

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES
AUTHORITY

Minutes of
The Audit-Finance Committee Meeting
of May 25, 2010

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session on Tuesday, May 25, 2010 at 11:30 a.m.

The meeting was called to order by Benson Cohn, Chair at 11:38 a.m. and, upon roll call, those present and absent were as follows:

PRESENT: Benson Cohn, Chair
John Biancamano
John Mengacci (Rep. for Brenda Sisco)
Barbara Rubin
Sarah Sanders¹ (Rep. for Denise Nappier)

ABSENT: Patrick A. Colangelo

GUESTS: Lisa Hammersley, State of Connecticut
Office of Policy & Management

ALSO PRESENT: Jeffrey A. Asher, Executive Director
Paula L. Herman, General Counsel
Cynthia Peoples, Assistant Director
JoAnne Mackewicz, Controller
Norberto Ramirez, Compliance/Internal Auditor
Debra M. Pinney, Manager, Administrative Services
Jeanette Weldon, Managing Director
and Kathy Owens, Receptionist/Administrative Assistant, of
the Connecticut Health and Educational Facilities Authority

The Notice of Meeting was read and ordered spread upon the Minutes of this Meeting and filed for the record.

¹ Ms. Sanders arrived at 12:15 p.m.

The purpose of the Meeting was to:

1. Approve – Operating and Capital Budget FY 2011
2. Approve – DRAFT – Legal/Compliance: Bond Covenants Analysis Function Audit Report
3. Approve – Revised 2011 Audit Plan/Risk Assessment
4. Review – Audit Recommendations Status Report as of May 2010
5. Conduct – Other Business
 - A. Compliance Internal Audit Function – Business Continuity Plan
 - I. Potential Exposure to CHEFA/CHEFA Clients
 - II. Timeframe to resume function in its entirety (2-3 days, 1 week, etc.)

Operating and Capital Budget FY 2011

Ms. Weldon reported that CHEFA is budgeting total excess revenue of approximately \$2,500,000 for FY 2011; which is an 11% increase over FY 2010 budget. This figure is based on revenues of approximately \$6,800,000; operating expenses of approximately \$3,800,000; and program related expenses which are essentially Child Care Program related expenses of approximately \$400,000.

The revenue reflects the eleven transactions that CHEFA is budgeting for FY 2011. CHEFA fees are up 5.8% from FY 2010 budgeted levels. For FY 2011, the Authority is expecting a significant increase in new money bond issuance activity. There are eight new issues that have new money components. In addition, Staff is working on deals that will be closing in FY 2010 and creating revenue in FY 2011. These include Wesleyan University and Stamford Hospital.

In the area of Expense, the compensation budget was adjusted in accordance with the requirements of the Human Resources/Audit-Finance Committee approval. The merit increase pool is based on a 3% increase for Officers and a 4.5% increase for all other staff. This will also include any labor grade adjustments.

The employee incentive as approved by the Committee is budgeted at 75% of the eligible maximum. The payment of any incentive will be driven by not only the organization meeting its strategic goals as outlined in the Strategic Business Plan, having a clean audit of financial statements, meeting budget objectives, and achieving an operational surplus of funds at the end of the fiscal year, but will also be based on the individual's performance. Having the money budgeted does not make payment automatic. Employee benefits reflect the impact of the budgeted compensation levels and also reflect \$15,000 of savings to CHEFA due to a change that was made in the deductible funding of its HSA plan. That change was at the recommendation of CHEFA's insurance consultant and actually occurred during FY 2010. CHEFA also changed the carrier for its disability, dental and life insurance. This change will be effective June 1, 2010. This will be a savings to CHEFA of over \$5,000.

Ms. Weldon reported that the office supplies and non capital furniture and equipment items decreased by approximately \$20,000 relative to the 2010 budget, because there were items in the 2010 budget that are not recurring in 2011 so they are not being budgeted.

Communications expense increased by \$5,000 due to an expansion of bandwidth for business continuity purposes. Ms. Peoples added that CHEFA changed from AT&T to Verizon and in the process increased bandwidth in order to move more data in a shorter period of time.

