



OIST

OKINAWA INSTITUTE  
OF SCIENCE AND TECHNOLOGY  
GRADUATE UNIVERSITY

沖縄科学技術大学院大学

May 29, 2014

To: Board of Governors and Board of Councilors,

Okinawa Institute of Science and Technology School Corporation

From: Kiyotaka Soma

Kiyotaka Soma, Auditor

Koji Matsuda

Koji Matsuda, Auditor

### FY 2013 Audit Report

This report contains the result of our periodical independent audit of Okinawa Institute of Science and Technology School Corporation's business and financial operation for FY2013, as provisioned in Section 3, Article 15 of Okinawa Institute of Science and Technology School Corporation Bylaw.

#### 1. Methods of Audit

- (1) For the operational audit, we attended Board of Governors as well as Board of Councilors; we also audited from the President, the Provost and others on the execution status of the business. We reviewed important kessai (decision making)-documents and coordinated with the Internal Audit Section to examine the adequacy of the business.
- (2) For the financial condition of the audit, we confirmed the accuracy of the statements with Ernst & Young Shin Nihon LLC.

#### 2. Audit Result

- (1) We did not find any significant violation of the laws and Bylaws, nor act of misconducts or frauds pertain to School Corporation's business administration and its properties.
- (2) We verified that the business report correctly reflects the condition of business operation.
- (3) We found that the financial statements match the contents of accounting records, and the School Corporation's status of assets and gain and loss are properly shown in compliance with laws and Okinawa Institute of Science and Technology Accounting Standard. Financial Closing Report was prepared according to the budget classification and properly reflected the status of closing.

FY2013 Audit Report and Auditors' Written Opinion is submitted separately as attached.

May 29, 2014

## FY2013 Audit Report and Auditors' Written Opinion

### **Part 1: General Remarks**

#### **1. Core Values**

##### **(1) Importance of Core Values**

At the Okinawa Institute of Science and Technology School Corporation (OIST), core values mean the principles stipulated under PRP 1.3, Core Values. The core values are “integrity, honesty, fairness, respect for others, and dedication to the OIST mission”. These values guide the activities and behaviors of individuals working for, or asserting an affiliation with the University, and “the University promotes diversity and provides equal opportunities for all community members without regard for race, color, religion, national origin, ancestry, physical or mental disability, medical condition, marital status, gender, sexual orientation, or age.” In addition, the University operates under principles expressed by the following three basic premises: openness in research, respectful workplace, and commitment to students.

We interviewed the President and other executives in regard to the implementation of these core values in the daily operation of the University and were informed that they are reinforced in various situations. We recognize that core values are well disseminated and understood at OIST.

In regard to “Openness in Research,” some challenges still remain. We confirm that continuous effort is being made to apply core values to resolve issues of limited “openness” concerning research results and the need to establish rules for external use of OIST’s research equipment.

All employees should be able to apply OIST’s core values to their own behavior and their approach to daily business activities so that core values are not just slogans, but are actually inculcated and implemented. We request that the President and other executives, including the Vice Presidents (VPs), constantly remind their staff about core values, and that all administrators base their interactions with staff upon those values.

##### **(2) Employee Overtime, Employee Healthcare, and Handling Complaints and Conflicts**

###### **○ Employee overtime**

The audit assessed OIST’s employee overtime situation by reviewing materials submitted by HR and by interviewing VPs. The audit found no major issues for most sections. However, opportunities exist to improve the management of overtime in some sections. The



VPs of the subject sections “acknowledged the need to improve overtime management and were working to rectify the situations.”

We request that all OIST employees, except those who are exempt, accurately record their arrival and departure times in the Working Time System (Attendance Management Tool), as stipulated in the Rules of Employment and the PRP. We strongly request that the VPs actually implement the improvement measures to rectify the situation. We also ask the VPs to manage overtime budgets personally, in order to exercise more effective control over employee overtime.

○ Employee health care

OIST provides four types of health care for its employees: health screening, health consulting, mental health services, and provision of general health information. OIST’s health screening includes annual health checkup for all employees, and special health screening for research personnel. The employee turnout for annual screening ranges from 85% to 90%.

