director in streamlining operations,
   regaining financial sustainability, and maintaining research excellence.
3. Lynne Wilkens summarized her written testimony in support of the Center and
   raised concerns about faculty classifications in the business plan.
4. James Turkson testified about the Center being the only organized research unit
   within the UH System that addresses the unique cancer health issues within the
   state of Hawai‘i; the team science and research being done at the Center; the
   unique natural products available in Hawai‘i for potential applications in normal
   therapeutics; the high skilled job opportunities, educational and training
   facilities/resources the Center provides the state; and the intellectual properties
   and technologies generated for potential commercial applications.
5. Joe Ramos summarized his written testimony supporting the Center and the $5
   million request for support submitted to the Legislature.
6. Bobbie Martel testified in support of the Center and about the tremendous care
   clinical trials provide the people of Hawai‘i so they do not have to seek out-of-
   state treatment.
7. Larry Martel testified about his experience in being stricken with cancer and the
   importance of the Center being able to provide access to those trials locally.
8. Diane Ono testified about the importance of continued support for the Center and
   mentioned the life saving treatment her daughter received at the Center.
9. Ruby Mizue testified in support of the Center and about her extended family’s
   experience with the Center, and her and her husband Paul establishing the
   $100,000 Masami Horio Memorial Fund for a gastrointestinal pilot study.
10. Paul Mizue, cancer survivor and President of Hawai‘i Prostate Cancer Coalition,
    testified about the important role the Center plays in helping the Coalition fulfill its
    mission of creating greater awareness and knowledge about prostate cancer.
11. Louise Cavanagh, participant in the Center’s cancer study looking for a link between hula and healing, testified in support of the Center and the importance of local accessibility to major clinical trials.

12. Te Moana Makolo, cancer survivor and kumu hula for the Center’s hula and healing study, testified in support of the Center and the excellent work being done by researchers.

13. Adrian Franke testified regarding the importance of proper management at the Center to ensure future success; and the need for a future director to have experience with administration, research and cancer focus.

Regent Acoba arrived at 2:45 p.m.


15. Marguerite Butler summarized her written testimony regarding concerns about College of Natural Sciences faculty assignments in the business plan.

16. Lynne Murikami-Akatsuka testified about collaborative research work done between the Center and the state Department of Health (e.g., Hawai‘i SunSmart Program, Pool Cool Program); the formation of the Hawai‘i Skin Cancer Coalition; the important role the Center plays in outreach and education of visitors and residents; and the need for regents to support the $5 million Legislative funding request.

17. Neal Palafox summarized his written testimony in support of the Center and concerns regarding potential gaps in analysis contained in the business plan.

18. Claire Hughes summarized her written testimony in support of the Center and work they do to improve the health and well-being of Native Hawaiians.

19. Thomas Wills testified about the research on e-cigarettes and cigarette smoking being done at the Center and how the Center contributes to scientific innovation, research, and progress in Hawai‘i.

20. Sharon Shigemasa testified in support of the Center and the importance of maintaining an NCI-designation.

21. Ioannis Stasinopoules, P30 Coordinator, summarized his written testimony containing detailed comparison tables showing the Center’s grant awards.

22. Carol Boushey testified in support of the Center, the research being done, and the important role the Center plays in the state.

The following individuals signed up to give oral testimony but did not testify: Alan Schiller, Kornelia Szauter, Amy Brown.

At 3:22 p.m. the committee recessed. The committee reconvened at 3:32 p.m.

Committee Vice Chair Kudo recounted the timeline regarding the Center business plan. Committee Chair Yuen noted that the report the regents received was dated October 16, 2015, and presumed the university received it shortly after that date; the Legislature opened on January 20, 2016, and Representative Isaac Choy held a Higher Education Committee meeting on January 21, 2016, with regents receiving a copy of the business plan just prior to the hearing. He asked President Lassner to provide an explanation why the regents were not provided with the report so late.
President Lassner remarked that the Center has been a primary subject of attention during his tenure as president. In 2008 the university, state and community entered into a new partnership enable the Center to evolve and advance the quality of cancer care in Hawai‘i and beyond by bringing more advanced clinical trials and treatments into the state so that more of our cancer patients can obtain novel treatments without the need to leave home. The federal government is also an important partner in this initiative through the NCI designation, which provides benefits far beyond those of the dollars associated with the P30 grant itself.

The original financial plan underlying this initiative assumed steady state funding of cigarette tax revenue. While not personally involved, he was told by many that it was understood this would need to be addressed in the future because the cigarette tax revenues would decline. That future may have come more quickly than was expected today.

Soon after starting as interim president it became apparent that the Center needed attention because the Center’s expenditures substantially exceeded its revenues and the once substantial reserves were declining precipitously.