Ms. Weldon stated that there is a significant change in the Marketing line item. There is a \$27,500 increase over last year's budget in order to accommodate plans for an annual client conference which is in keeping with CHEFA's Strategic Business Plan. She further explained that this will be an offsite event with outside speakers on timely topics. The plan is to initiate the conference in the beginning of the FY 2011. This type of conference is done by other authorities. For example, the Massachusetts Health and Educational Financing Authority has had a longstanding annual conference that is very well received by the borrowers.

Ms. Weldon reported that the Contributions line item was reduced by over \$38,000 which is reflecting elimination of a significant contribution to the Connecticut Forum and also to the VNA Golf Tournament. Those two contributions were eliminated and to a certain extent Management is taking that savings and applying it to things that are more in keeping with our Strategic Business Plan objectives.

Education, Board Expenses and Reimbursable membership dues were reduced by \$4,200 due to eliminating membership to the Connecticut Council on Philanthropy which was

something that was much more relevant when the Authority had the Grant Program. It was helpful in that area and without the Grant Program, it is not a critical membership.

The Conference figure is lower than what was budgeted in 2010 by \$1,800. It is, however, a significant increase over projected actual for 2010. The increase is due to two conferences that are being included in 2011. These conferences are not going to be annually recurring conferences but they are extremely important. The first is an IT security conference to make sure that the Staff is fully up to speed with protecting CHEFA's data and systems. The second conference is a Microsoft tech education conference which will provide information that is relevant to supporting the BOND System database. A discussion ensued.

Mr. Mengacci inquired if the technical improvements to BONDS will help address the ability to generate reports in the Compliance area as Mr. Ramirez points out in his audit. Ms. Weldon stated that it should feed into that. Ms. Peoples further added that there are many reports existing in the BOND System and normally if someone requests a report, Staff are able to get it to them in a short period of time. Staff created a new system for the Compliance Legal position and added some new features. Further discussion ensued.

Ms. Herman explained that there were two things that Mr. Ramirez identified: one was the ability to generate a report on a specific spreadsheet which is a fairly contained issue and Staff will be working with IT to get that developed. The other is a little more complicated and that is the issue with the insurance database which should reflect the

insurance requirements of CHEFA's loan agreements. The database was developed based on the business requirements provided to IT at the time, and does not reflect the Loan Agreement requirements. In addition, there was some information that was originally entered into the database that was incorrect. Staff is currently trying to restructure that and it is now an intermediate issue rather than short term. In the interim, insurance compliance is being monitored manually.

Ms. Weldon reported the Accounting and IT services have been reduced by \$5,000 because of eliminating the contingency for computer consultants. Child Care Program related expenses will be budgeted at the same level as in FY 2010.

Ms. Weldon stated that Management believes that the budget is reasonable. The focus was on decreasing expenditures that are not essential to current objectives and increasing amounts that relate back to some of the key areas of the Strategic Business Plan.

Mr. Cohn asked if there were any questions or issues.

Ms. Rubin stated that there are two areas that she would like to discuss. The first is the Clients Conference. Ms. Rubin asked what the benefit of the conference is. She added that CHEFA has a captive client base for all intents and purposes and asked whether the conference was perceived as Marketing or as client education. Ms. Weldon explained it is client education. Further discussion ensued.

Mr. Asher added that CHEFA conducted its first seminar on the new IRS Form 990 Schedule K and did a webinar which was fairly well received. The logistics were a bit difficult, but as Staff talked to clients they have expressed an interest in getting some additional exposure to specific areas. CHEFA talked with clients about the possibility of having concurrent sessions and with a focus on Health Care Reform and on higher education with various speakers. Afterward, there could be a joint meeting at lunch time or shortly thereafter where the Authority would have something of interest to both groups.

Mr. Asher further stated that the Authority has been attempting to do more in the way of education for its clients. He added that the CHEFA Newsletter is to some degree public relations but more importantly is a means of communication to get information out to our clients.

Mr. Asher explained that in order to be more cost effective, Staff identified the Radisson in Cromwell as a likely site. Further discussion ensued.