OIST provides monthly health consultation with an occupational physician for those whose working hours are excessive and for those who desire consultation, as well as health consultation with a nurse and a health nurse. For employee mental health care, OIST also provides training sessions on stress management, in addition to counseling with an industrial counselor.

We found that OIST’s health management measures have been implemented gradually. However, the health screening rate still needs to be as close to 100% as possible. Special health screening for researchers, in particular, is not optional. All subject personnel must participate in it, not simply those who wish to do so. To this end, we encourage HR and the Research Safety Section to coordinate closely. They should identify and contact employees who have circumnavigated this important “safety net.”

○ Handling complaints and conflicts

Hajimu Nomura, the Associate Vice President for Human Resources (AVPHR) explained that HR has made various efforts to address general complaints from OIST staff and students, such as introducing a harassment hotline, providing consultation through HR, and holding harassment training sessions for all staff, including managers. In addition, the Graduate Dean, Jeff Wickens, explained that an appropriate system, centered on the Dean and Provost, has been established to address student complaints about academic activities.

After interviewing AVPHR Nomura and Dean Wickens, we found that the system to handle complaints and solve conflicts has been well established. However, the system should be further examined to ascertain that it functions effectively. In the future, we will discuss how we can examine this system.

### (3) Opening of the Resource Center and the Medical Center

#### ○ Establishment of the Resource Center

The Resource Center opened on October 10, 2013, under its newly appointed director. Prior to the opening, a survey was conducted among all OIST-related personnel to ascertain their expectations (259 of 585 personnel responded). Requests regarding medical and health matters stood out slightly, but expectations were diverse and comprehensive. A task force, comprised of roughly 20 members from various sections of OIST, met to decide the mission of the Resource Center.

From October 10 to December 28, over 304 people used the Resource Center's broad range of services, including responding to inquiries and offering event information. At present, responding to inquiries accounts for a majority of the Center's work; however, AVPHR assured us that in the future, the Center will also be concerned with holding family events and orientations.

Reviewing the daily tasks of the Resource Center, we noted that its activities to fulfill its mandate are becoming more clearly defined. However, some OIST personnel are unaware of the existence of the Resource Center. The Center should be better advertised, and its use should be further promoted. In addition, some of the information transmitted by the Resource Center overlaps with that provided by the Communications and Public Relations Division (CPR) on TIDA. Some of the work now handled by the Resource Center used to be the responsibility of the CPR. Therefore HR and the VPCPR, Neil Calder, should work closely to clearly define purviews of both divisions.

#### ○ Preparation of the medical clinic

The medical clinic was initially scheduled to open in April 2014, using a three-bedroom apartment in West Court. One clinical psychologist and two to four counselors were supposed to be employed in November 2013, to begin providing counseling services in December 2013. Additionally, it was anticipated that a medical doctor would be employed by March 2014, to start providing medical care no later than April to June 2014.

For a variety of reasons, the medical clinic failed to open on schedule. While the



opening of the clinic is an urgent task, HR and other relevant sections should thoroughly discuss the details and scope of the healthcare service, prescribing and dispensing medications, the burden of expense, in addition to the mission and detailed tasks of the clinic. These sections should provide the President with the information he needs to finalize the above matters.

## 2. Risk management

### (1) Definition of risk

What are the risks at OIST? Rather than attempting a strict definition, we would like to think of risks as all factors that may negatively affect OIST's ability to achieve its fundamental objectives. The reason for this rather vague definition is that OIST's broad array of activities makes it difficult to articulate a comprehensive definition. Establishing too narrow a definition may unintentionally exclude some potential risks.

### (2) Problem awareness in each section and the current situation

Based on the above premises, we asked each audited office: 1) What risks have you considered when conducting business? 2) What measures have you taken to manage these risks?

We verified that all heads of audited offices were well aware of risks associated with their areas of responsibility. As discussed later, efforts to devise an "Emergency Response Plan" for the entire OIST community have also been undertaken.

Some specific examples of risk management are as follows:

#### i. Risk management concerning research safety:

##### ○ Research safety and health

The Research Safety Section (RSS) recognized the following nine risks:

- Biological agents, including recombinant DNA/ environmental pollution caused by pathogens and toxins, and human exposure to such substances.
- Ethical violations, personal information leakage, and adverse effects on people participating in human subjects research (including clinical research and epidemiological studies)
- Radiation damage or injury from radioisotopes (RI) and environmental contamination due to leakage of RI
- Damage or injuries from lasers
- Safety and health: accidents, injuries
- Reporting obligations regarding equipment and facilities subject to regulations: Inappropriate use of equipment, compliance violations, etc.