He recounted how the Legislature last January grilled him as to why the university had not requested funding to fill in the financial gap as some key legislators involved in the original financial plan were well aware the cigarette tax revenue had been declining. He told legislators he had not asked the board to include a request for funding of the Center because at that time he had not been provided with a clear path forward and plan that he was confident would balance the budget, achieve success with the NCI designation, and take the Center forward to provide the cancer care he believed the state, university and community had invested in.

In the fall he requested board support in submitting a request to the Legislature, even though there still was no plan. He was and is still very grateful for the board’s support, as are many internal and external stakeholders committed to the vision that was invested in starting in 2008. His confidence last fall was based on the fact that there was an interim director working closely together with his chancellor and with the support of many, but not all faculty, to address both short-term and long-term challenges - this time addressing both the costs side of the equation as well as revenues. He was delighted when the Governor agreed to support $4 million of the $5 million request.

He is well aware, painfully aware, particularly after the legislative hearing last week, of all the difficulties to get to this meeting where the regents can actually review a proposed plan. It has come more slowly than he had hoped and expected, and the path has been torturous with twists and turns that he certainly did not expect and clearly wishes they had avoided. He has learned many lessons that will help him should they find themselves in this situation again. Even now, the document is labeled as a “proposed plan” as they are now entering a period of what they know will be intense public and private scrutiny from both supporters and opponents of the vision, as well as specific elements included in the plan, some of which was heard today. Besides the regents review, they are asking for external community review over the next weeks, Director Hedges is discussing it
internally, and are well aware that legislative supporters and opponents will have comments.

The framework that created what they have today represents a shared commitment and investment from the campus, the state, hospitals and federal government. There were highly divergent views on what this Center should look like, and not everyone agreed with every element of the plan. But this was a collaborative community vision that ultimately was adopted, and the creation of the Cancer Consortium with the major hospitals in Hawai‘i have built this world-class facility as a home for our world-class faculty researchers to advance the quality of cancer care in Hawai‘i for the people of Hawaii and beyond.

While the prior reports did not provide the plan requested and expected, as the chancellor and Director Hedges will share, the proposed plan before the committee today is based on and leverages those prior reports as well as the external assessment provided by the national expert consultant that was engaged with private funds. It reflects more modest and highly focused expenditure plans and internal savings that have been identified over this past year as the team has worked toward reducing administrative costs, particularly through the reorganization that is now undergoing consultation, and tries to provide a realistic view of revenue opportunities.

The Center benefits from the guidance and advice of an External Advisory Committee (EAC), a group of cancer center experts that provide consultation to the Center each year, in accord with NCI requirements for all NCI-designated cancer centers. These are researchers and leaders from cancer centers around the country with deep experience at their own and other centers. They visited the Center earlier this month, and conducted an exit briefing two weeks ago today for the Center and university leadership, consortium leadership, and several legislators. Unfortunately, their written report is not yet available, but with the permission of the EAC chair he shared their summary comments.

- The research being conducted by the Center faculty is simply outstanding. The Center’s increase in federal funding while overall NIH funding was down is a credit to excellent faculty researchers. And collaboration is now more evident among different groups than in past years.

- They saw “remarkable” progress on the development of the clinical trials infrastructure that had been previously noted as severely lacking, which is absolutely essential to the goal of the Center to improve cancer care for cancer patients in Hawai‘i. This is a vital step that can now be leveraged into improved accrual to clinical trials, which will require and can be the basis of renewed commitment partners in the consortium and oncologists in the community. He added that an EAC member told him that the progress the Center had made in six months took his center over 2 years to achieve.

- They supported the reorganization on which consultation is underway, with the expectation the new organizational structure will facilitate the ability of the new Center Director to drive the science forward, and enhance the ability of the Center to work with its partners to apply that science to well-
being of the people of Hawai‘i. He had been advised that most, although certainly not all, cancer centers in this country are organizationally housed within medical schools.

- Increased clinical research is a huge opportunity for the Center and Hawai‘i, particularly with the increasing federal investment announced by President Obama and VP Biden this month. They commented regularly on the significant competitive advantages in Hawai‘i associated with our diverse population and our location.

- The climate within the Center is substantially better than in the past several years, but there is room for more improvement, which may be evident to those who have been serving as regents for 2 or 3 years as it was to the EAC members who have visited each year.

- Some critical recruitments are absolutely necessary including a topnotch director and some specific targeted faculty researchers to meet the requirements of NCI designation.

He closed, noting that it is clear there is much work to do, but there is a bright future for the Center and improved cancer care for cancer patients in Hawai‘i and beyond, with the continuing shared commitment of the university, Legislature, hospitals and community.

