

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES
AUTHORITY

Minutes of
The Audit-Finance Committee Meeting
of February 26, 2008

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session on Tuesday, February 26, 2008.

The meeting was called to order by Barbara Rubin, Acting Chair at 1:05 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: Barbara Rubin, Acting Chair
William J. Cibes, Jr., Ph.D.
Patrick A. Colangelo
John Mengacci
Sarah Sanders

ABSENT: Benson R. Cohn
John M. Biancamano
Howard G. Rifkin

ALSO PRESENT: Richard D. Gray, Executive Director
Jeffrey A. Asher, Managing Director/CFO
Cynthia D. Peoples, Assistant Director
Norberto Ramirez, Compliance/Internal Auditor
Eileen MacDonald, Manager, Easy Lease
JoAnne Mackewicz, Controller
Debra M. Pinney, Manager, Administrative Services
David Wasch, Manager, Child Care Facilities
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.

The purpose of the Meeting is as follows: 1) Approval of Minutes of October 23, 2007; 2) Discussion of the Draft Report for the Arbitrage Function; 3) Status Report – Audit Recommendations for the Child Care Program; 4) Adjustments – Approved Audit Plan FY 2008; 5) The Institute of Internal Auditors – Certifications; and 6) Conduct Executive Session.

Ms. Rubin moved to accept the minutes of the October 23, 2008 Audit-Finance Committee Meeting. Mr. Colangelo seconded her motion.

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

AYES

John Mengacci
Sarah Sanders
Barbara Rubin

NAYS

ABSTENTIONS

Patrick Colangelo¹

Discussion of the DRAFT Report for the Arbitrage Function

Mr. Ramirez reported that the Arbitrage Function Audit was completed on January 29, 2008 with a total of 600 hours. This resulted in an over-budget of 200 hours. This was due to the time spent on the RFP process and the planning stage.

Mr. Ramirez reported that the scope of this audit was compliance and operation in nature. The audit period covered operations from July 1, 2006 to June 30, 2007. The Compliance Internal Audit Department (CIAD) also obtained the professional services of Bond Logistix who evaluated methodologies employed and internal calculations and

¹ Mr. Colangelo was not present at the October 23, 2007 meeting.

performed review of certain Arbitrage calculations selected by the Compliance Internal Auditor. Mr. Ramirez added that in using the work of a specialist, he considered the specialist as a member of the audit team and, accordingly, assessed the specialist's independence with the organization and with the auditor. CIAD also obtained certification signed by them, authorizing the CIAD to use their names in the final report.

Mr. Ramirez stated that the Arbitrage is one of the higher risk areas of the Authority. Overall, the audit revealed that the Arbitrage function has in place reasonable and adequate internal controls and procedures. Six areas for improvement were identified.

Mr. Ramirez reported that the application used to perform the Arbitrage calculations lacks proper controls and passwords. In addition, Staff is only using approximately 20% of the total capacity of this application. The CIAD recommends to establish proper controls and to maximize the use of the application. Currently, the Arbitrage Department is transitioning to a software package called MunEase. This is a server-based software and requires a hard key and password access and will only be accessible to the Staff performing or verifying calculations.

Mr. Ramirez reported that the Investment Policy does not specify how often it should be revised and approved by the Board of Directors. The Authority's Investment Policy was last revised and approved on June 25, 2002. Mr. Ramirez recommends that the Investment policy should be reviewed at least every two years and should be included as part of the policy language. He mentioned that Management stated that David Williams,

prior to retiring, had identified this as an issue. Therefore, Management is proposing a bi-annual review due to the nature of their business and the conservative approach of their investments.

Mr. Ramirez stated that Ms. Peoples would be responsible for these recommendations because she is the person in charge of the Arbitrage Function as of July 1, 2007. The CIAD is responsible for the follow-up on these recommendations to assure proper implementation.

Mr. Ramirez reported that it is the Authority's practice to provide notification letters to those institutions that need to file Form 8038-T every anniversary date. Form 8038-T is used when there is a liability (positive Arbitrage). During our review, only one exception was noted. Even though Management explained the institution was notified, there was no proof in the file indicating that it was done. Although there are no regulations requiring the Authority to notify the institutions, I think it is the best practice considering that the Authority's Staff is working on behalf of the institution.

Ms. Rubin inquired if this report goes on record somewhere that would be available outside of CHEFA. Mr. Ramirez responded that the report goes to the Audit-Finance Committee, all Managers and a copy to the external Auditors.

Mr. Ramirez stated that the policies and procedures for Arbitrage rebate included in Section 5.1.4 of the Authority's Policies and Procedures Manual do not reflect the current

practices applied by the Authority's Staff. The Authority's Policies and Procedures Manual was last revised on April 21, 2005. The CIAD recommended to Management to review this Section of the Procedures Manual at least every two years in order to include updates, improvements and new controls.

Mr. Ramirez reported that Management reported that these procedures were established by employees no longer with the Authority. The changes were primarily due to the volume of issues the department is now monitoring and the realignment of staff and Management. As the department continues to change the process and systems used to do the rebate calculations, these policies and procedures will be updated. This will be completed over the next 12 months.

Mr. Ramirez stated that the CIAD reviewed 100% of the Arbitrage rebate transactions with anniversary date during the FY 2007 to ensure the Authority's Staff properly completed and reviewed these issues on a timely basis. The following findings were noted: 14 out of 29 calculations (48%) were not completed on a timely basis resulting in penalties for two issues totaling \$2,852. In addition, we were unable to determine if the Authority's Staff completed the initial calculation and the first review within the 60-days limitation period since the tracking form prepared and used by the Authority's Staff did not include the necessary fields to measure timing.

Also, as of December 2007, there are two issues redeemed in 2005 and one issue

redeemed in 2002 without final calculations. Staff began to review old files and discovered prior workers did not complete these particular calculations.

CIAD recommended to the Arbitrage Department the following: (1) To establish procedures and controls in order to complete the Arbitrage calculations on the 60-days limitation period as stated in Section 1.148-3(g) of the Arbitrage Regulations; (2) To design and have in place by the next fiscal year, a tracking form for the Arbitrage calculations that includes the necessary fields to measure the timing of the initial calculation, first review and final completion date and; (3) To complete final calculations by June 30, 2008 for the two issues redeemed in 2005 and the issue redeemed in 2002.

Management stated the following: (1) Calculations are due to the IRS within 60-days of the anniversary. The delay, however, is in the review process as the practice has been to attend, most immediately, calculations where rebate is owed or those that are close to zero. As they move to the MunEase software and enhance their monitoring system, this delay in overall time to review will not be an issue. A completion deadline of December 31, 2008 is anticipated. (2) The initial stages of a data system redesign and development have already started. It is expected that several in-house systems will be involved and should improve efficiency across the entire Arbitrage process from data entry, tracking and reporting. A completion deadline of end of 2008 is anticipated. (3) The Staff working with the Arbitrage calculations found that prior employees working with these calculations did not perform several final redemption calculations. They are addressing

them as time permits. A completion deadline of March 2008 and reviewed before the end of the third quarter fiscal year 2008 is anticipated.

Finally, the Authority has not yet completed a cross-training program, which could impact the ability to keep current in case the only person working with the Arbitrage calculations become unavailable for a reasonable period of time. The Authority has been trying to implement a cross-training program on the Arbitrage function during the past few years but as of today, no final plan has been implemented.

We recommend resuming and completing the cross-training program in the Arbitrage area in order to strengthen the ability to stay current. Mr. Ramirez stated that the Management of the Arbitrage Function will be incorporating the initial ground work in this area.

However, cross-training will be postponed until the new systems and procedures are in place. They are expecting to carefully measure the number of additional man hours they will need to assist with the rebate process before they bring another staff person into the process. Management intends to implement this recommendation within the next 12 months.

Bond Logistix reviewed seven calculations. They reviewed the methodology and accuracy for some calculations and performed complete calculations for two issues. They actually sent a summary which Mr. Ramirez indicated that he sent it to the Committee. There were general recommendations including documentation and substantiation of procedures. Nothing major was identified although Bond Longistix stated they have

relied entirely on information provided by CIAD without independent verification. They reviewed documentation, methodologies and calculations based on the information provided by us. Based on that, they made conclusions and recommendations.

Some of their recommendations were to increase regulatory oversight in some particular areas, like allocation of common debt service reserve funds, analysis and treatment of mixed escrows and operating rule for refunding among others. They also recommended Staff to increase work paper documentation/substantiation with regards to: \$100,000 test bona fide debt service funds, transferred proceeds, release of reserve funds and bond year election.

Bond Logistix also recommended a change on the Authority's practice of paying 100% of rebate and/or yield restriction liability, when only 90% is due. Ms. Rubin asked Mr. Ramirez for clarification. Mr. Ramirez explained when there is a liability (positive Arbitrage) every anniversary date, the Authority's Staff need to file Form 8038-T with a payment of at least 90% of the liability. We do not need to send 100% to the IRS. The 10% is sent at the end because it is accumulated.

Mr. Mengacci inquired if there were any instances that we sent 100% and when the final calculations were done we received a rebate. Ms. Peoples responded that she was not aware of this ever occurring. There may be issues where some of these funds could be in order but she will look into this. Ms. Rubin added that the reason for the 90% is that you

could have an issue running positive for the first five years and then because of the investments, run negative for the next five years.

Mr. Ramirez believes that the Staff is on the right track since Ms. Peoples took over in July of 2007 and he knows that they are already working on processes to improve the Arbitrage function.

Mr. Ramirez stated that he received cooperation from Ms. Peoples and Ms. Minor and they were very diligent in sending the information to Bond Logistix and as a result, we only have to pay whatever was estimated in the proposal.

Mr. Mengacci inquired if reporting information presents any issues with Bond Logistix. Mr. Ramirez indicated Bond Logistix received out information in good faith in order to review the calculations; Ms. Peoples concurred. We did not hand deliver each statement to them to calculate the numbers themselves. They are assuming the information Staff already inputted was accurate.

Ms. Rubin asked if Bond Logistix performed any calculations, or reviewed the calculations or both. Ms. Peoples replied some were a review of calculations; some were a review of methodology; and they performed some actual calculations.

Mr. Ramirez pointed out that in the report he included two different examples. One was a complete calculation and the other was a review of the methodology. Mr. Colangelo

inquired as to how much time it takes to do the calculations. Mr. Ramirez responded that a complete calculation could take between 20 and 30 hours. Mr. Ramirez stated that the total price was approximately \$25,000 for seven calculations.

It was the consensus of the Committee that the Arbitrage Department is in very good shape.

Ms. Rubin requested a motion to accept the Arbitrage Function Audit. Mr. Colangelo made a motion to accept the report. Mr. Mengacci seconded his motion.

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

AYES

NAYS

ABSTENTIONS

Pat Colangelo

John Mengacci

Sarah Sanders

Barbara Rubin

Status Report – Audit Recommendations for the Child Care Program

Mr. Ramirez reported that five recommendations were made to the Child Care Program during the last audit to cover the six findings. The CIAD recommends to the Child Care Program’s management that the written Underwriting Guidelines for the Child Care Loan

Fund and Tax-Exempt Bond Financing be revised in order to comply with the requirement established on the MOU Agreement between DSS and the Authority.

Management sent a letter to DSS for approval and implementation is in progress. Management is waiting for approval to change the language in this document.

Another issue was to include in the Compliance Accounting Department the calculation debt service coverage ratio. This was supposed to be done one year after they received their license but the loan agreement states that they need to start doing it as soon as they close, only for the purpose of having the information. This recommendation was completed and Ms. Levin, from the Accounting Department, already included it in the Compliance database and is already sending letters out for follow-up.

Finally, Mr. Ramirez recommends revising the language in the Authority's Manual for Procedures for Construction Funds Disbursement to properly identify that Child Care is to send all invoices, not just invoices over \$10,000. This recommendation has also been completed.

Ms. Rubin inquired if DSS has to go through a credible legal review. Mr. Ramirez responded no; they actually do not want to be involved in the approval but want to give authorization to the Authority and major banks and to document that we have that authority through them.

Adjustments – Approved Audit Plan FY 2008

Mr. Ramirez is requesting the Committee's approval to make two changes in the approved Audit Plan for FY 2008.

Mr. Ramirez proposed to combine in one audit the Wire Transfers and the Construction Fund areas. These areas are interrelated and it will be simpler to design and conduct an audit program testing both areas. He explained he can actually test the wire transfer process while working with the Construction Funds.

Mr. Ramirez proposed to reschedule the Business Continuity Plan Audit to FY 2009. The IT Division is in the process of revising and updating the Business Continuity Plan, including the acquisition of new equipment/systems, the adoption of new procedures, and the implementation of new tests. Mr. Ramirez stated that he will be a part of this process in order to monitor and oversee the changes.

Ms. Rubin requested a motion to approve the Adjustment to the Approved Audit Plan FY 2008. Mr. Colangelo made a motion to approve the report. Mr. Megacci seconded her motion.

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

AYES

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The Institute of Internal Auditors – Certifications

Mr. Ramirez informed the Committee that he successfully achieved a passing score on the November 2007 Certified Government Auditing Professional (CGAP) examination. He stated that this new certification did not change any of his responsibilities regarding the compliance/internal audit functions with the exception of 20 or 40 hours of Continuing Professional Education (CPE) which is required every two years. He is in the process of writing a letter to the Institute in order to clarify if his functions as an Internal Auditor for a quasi-public agency are considered government auditing. In that case, the 40 hours will apply.

Ms. Rubin requested a motion to go into Executive Session. Mr. Colangelo motioned to go into Executive Session. Mr. Mengacci seconded his motion.

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

AYES

NAYS

ABSTENTIONS

Pat Colangelo

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Sarah Sanders

Barbara Rubin

The Committee went into Executive Session at 1:34 p.m. The meeting reconvened at 1:40 pm. There were no votes taken.

The meeting adjourned at 1:41 p.m.

Respectfully submitted,

Barbara Rubin, Acting Chair

Audit-Finance Committee