- Environmental pollution and injury of workers caused by laboratory waste
- Violation of security export control
- Environmental pollution and injury of workers caused by chemical materials and management risks of such substances

In order to manage the aforementioned risks, RSS staff 1) established rules and policies on related matters, 2) conducted a monthly workplace review, an inspection of each area, including laboratories, office space, etc., 3) assured that legal/procedural requirements were met and provided sound advice when research equipment was installed or specimens were received, 4) registered and fulfilled reporting duties to appropriate government offices, 5) attended pertinent seminars and conferences, and updated information, and 6) participated in specialized training. The RSS also explained that research safety-related rules and manuals at OIST exceed the standards of similar research institutions.

Some risks are managed by performing preliminary reviews of research plans in relevant advisory committees. These committees include Biosafety, Human Subjects, Radiation Safety, Laser Safety Advisory, and Safety and Health.

In the area of occupational safety and health, the “HIYARI HATTO” project was implemented, and in order to prevent laboratory accidents, RSS integrated all information concerning accidents and near-accidents, and shared it with all concerned parties. If a major accident occurs at OIST, it will be reported to the President and other executive members via the Vice Provost (the General Health and Safety Manager). If injuries are involved, they may be reported to the President through the Health Center or HR; however, RSS will still be notified, so that all information is consolidated in one office.

In order to share the latest information on safety at OIST, RSS also offered update sessions to alert personnel of any revisions made to pertinent laws or regulations and to provide recent examples of incidents that required attention. However, those update sessions were not mandatory.

#### ○ Training offered to manage risks

Training was offered during new employee orientation and subsequently in specialty training. This training was available online, in a classroom setting, and in one-on-one meetings in order to fully disseminate information regarding risks, rules, and policies, emergency responses, and health related topics. We verified that online training covered most necessary items, including specialty subjects.

A database to manage attendance records of specialized training is available, but this is only available to the person who took the trainings, and the supervisors cannot see the records



of his/her staff online due to lack of such function. Therefore RSS compiles the data and sends it to all faculty members, annually.

Completion of specialized training was strongly recommended either before or at the time of submitting requests for experiments or research activities, so it was possible for RSS to remind applicants of training opportunities. As a result, the attendance rate was 100%.

- Response manual for managing serious accidents

The PRP includes “University Emergency, Safety, Health Procedures and Guidelines” and “Typhoon Guidelines.” Furthermore, based on these guidelines, VPCPR Calder initiated a task force to discuss and prepare a manual and procedures to include the actual chain of contacts, organization of an Emergency Task Force, etc. (described later).

- Regarding emergency inspection by Animal Quarantine Service Okinawa Office, Ministry of Agriculture, Forestry and Fisheries (MAFF) in May 2013 and preventative efforts

When OIST was still a Promotion Corporation, a research unit reported the acquisition of a *Salmonella* strain to MAFF to use in its experiments; however, once possession of *Salmonella* was reported, the unit neglected to discuss the management status of this pathogenic bacterium in its annual report, which led to an emergency inspection by MAFF. The major cause of this incident was that the report to MAFF was submitted by the unit before RSS was organized, and RSS was not aware of the existence of the *Salmonella*.

In an effort to prevent similar incidents, as a basic principle, RSS now maintains a database of comprehensive information regarding agents used for experiments and research equipment that necessitates annual status reports to MAFF. Additionally, RSS has:

- 1) revised its online training manual and required mandatory participation in online training sessions
- 2) improved participation record management and made these records available to supervisors, and
- 3) provided hands-on-training about RSS services to new units.

We acknowledge the University’s concerted efforts to manage research risks well. Nonetheless, training sessions and seminars are extremely beneficial for increasing research safety awareness. Therefore, RSS should continue such training at regular intervals and should strive to improve the participation rate.