Regent Higaki disclosed that he worked for North Hawai‘i Community Hospital, an affiliate of the Queen’s Health Systems, which is a member of the Cancer Consortium. Regent Acoba disclosed that his son is a researcher at the Center, and he previously took the position that it would be prudent to participate on policy matters, but nothing specifically related to his son’s status. Committee Vice Chair Kudo noted the committee historically relied on individual regent’s judgment on whether they need to recuse themselves, and no members objected to continuing this practice, nor the participation of Regents Acoba and Higaki.

III. AGENDA ITEMS

A. For Discussion:

1. University of Hawai‘i at Mānoa: Cancer Center Report and Business Plan

   Chancellor Bley-Vroman recounted his commitment as interim chancellor over a year ago to pay a great deal of attention to the Center because it is important to the university, Hawai‘i and the world. He explained how UHM has six areas of responsibility it has to fulfill, three of which are relevant to the Center: first, as a land-grant institution and public institution, UHM needs to direct its efforts to serve the people of Hawai‘i; second, with respect to research, UHM cannot be all things to all people; research has to be focused on those areas where they have special capabilities, strengths, and strong advantages because of our position, population and history; and third, efforts need to be focused on areas where Hawai‘i itself can serve the larger community beyond Hawai‘i. He explained
how there are areas where the Center is uniquely positioned to do research because of the unique possibilities here in Hawai‘i; that the Center serves an important need for Hawai‘i’s people, and implications that research being done goes beyond Hawai‘i; and that the Center fits in closely with the university’s mission and plays an important role in the war against cancer.

He cited Executive Policy 12.203, Establishment & Review of Organized Research Units (ORUs), that “Organized research units benefit the State of Hawai‘i directly through programs of applied research, extension service, and training in areas which meet community and regional human and economic needs.” Further, “ORUs are normally established and maintained only in areas where the University has intrinsic research advantages or particular capabilities to respond to special needs.” The policy also states that “In most cases, funding is obtained from both State and Federal sources, the ratio of external to core funding is greater than one, and more than one external funding source is involved.” He explained that the meaning of the policy is the Center should be bringing in at least as much federal grant money as is being spent on the ORU, and the Center greatly exceeds that ratio. Michael Bruno, UHM VP for Research, estimated there is approximately $4 in external funding for every $1 of internal funding for the Center.

He then introduced the updated business plan, or bridge plan prepared by Jerris Hedges, Interim Director of the Center, to be discussed at the meeting and reminded that Navigant Consulting, Inc. (Navigant) was selected as the external consultant under the Request for Proposal. Navigant partnered with Warbird Consulting Partners (Warbird) to develop the plan, which proposed a two-phased engagement. Phase 1 was to provide an assessment, and Phase II was developing a business plan. Phase 2 was to be negotiated at the completion of Phase I. One of the attractive features of the proposal was the possibility of mid-course adjustment, and not having to commit to full payment at the outset. Based on the external consultant’s qualifications, the proposal, and discussions, administration entered into the agreement. The engagement was made using private funds from the UH Foundation, and a purchase order issued to Warbird. Phase I was completed in November 2015 as planned. At that time, the external consultant assessment proposed that a long-term business plan would involve creation of an enterprise model, and development and implementation of a totally new compensation plan for Center faculty. After reviewing the assessment, administration felt those two concepts would take extensive negotiations, if they were to proceed, with the Legislature, hospitals, unions and other stakeholders. These negotiations may take many years, even with the favorable support of all parties, which is not a workable timeline to support efforts with the Legislature, which must begin now. The Center needed a workable timeline for implementing new business plan in the short and intermediate term given the declining cigarette tax reserves available and the current rate of expenditures, and a plan that provides financial stability as soon as possible. After reviewing the state of the progress with the external consultant, administration decided not to initiate Phase 2 at this time; the purchase order remains intact. The external consultant concurred that doing so was a reasonable decision in this case, and provided a valuable assessment utilized in the current proposed plan. Administration is also seeking external input from informed and qualified community members. Steps built into the proposed business plan can prepare the Center for moving towards successful implementation of the two concepts, provided the university chooses to move in that direction. Implementation of these two concepts
requires successful integration of Kakaako campus units, and active dialog with faculty and staff units regarding new faculty practice models and the hiring of a new Center director. The Phase 2 engagement is on hold, and could be activated later if the university wants to do so in the future.

The appointment of a Center director is essential to move forward. The board authorized a salary range for the search, and the search has begun. Chancellor Bley-Vroman would be meeting soon with the search committee to get an update on their progress. He was informally told there was a good applicant pool, and interviews would be commencing shortly. The aspirational schedule is to have a decision made by May or June of 2016.