Mr. Mengacci inquired about the benefit to the client organizations - would it be from a macro standpoint or would it be operational things that they could take away from the conference. Mr. Asher explained that some clients might qualify for continuing education credits depending on what is presented. Ms. Weldon further explained that, for example, there is a lot of discussion in the health care area and there has been a lot written by the rating agencies on the impact of health care reform. Hospitals need to know what to do if

they want to assure that they maintain credit strength in the face of the challenges of health care reform.

Mr. Cohn asked if there were any other questions.

Mr. Biancamano stated that the Committee needs to consider reinstating the Grant Program. He added that when the Committee looks at the actual 2010 and 2011 budget, CHEFA's profitability is fairly strong. He stated the Authority will be in the same situation again as it builds up general reserves. The Authority has found that the Grant Program is very beneficial to nonprofits. CHEFA should consider how much to allocate to a program this year because if CHEFA forecasts out four or five years it is going to have the same performance as in prior years.

Ms. Rubin stated that she agrees but voiced concern that if the Grant Program is reinstated, the State could decide to require transfer of CHEFA balances to the General Fund in the midst of CHEFA collecting grant applications. Mr. Biancamano responded that it is his understanding that if the grant has been promised, it cannot be taken. A discussion ensued.

Ms. Herman stated that CHEFA has an obligation to fund a new Loan Forgiveness Program effective January 1, 2012 which is a \$3,000,000 obligation. Mr. Asher added that CHEFA is probably going to have to come up with approximately \$800,000 for that program. Based on information currently available from the credit unions, the Authority

may need to reserve only about \$1,278,000 of the \$3,500,000 reserved for the Credit Union Student Loan Guaranty Program. CHEFA has just received the actual information that it was waiting for from the Credit Union Association. This gives the Authority a shortfall of approximately \$800,000 that it would have to fund between now and January 1, 2012 to fund the required \$3,000,000 amount.

Mr. Asher introduced Lisa Hammersley from the Office of Policy and Management to the Committee. He explained that Management met with Ms. Hammersley and Kathleen Guay who is Budget Director and part of the discussion was to put together a one-page report for the transition team for the new Governor. There is a requirement for additional reporting by quasi-publics to the State which was just passed in a Public Act and CHEFA now has to file on a quarterly basis its expense information and cash flow, staffing, number of vacancies, and number of expected vacancies. Mr. Asher stated that he agrees with Mr. Biancamano about reinstating the Grant Program in that it was extremely beneficial, but he is not sure there is a way of guaranteeing that the money will be available if CHEFA did set it aside. Further discussion ensued.

Ms. Rubin stated this really addresses her second topic which is the funding of the Connecticut Forum. The Authority has funded the Connecticut Forum for approximately 10 years and CHEFA has consistently funded VNA. These are not big dollar items but they are important to the recipients. Ms. Rubin stated that she endorsed it as part of the cutbacks but in thinking about it more, the CT Forum really falls under the education concept and obviously VNA falls under the health care concept which is the plus side of

continuing contributions. The negative side is that CHEFA is selectively identifying nonprofits to get benefits that it is not offering to a broader audience which is perhaps unfair. If CHEFA really believes in these revenue numbers, it should not only reinstate those two but perhaps find others that were previously declined. It does not have to be a lot of money, but at least the Authority would be continuing its tradition. Ms. Rubin suggested that CHEFA go back and reinstate the two contributions. Maybe CHEFA can find something outside of the greater Hartford area and budget another \$20,000 or \$30,000 or whatever it can reasonably budget. Further discussion ensued.

Mr. Asher suggested CHEFA could award grants and make a decision on some dollar amount but believes that potentially the Authority will be subjected to some criticism for selecting organizations when there are so many out there that it has worked with over the years. The question is how CHEFA will decide which organizations to give a grant to.

Mr. Cohn stated that there are a couple of things the Authority can do. CHEFA can set aside an agreed upon amount of funds and ask the Grant Committee to work on a proposal with Staff. Ms. Rubin requested that CHEFA can at least budget an amount so that it is reserved and protected and then decide who the recipients are later. Mr. Asher added that Management could reserve as much as \$2,500,000 minus the \$800,000. Mr. Biancamano made a suggestion that CHEFA set aside \$1,500,000. Mr. Asher added that CHEFA also needs to set aside \$4,200 in the operating budget to fund its membership dues for the CT Council of Philanthropy because CHEFA uses them as a gateway to get

to the nonprofits in the State. Ms. Rubin suggested setting aside \$1,500,000 including grants and related expenses.

Ms. Weldon added that this would also include the CT Forum and VNA. The Committee agreed.

Mr. Cohn requested a motion that CHEFA set aside \$1,500,000 for grant expenditures including any expenses related to participation or direct contributions to education. Mr. Cohn added to make a motion to approve the budget subject to that change. Mr. Biancamano moved to approve and Ms. Rubin seconded his motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn Barbara Rubin	None	John Mengacci

Capital Budget

Ms. Peoples reported that CHEFA has one desktop computer that is slated to be replaced in the next fiscal year. The Budget also has two laptops; one is our conference center laptop which is very slow and needs to be replaced. (There is also a Staff laptop which needs to be replaced. Once this laptop is replaced, his older computer will be used for doing presentations in other locations as necessary.)

Mr. Mengacci stated that the price for the equipment is rather expensive and requested further clarification on this. Ms. Peoples explained that the cost includes a 25% contingency. Mr. Mengacci inquired if the equipment is being purchased through the State contract. Ms. Peoples stated that it is and with minimum requirements. Ms. Peoples added that the price is actually \$1,750 and the contingency takes it to the \$2,200. Ms. Peoples explained that the contingency is there in case there is a cost increase for any particular reason. Mr. Mengacci inquired if this was the same for the laptops. Ms. Peoples stated affirmatively adding that the laptops run \$4,500 plus the contingency brings it to \$5,600. Ms. Peoples further explained that the conference laptop is not quite as robust as the other laptop that is being replaced, which is for the senior IT staff that manages CHEFA's business continuity.

Ms. Peoples stated that on the software side, CHEFA is upgrading from the Microsoft Exchange 2010 license and that is going to run approximately \$550 and there is a contingency in there for any unforeseen licenses which may need to be purchased.

The final item is the DBC Finance Version 6 – 1 License. The idea is to bring that in for the Arbitrage rebate calculation purposes so Staff can work more on verifications and yields as well as on transferred proceeds. That software is \$10,000 for the license.

Mr. Cohn asked if there were any other questions. Ms. Rubin moved to approve the Capital Budget; Mr. Biancamano seconded her motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn John Mengacci Sarah Sanders Barbara Rubin	None	None

DRAFT Audit Report: Legal Compliance-Bond Covenants Analysis Function

Mr. Cohn suggested that the Committee focus on findings and recommendations because of time constraints and turned the floor over to Mr. Ramirez.

Mr. Ramirez stated that Management has been developing Policies and Procedures to achieve its business objectives and the proper internal controls are already in place. This audit included a review of selected transactions from April 1, 2009 to February 28, 2010.

There were two areas recommended for improvement. The data originally entered into the insurance database that predated the creation of the legal compliance function is inappropriate for the purpose of monitoring compliance with insurance requirements. Consequently, the Compliance Analyst has been monitoring the insurance requirements manually by reviewing the loan documents.

CIAF is recommending to Management to work together with IT to efficiently restructure this database or create a new database to better accommodate the needs of the Bond Covenants Analysis Function.

The other area recommended for improvement is the bond covenants spreadsheet which was developed into the BOND System. This spreadsheet lacks reporting tools. In addition, the spreadsheet is not adequately customized to generate efficient and useful reports.

CIAF recommends to Management to efficiently customize, under the guidance of the IT Function, the bond covenants spreadsheet; and formally request from them the development of the reporting tool.

Mr. Cohn requested a motion to accept the Bond Covenants Analysis Function Audit Report. Ms. Rubin moved to accept the report; Mr. Mengacci seconded her motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn John Mengacci Sarah Sanders Barbara Rubin	None	None

Revised FY 2010 & 2011 Approved Audit Plan

Mr. Ramirez reported that although a two-year audit plan was approved by the Committee in 2009 for FY 2010 and 2011, the Internal Auditing Standards require the Compliance Internal Auditor to revise/update every year the audit universe and related audit plans by getting feedback from the Officers and Management about any areas of risk or potential issues that could potentially affect the Authority’s operations.

The audit universe and related audit plans were updated to reflect changes in Management direction, objectives, emphasis, and focus. CIAF proposes no changes in the upcoming audit plan. In the current audit plan, three of the four audits scheduled have been completed. CIAF is currently working on the Business Continuity and Disaster Recovery Plan by participating in the Business Impact Analysis meetings conducted by the IT function with the Managers.

For the upcoming year, CIAF is proposing the same audits that the Committee has already approved: Construction Fund and Wire Transfer and that will be the second audit of that particular area; the Underwriting Guidelines and Credit Analysis; the Compliance System, also the second audit; and the third audit to the Arbitrage Function.

Mr. Cohn asked if there were any questions or discussions regarding the Audit Plan for FY 2010 and 2011 report. There being none, Mr. Cohn requested a motion to approve the report. Ms. Rubin moved to approve the Audit Plan for FY 2010 and 2011. Mr. Mengacci seconded her motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn John Mengacci Sarah Sanders Barbara Rubin	None	None

Audit Recommendations Status Report

Mr. Ramirez stated that he is submitting for the Committee to review for information purposes the Audit Recommendations Status Report as of April 2010. Mr. Ramirez added that he sent a summary via email to the Committee to review. As of today, CIAF has made 32 recommendations to Management; 23 have been completed; 7 are in progress; 1 was delayed; and 1 was closed because a new recommendation was issued. Of the seven that are in progress, there is only one with high priority and that is the revision of the Investment Policy. Mr. Ramirez already met with Ms. Peoples and the policy has been drafted and it just needs to be finalized and submitted to the Board for final approval. Management expects to complete that recommendation by September 2010.

Mr. Cohn asked if there were any questions or issues. Ms. Rubin asked how many audits have CIAF identified. Mr. Ramirez responded that including the current year, 10 audits have been completed. Mr. Ramirez explained that some audits are conducted more frequently than others due to the inherent risk of each area. In addition, some areas may never be audited because the risk is very low or minimal to the Authority's operations.

Other Business

Mr. Ramirez stated that he met with Ms. Peoples about the Business Continuity and Disaster Recovery Plan to discuss the critical areas of the CIAF and how quickly those areas should be resumed. Mr. Ramirez explained that the CIAF functions did not affect

the Authority's clients in the event of a disaster and would not need to be resumed as quickly as other areas that affect clients.

Mr. Cohn stated that that is difficult to answer without knowing the scale of the disaster.

Ms. Rubin inquired if CHEFA had a disaster recovery plan for the rest of the operation.

Ms. Peoples stated that the Authority has a disaster recover plan that Management is in the process of updating. Staff has put together impact analysis spreadsheets to look at each individual's functions and determine the type of exposure that CHEFA has if they aren't continued and soon we could get those things back on line. A lot of it is based on timing. If the Authority is in the middle of turning in an annual report to the Governor, it will need to get that done as soon as possible. One of the questions was based on the functions that Mr. Ramirez performs: How soon does the Committee think it would want to get an audit report on something after a disaster of any magnitude?

Ms. Rubin stated that Mr. Ramirez's function is very important to the operation but there is nothing that is time critical about it. In her view, whenever it is feasible to get back up and operating. Ms. Peoples agreed adding that some things needed to be up and running right away and some things can wait.

Mr. Cohn asked if there were any other issues relevant to this or if there was any other business. There being none, Mr. Cohn requested a motion to adjourn at 12:30 p.m.

Mr. Mengacci moved to adjourn; Ms. Rubin seconded his motion.

Upon roll call, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
John Biancamano Benson Cohn John Mengacci Sarah Sanders Barbara Rubin	None	None

Respectfully submitted,

Benson Cohn, Committee Chair