- ii. Financial management

- Insurance

According to the Vice President for Finance and Administration (VPFA), Patrick Vincent, a comprehensive review of University insurance was conducted at the end of last fiscal year with the assistance of an external specialist (Marsh Japan). Risks pertaining to all University activities were analyzed:

- (1) accidental property damage to OIST's assets caused by fire and other natural disasters
- (2) liability arising from accidents and human errors
- (3) coverage against injury or death for directors
- (4) property damage and liability arising from criminal acts by employees
- (5) car accidents

Based on the results of this analysis and recommendations from Marsh Japan, and in an effort to shift existing insurance to more advantageous products, it was decided to consolidate all OIST insurance purchases. In the past, the procurement office and other offices had purchased necessary insurance separately for the assets and equipment for which they were responsible. VPFA Vincent explained, however, that by consolidating all insurance purchases to its office, cost reduction would be achieved.

○ Compliance in procurement

As part of compliance efforts, the Procurement Section:

- (1) sent accounting staff to training offered by the Ministry of Finance,
- (2) hosted a first seminar about the Act on Elimination and Prevention of Involvement in Bid Rigging by FTC, OGB, and consulted unofficially to FTC about antitrust doubts about vendors, and
- (3) offered explanatory meetings when travel policies and rules were revised, and provided spot support for irregular cases.

○ Confidentiality

The Technology Licensing Section (TLS) explained to researchers the importance of Non-Disclosure Agreements (NDA) and confidentiality when researchers reported to TLS that they engage in external research collaborations. The TLS requested that researchers use the OIST NDA template for negotiations, and provided legal support. They also provided seminars for researchers to educate them about patent law and confidentiality.

○ Prevention of fraud by accounting employees

One of the most effective measures to prevent fraud by accounting employees is to avoid prolonged appointments in the same position. Rotations of employees who handle budgets, approximately every year and a half, and other accounting employees, about once every two



years, have been initiated.

○ Accounting management related to the Village Zone and the Graduate School

In order to sustain and continue proper management of the Village Zone, VPFA Vincent decided that the accounting team should be proactively involved in its management. He explained that this operational improvement has started, including the involvement of the accounting team, to work with the Graduate School Office in order to resolve tax-related complexities concerning money paid to students.

We acknowledge these efforts to ensure accounting compliance. Where applicable, purchasing insurance is also a valid way of managing potential risks, and we note the initiative to consolidate the management of insurance purchases and reduce costs.

We also commend efforts to manage employee fraud risks in accounting. By avoiding prolonged appointments in the same positions, a rotation program will promote a check system among employees.

iii. Student problems in research and in daily life

According to Dean Wickens, under the current system, problems are reported to him via Email. To date there has been no system to log reports of problems, but Dean Wickens believes it is necessary and plans to develop such a recording system. When needed, the record would also be cross-logged to student records.

When an accident occurs, students call either the Student Support Section (SSS) or the OIST Hot Line, and the Hot Line contacts the Dean. Generally, the SSS consults with the Dean, resolves the issue, and reports the final outcome to the Dean.

Some examples of student problems unrelated to research include a student who was absent for a long time due to an illness, and a student who mentioned a suicide attempt. Both cases were addressed properly and neither ended in tragedy. There were no reports of problems in research activities.

We concur that Dean Wickens and his staff responded appropriately to student difficulties. The plan to organize the information systematically is appropriate. Maintaining an incident log will provide necessary follow-up care for students and will consolidate useful information for future use when similar events happen.

(3) Preparing emergency response manual

The VPCPR initiated discussions with members of relevant sections regarding the need

and procedures to communicate with external entities in the event of an emergency. Results of these discussions are being compiled in an “Emergency Response Plan.” (The existent “Emergency, Safety, Health Procedures and Guidelines” are also under review to improve consistency with the “Plan” above. Throughout the remainder of this section, all of these are referred to as “Procedures.”) Merging these policies will forge what is expected to become the basic emergency response plan.

The University is acting responsibly in preparing these Procedures. However, we would like to highlight the importance of the following objectives as part of this continuing effort.

- 1) Merging the aforementioned Procedures so that there is only one, comprehensive manual to consult in case of an emergency.
- 2) Dissemination of the aforementioned Procedures to the entire OIST community. (These Procedures may be consolidated and simplified to promote understanding.)
- 3) Implementation of drills for practical training in responding to emergencies.
- 4) Establishment of separate Procedures for specific emergencies, as in the case of intruders, Child Development Center (CDC)-specific Procedures, including accidents involving children, an evacuation manual for the Auditorium, etc.

There is no perfect response in risk management; therefore, we expect that related parties will continue to improve risk management efforts.

## **Part 2: Details for Each Section**

### **1. Acquiring external funding**

In order to review their efforts to acquire external funds within their respective purviews, we interviewed and collected materials from President Jonathan Dorfan, VPFA Vincent, and Vice Provost Kenji Doya. We found that significant efforts to garner external support had been made, with reasonable results. However, the total value of donations to OIST, overseen by the President, fluctuates from one fiscal year to the next. Therefore it remains to be seen whether OIST has secured stable funding. President Dorfan explained that it is important to build trust between OIST and future donors, and that this process requires time. He also explained that it was rather difficult to manage fund raising while he was responsible for overseeing all aspects of OIST’s operation. In order to address this problem, President Dorfan plans to have Executive Vice President, George Iwama, assume primary responsibility for donations. Dr. Iwama assumed his position in January.



We still regard the acquisition of donations as an important responsibility of the President. At the same time, strengthening support for fund raising by the Executive Vice President is considered appropriate for acquiring donations.

## 2. For cost effective operation of the School Corporation

### (1) Travel expense cost reduction

In the past, air tickets were purchased through ANA@desk or JALonline, and a fixed lodging allowance was provided for domestic travel. From September 1, 2013, however, use of “package travel,” which includes flight and hotel accommodations, was introduced so as to reduce travel costs. While “package travel” can reduce costs by 40 to 50%, travel needs to be arranged at least 11 days prior to departure, and additional fees are required should there be a need to change the flight. Therefore, “package travel” is suitable for meetings and conferences for which fixed itineraries can be finalized at least two weeks in advance. Rules were also revised so that it is now possible to purchase tickets from other agents that offer a better price. These measures made it possible to cut costs by more than 40% per trip.

We strongly request that efforts to cut travel expenses be continued. All OIST employees should be fully informed about these changes to ensure that cheaper travel arrangements will be increasingly employed. Needless to say, the amount of domestic and international travel is large at an international university such as OIST; therefore, appropriate and efficient management of the travel budget is crucial. The travel policy should be also reviewed for possible further improvements while continuing the aforementioned efforts. This issue will be examined in detail later in this report.

### (2) Efforts made to reduce costs of hosting workshops

The following efforts have been made to reduce workshop costs:

- Local hotels were asked to tender fixed annual rates.
- In some workshops, participants were asked to co-pay expenses.
- In some workshops, honoraria paid to instructors were reduced.
- In some workshops, the Village Zone was used for instructor lodging.
- Lunch service was changed from catering to lunch boxes.
- Some catered dinners were replaced with BBQs, etc.
- The number of workshops in which instructors agreed to fly “economy” was increased.
- By co-hosting workshops with other organizations, participant travel expenses, and other costs were shared.
- The process was streamlined by putting the workshop application and review systems

online.

As a result, we were informed that approximately 14.6 million yen were saved.

We acknowledge initiatives made to reduce the cost of workshops.

### 3. Recruitment and Tenure Evaluation of Faculty

According to materials provided by Provost Baughman and from his interview, tenure evaluation of faculty members and hiring of new professors have been conducted appropriately.

We strongly urge that fair hiring practices be continued, based on research achievements and abilities of candidates for professorial positions.

### 4. CDC

It was decided that a major increase in user fees would commence in January 2014, following discussions by the Governing Board and meetings with parents. We recognize that the balance between the quality of service and user fees must be reconsidered periodically. At the same time, this increase should be considered unusual, since the decision was made in the middle of a fiscal year, the cost increase was fairly significant, and the lead time was relatively short.

We cannot help but conclude that the initial annual plan for revenues and expenditures was inadequate. In the future, a viable plan with a clear scope will be needed. Future consideration of user fee increases should allow more time for careful explanation to the parents.

### 5. HR

During FY2013, there were 79 new employees in research units and 49 in the administration, making a total of 128. Administrative employees were recruited strictly through open competition, and there were 759 applicants; the ratio of successful applicants to total applicants was 1:15.5, which is highly competitive. Meanwhile, most applicants to research units were researchers involved in workshops, seminars, or attracted through the network of faculty. For this reason it was difficult to determine the exact number of applicants.

The recruiting team endeavored to increase OIST's visibility and provided useful information to potential applicants. Vacancy notices were advertised on the OIST website; however, in order to effectively publicize available positions, advertisements were posted on Recruit's "Rikunabi," which many people visit. Following the advice of the President, the Provost, and the faculty, position announcements were also advertised on New Scientist Jobs, Monster.com, and Material Science. OIST participated in six job fairs during FY2012, and



nine in FY2013 (including two overseas).

Recruitment cost per employee increased slightly in FY2013, following a large decrease in FY2012 (FY2011: 422,700 yen/per person; FY2012: 291,300; FY2013: 365,800).

We acknowledge HR's efforts to recruit excellent personnel. Despite OIST's expansion plans, it will be increasingly important for executives involved in hiring to manage and control personnel expenses so as to avoid excessive total personnel expenses.

#### 6. Selection of FY2013 students

Of 398 applicants (doubled since last year), 72 were interviewed in February and July workshops. OIST made offers to 41 candidates, of which 19 accepted 2013 entry, 7 requested 2014 entry, and 13 declined. Including 2 deferred admissions from 2012, the intake for 2013 was 21 students. The President contacted the candidates actively and provided some advice, but high caliber students also aimed to receive offers from other competitive universities, and as a result, some declined OIST's offer. However, OIST's ability to compete with world's top universities on an equal footing suggests that OIST is on track to achieve the highest international standard.

The 21 students came from 14 countries and represented diverse backgrounds. There were only 4 Japanese students (19%, slightly higher than last year) and 6 female students (29%).

Concerns about recruiting more Japanese students may seem like a contradiction, considering the funding provided by the Japanese government, and the objectives of achieving diversity, and accepting the highest quality students. Yet we believe that there are still opportunities to further enhance the recruitment of Japanese and female students while maintaining the highest academic standards. We request that recruitment and selection of students be conducted in order to achieve all of the above aims.

#### 7. Document management

A new electronic document management system was implemented in April 2014 to effectively handle official documents in accordance with the Public Document Management Act. The new system computerizes the approval process and electronically maintains records for some types of institutional decision-making. Generally these do not involve financial matters (processed through ERP) and HR processes.

We think it is necessary to follow up on the operational situation by conducting an audit during FY2014.

## 8. Internal audit

The internal audit section prioritizes items for audit and prepares its annual internal audit plan. In FY2013, the internal audit section audited 10 items, and after the audit, the report was prepared and presented to the President in a timely manner. The report included audit results based on detailed facts, and specific recommendations and suggestions for improvements. The FY2013 internal audit found no problems that would have significantly impacted the operation of the University.

While we verified that the internal audit was conducted properly, the success of the internal audit depends on how executives interpret the findings and the recommendations, and on what actions have been taken. In other words, we believe that the internal audit is successful when it works as a system, and that it is our responsibility to verify that it does.

With that in mind, we would like to express our opinion on travel expenses, an area where there were some minor problems. The FY2013 internal audit found the same issues regarding 1) faculty overseas travel days per year, and 2) official travel combined with personal holidays, as at Christmas and the New Year, that were noted in the FY2012 internal audit report. In response to that audit, OIST's management was asked to limit the number of faculty overseas travel days and to review whether specific trips were needed. However, the FY2013 results show almost no improvement on either count. Although there were no occasions that conflicted with the law, our operation must be crystal-clear, as much of it is financed by the taxpayers. Needless to say, public trust will be achieved by proper execution of the budget, including travel expenses, coupled with results of advanced research produced at OIST.

If voluntary efforts by those involved fail to resolve the problems, we believe that formulating relevant rules or tightening existing rules should be discussed. However, this should be done in a way that does not hinder the autonomous research environment. We will continue to pay attention to what actions the President and top management take in order to address this issue.

## 9. Improvement of the IT environment

The ERP system, the most important IT system at OIST, which processes daily business, started operating on November 1, 2011, but there have been many problems. Although these seem to be diminishing recently, there are still numerous complaints from users reflecting the fact that the current system is "inconvenient to use." The Provost and the Information Service Section have agreed that there is a limit to how much the current system can be improved, and they set the goal of installing a new system by 2015/2016. They have



already formed a task force; however there have not been any achievements yet to evaluate.

We believe that in order to achieve the aforementioned goal of 2015/2016 deployment, it is an urgent priority to accelerate discussions by the task force. Fortunately, a new Chief Information Officer (CIO), Tim Dyce, was hired in March 2014, and we believe that with his leadership, development of the new system will be facilitated.

## 10. Financial management

### (1) Procurement

In FY2013, 113 items were tendered, and of those, 32 were for more than 20 million yen apiece. Of the 32 items, 3 were related to the construction of Lab 3 and the permanent CDC building, and 11 involved leases of research equipment. The bid acceptance rate was over 99% for the construction and 87.0~99.3 % for the lease of research equipment. Estimates for lease items were prepared on the basis of experience, information from other research institutions, the price of items themselves, and an added lease fee. Domestic lease companies have contracts with the manufacturers overseas, but there is no room for negotiating prices of research equipment, so price negotiations focus on the lease portion. As a result, lease companies can easily anticipate product estimates, which explains why the bid rate was so high. One possible way to solve this problem is to promote competition by increasing the number of bidders.

On a different note, the problem of vastly higher costs of research equipment purchased in Japan versus overseas has been an ongoing discussion at the Contract Review Committee meetings. The fact that the price in Japan is approximately 1.64 times higher than overseas has become common understanding, but an actual solution has not been identified.

We recognized that efforts were made to reduce the cost of research equipment within possible limits. Nevertheless, the problem is complex and cannot be solved by OIST alone. Cooperation with other universities and institutions in Japan will be required. We encourage OIST to proactively initiate discussions with other universities, which have been involved in establishing a university consortium to increase OIST's research equipment purchasing power.

### (2) Financial statement of Special Purpose Company (SPC) in relation to construction of housing zone

Article 73 of the Business Contract between SPC and OIST stipulates that SPC is obliged to report its financial statement to OIST. SPC's profit-and-loss statement indicates a cost of sales of 518 million yen, selling and general administrative expenses (only tax and dues) of 14 million yen, and operating losses of 18 million yen, against revenue of 514 million yen. After

adding and removing non-operating income (interest revenue) of 27 million yen and non-operating expenses (interest expense and amortization of initial cost) of 47 million yen, respectively, the company's ordinary profit and loss (net loss) was 38 million yen. Given that SPC's capital is only 10 million yen, the company has excessive liabilities of 28 million yen, as of the end of March 2013.

Practically speaking, FY2012 was the first year of business for SPC, and we suspect that it had expected ordinary loss due to small sales because of low guaranteed rental rates, etc. However, project finance was used to fund SPC's housing project, in which construction was financed by financial institutions, under the premise that the loan would be repaid from the cash flow of the project. This means that SPC must acquire adequate resources to repay the loan and avoid expenses that would prevent it from servicing the debt. So, SPC needs to collect enough funds for repayment, and expenses that would make this repayment scenario difficult, should be avoided to the fullest extent possible.

This was the business scheme that OIST and SPC adapted, and SPC ran the housing business and managed maintenance and rent. To be able to sustain and insure proper management, OIST needs to continue to pay close attention to SPC's financial statements.

## 11. Construction

### ○ University facility (Lab3, CDC, student housing, etc.)

Due to reconstruction demand from the Great East Japan Earthquake and increasing demand for facility investment needed for economic recovery, the prices of materials rose, and there was a shortage of workers. Construction expenses rose, and tenderers of the construction of Lab 3 and CDC faced extremely difficult challenges.

Therefore, within these budget constraints, OIST took cost-cutting measures, including eliminating interior construction. Finally after two or three tenders, the bid was successful for both facilities, and construction of both facilities has commenced.

SPC handled construction of student housing, and 36 housing units were completed in West Court in July 2013.

### <Lab3>

Takenaka Corporation, which constructed Lab 1, won the bid for Lab 3 construction on the third tender. First tender ended unsuccessfully, and the second tender took place after two months. OIST had expected the amount it heard from the first tender; however the price had increased 5% since the first tender, so the tender was again, unsuccessful. It was likely that the



domestic economic upswing and trends in the construction industry were reflected in the price increase that occurred in just two months. In the meantime, the delay of construction of Lab 3 due to unsuccessful tenders would have impacted the scheduled acceptance of students and researchers, possibly becoming a risk to the University. Therefore, in order to contain the budget within its limit of 4.5 billion yen (including design fees; the construction fee was 4.295 billion), interior finishing was removed from the original plan, and the project was tendered again for the 3<sup>rd</sup> time. As a result, the bid was successful at 4.29 billion yen and processed. Lab 3 is scheduled to be completed in late March of 2015.

We find that construction of Lab 3 has been well executed to this point. However, given increasing construction costs, for the remaining construction and renovation projects, measures such as actively collecting information about the business climate or extending a tendering period should be considered in order to complete successful tendering at an appropriate price.

#### <CDC>

A similar situation arose for tenders of the CDC construction, and part of the internal equipment, such as the air conditioning system and lighting, had to be removed from the original specification due to the unsuccessful tender. The second time, however, the bid for construction of the structure and external finishing was successful at 215 million yen (the estimate was 257 million yen (257,810,000 yen)), mechanical work 10,290,000 yen with tax, and electrical work 16,222,500 yen, and construction has started. The removed part of the budget was estimated to be around 40 million yen. In FY2014, a contract for installation of A/C, etc. was concluded at 21,535,200 yen, and a contract for electric work was concluded at 16,200,000 yen, both including tax. Vice President for Building and Facility Management (VPBFM) Dickison explained that it was possible to cover it with the budget from his division. According to the VPBFM Dickison, the building should have been completed by the end of March; however, interior finishing will push back the opening until June or July 2014.

We will continue to monitor construction progress.

#### <Students and faculty housing>

Construction of 36 housing units in West Court was completed in July 2013, and the total number of housing units in Village Zone rose to 131 (72 Village Center, 36 West Court, 23 Faculty Housing (including 1 President House)). SPC will continue to obtain its own funds for construction. SPC plans to complete 24 one-bedroom apartments in FY2014 and 46 2-bedroom apartments for family use (3-bedroom is considered for share-use) in FY2015, but

the detailed plan is still under discussion.

As of March 31 2014, there were two vacancies in Faculty Housing, one in the Village Center, and three in West Court, and the occupancy rate was 95%, compared with the minimum required rate of 82%. Therefore VPBFM Dickison concluded that there should not be any problems concerning occupancy.

Although we acknowledge no significant problems regarding the utilization rate at present, we call for proper prediction based on the current situation to match the supply and demand to the fullest extent.

## 12. Communication and PR

### (1) Management of the Auditorium

The auditorium was used 140 times during FY2013, with 13,000 visitors. Fewer than 1/3 of these events involved internal use, usually for playing films. Its utilization for science and technology-related events or public events was fairly limited.

Given OIST's mission, events focusing on science and technology and on contributing to the development of Okinawa should be prioritized. At the same time, considering that this facility is funded by government subsidies, efforts to promote its use for appropriate public events should be taken. We recognize that there are already some efforts being made to enhance the use of the auditorium; however, we believe it is necessary to continue to discuss the establishment of rules and regulations to further promote external use.

### (2) Receiving visitors

During FY2013, OIST hosted approximately 35,000 visitors (both individuals and groups, in addition to 5,000 participants during Open Campus). The number has repeatedly doubled in successive years. This increased visitation suggests that OIST continues to gain recognition among Okinawans and throughout all of Japan.

With the intention of promoting further understanding about the University and providing better service to the visitors, a Visitor Center was opened on Level C of the Center Building in May 2013; however, we could only find an ordinary, outdated computer to view the OIST homepage, and there were not even any pamphlets for visitors to take home.

Showing a video clip that introduces OIST, and providing visitors with pamphlets about OIST are just examples, but enhancement of the Visitor Center is strongly encouraged.



**Part 3: Overall Summary**

These are our findings and opinions from the FY2013 audit. While there are some areas requiring further effort, we conclude that OIST has been operated properly overall. OIST is now transitioning to a new phase, and there may be a crowded agenda of management-related issues ahead. We wish to emphasize that constantly reviewing current practices is equally as important as responding to new challenges.