Extensive discussion ensued about why the report was withheld from the regents and not provided in November as originally promised; the report being received immediately before the House Higher Education hearing; the total breach of confidence in administration; the lack of candor on the part of administration regarding the Center review and report; concerns about regents being asked to support a $5 million legislative request without the report; the external consultant not being given the opportunity to provide input or respond to the proposed bridge plan; the perception that the plan was not independently prepared; the need to reaffirm support in the Center, and work together to move forward and make it sustainable; the need to regain trust in Administration in order to get external funding; and providing regents enough information to determine what needs to be done. There were additional questions and concerns regarding the plan’s recommendation on how scholarship and tuition money would be used.

Chancellor Bley-Vroman concurred that in retrospect aspects could have been handled better, including involving the regents more significantly the past couple of months. He explained that administration was focused on the task of creating a viable business plan, and was confident in this plan and hoped it would stand on its merits. He indicated that Director Hedges’ work had been diligent and self-sacrificing, and undertaken with an attitude of service to the university and Hawai‘i. The Phase I assessment provided the big concept of where the Center needed to go long-term, and was extremely useful in developing the short-term bridge plan. Discussions with the external consultant, led administration to conclude the expertise needed to address the immediate problems were more readily available on the ground in the Center, JABSOM and UHM. External consultants would come in not knowing Hawai‘i-specific conditions.

President Lassner explained that the Phase I assessment is not a plan. He agreed with the recommendation of Chancellor Bley-Vroman and Director Hedges to not proceed with Phase 2. The assessment was dated October, but corrections were not finished until November. Even though the Committee on Internal Audit held a special meeting in November, it was during the holiday season, and the hope was to provide regents with the Phase I assessment and explanation of why it was brought in-house.

Committee Vice Chair Kudo proposed that a task group be form to assist administration with looking at whether the Center is consistent with the mission of the university, and if so, what form should it take given the various restrictions such as
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Chair Moore indicated that the task group formation could be put on the February board agenda, but timing could be an issue because a task group can only make recommendations, and decisions have to be made at a subsequent board meeting. He suggested the alternative would be for regents to submit questions, and administration could provide the answers more expeditiously.

Some committee members wanted it put on the record that administration was wrong in withholding the assessment report from the regents, given that administration represented that the business plan would be provided before the end of the year. Some committee members were in favor of the task group, even if the end result was more expansive. Other committee members preferred that additional committee meetings be held so the members could listen, ask questions, and then make an informed decision.

Committee Chair Yuen explained that the proposed task group would not discard Phase I or start from scratch, but would instead address whether there needs to be modifications to the plan. The task group would provide an independent review, because there is concern with internal studies having a conflict of interest. The task group would advise on how the business plan should be done and whether to continue with the purchase order or not.

Concern was expressed that there was too much dependence on external consultants who do not know Hawai‘i and do not have the sense of time and resources to accomplish what needs to be done. There was benefit with merging what was learned from the external consultant with personal involvement and commitment of those who work at the Center. Some members felt it was time to move on and reaffirm commitment to the Center.

A motion to recommend the Board create a regent task group for the purpose of helping administration form a business plan in regards to the Center having been moved and seconded, the motion was put to a vote and carried with three members (Regent McEnerney, Committee Vice Chair Kudo, Committee Chair Yuen) voting in favor of the motion, and two members (Regent Portnoy, Chair Moore) opposed the motion.

President Lassner noted and accepted the disappointment and chastisement from the regents, and promised to do better the next time. Since the formation of a task group could not be approved until the February board meeting, he requested regents submit questions to Secretary Quinn, which will be shared with administration and answers provided. He indicated that the external consultant had been asked, but declined to review the proposed business plan. Administration can ask the external consultant again and they might feel differently if they knew the Board of Regents was requesting the review, but this is one of the reasons why they are also pursuing external input from informed and qualified community members. He further clarified that the proposed reorganization was disclosed to the board, and that it is not abolishing the ORU but incorporating it into another unit, similar to other units on campus (e.g., School of Ocean & Earth Science & Technology). He was very appreciative of the regents interest in

budget. Regent McEnerney moved that a task group be formed, and Regent Wilson seconded the motion.
helping with the plan, and while it was painful to get there, he is glad that is where things have ended up because that is the future. He reiterated that he concurred everyone needs to get on the same page, because the reality is there are people who do not support the vision of a cancer center that is focused on true patient care and bringing novel treatments to patients in Hawai’i. He acknowledged that when we appear to not be supportive of the end goal, opponents of that vision will use the internal discord to undermine efforts. He added that he looked forward to working with the board on whatever process the board decides, and will do better in the future.

IV. ADJOURNMENT

There being no further business, on the motion of Regent Kudo and second by Regent Portnoy and with unanimous approval, the meeting was adjourned at 5:15 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents