FINAL

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Minutes of
The Human Resources/Audit-Finance Committee Meeting
of May 26, 2009

The Human Resources/Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in joint session on Tuesday, May 26, 2009 at 12:30 p.m.

The meeting was called to order by Benson Cohn, Chair, Audit-Finance Committee at 12:30 p.m. and, upon roll call, those present and absent were as follows:

PRESENT:	Benson Cohn, Chair, Audit-Finance Committee William J. Cibes, Jr., Ph.D., Chair, Human Resources Committee John Biancamano Patrick A. Colangelo Barbara Rubin[1]
ABSENT:	John Mengacci (Rep. Secretary Robert Genuario) Sarah K. Sanders (Rep. Honorable Denise Nappier)
ALSO PRESENT:	Jeffrey A. Asher, Executive Director Paula L. Herman, General Counsel JoAnne Mackewicz, Controller Cynthia Peoples, Assistant Director Debra M. Pinney, Manager, Administrative Services Norberto Ramirez, Compliance/Internal Auditor 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. Rubin attended the meeting via telephone.

The purpose of the Meeting:

1. Approve Minutes – Human Resources/Audit-Finance Committee Meeting of April 28, 2009; Audit-Finance Committee Meeting of February 24, 2009 (Action)
2. Approve Proposed FY 2010 Operating and Capital Budget (Action)
3. Approve Revised Charters (Action)
4. Approve Proposed FY 2010 and FY 2011 Audit Plan/Risk Assessment (Action)
5. Approve Personnel and Payroll Functions Audit Report (Action)
6. Conduct Executive Session Concerning Personnel Matters
7. Other Business

Minutes

Mr. Cohn requested a motion to approve the Minutes of the Human Resources/Audit-Finance Committee Meeting of April 28, 2009. Mr. Colangelo moved to approve the minutes; Dr. Cibes seconded his motion.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
William Cibes		
Benson Cohn		
Patrick Colangelo		
Barbara Rubin		

Mr. Cohn then requested a motion to approve the Audit-Finance Committee Meeting Minutes of February 24, 2009. Mr. Colangelo moved to approve the minutes; Mr. Biancamano seconded his motion.

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

AYES	NAYS	ABSTENTIONS
John Biancamano	None	None
Benson Cohn		
Patrick Colangelo		
Barbara Rubin		

Approve Proposed FY 2010 Operating and Capital Budget

Mr. Cohn requested a review of any carryover issues from the Human Resources/Audit-Finance Committee meeting of April 28, 2009.

Mr. Asher reported that Staff was charged to survey private industry and nonprofits and gather input and feedback on what other organizations are doing with regard to salary increases and incentives. He indicated that this feedback would be part of Ms. Weldon's budget presentation.

Ms. Weldon reported that the proposed FY 2010 budget reflects a bottom line of $2.3 million which is higher than the projected actual FY 2009 bottom line because of a significant reduction in grant funding. The revenue assumptions are the same as those specified at the March meeting of the Committee. They are conservative, assuming two new deals and only 1% in investment income.

With regard to budgeted compensation, Ms. Weldon reported that Staff solicited information from CBIA, other quasi-state agencies, colleges and universities in the State, and the Healthcare Financial Management Association.

In the budget proposal made to the Committee in April, Management proposed merit increases and employee incentives totaling approximately $295,000 (approximately $74,000 in merit increases and $220,000 in bonuses). In response to Committee feedback, Management has modified its proposal and is proposing merit increases of $40,126 and employee incentives of $180,652 for a total of $220,778 in employee incentive and merit for FY 2010. This is a $75,000 reduction to what was proposed in April and it reflects a weighted average merit increase of 2.12% and a weighted average employee incentive of approximately 9.3%.

With regard to industry feedback, Ms. Weldon reported that the Connecticut Development Authority stated that they intend to follow the State's approach on budgeted compensation; Connecticut Housing Finance Agency was unsure of their budget because they are still in the midst of their process. Ms. Weldon noted, however, both of these organizations have the State's benefits package, which is much richer than CHEFA's. For example, CHEFA offers no post-retirement health benefits.

Ms. Weldon reported that the Healthcare Financial Management Association conducted a national survey on employee incentives with information as of January 1, 2009. Staff reviewed nine relevant positions in IT, Accounting and Finance. The survey indicated that the bonus eligible staff had bonuses averaging 8.4% of salary.

The informal feedback that Mr. Asher obtained from the Connecticut Association of Independent Colleges is that they informally surveyed 15 schools; seven of those indicated that they were not giving increases, four had not yet responded and four had increases ranging from 2% to 4%. Ms. Weldon stated that the Hartford Foundation for Public Giving cited a cost-of-living adjustment of 3.5%. CHEFA obtained feedback from CBIA after the budget package was sent to Committee members so it was not included in the package. Ms. Weldon reported that CBIA did a survey with 161 companies responding. The average merit pay projected increase for 2009 was 2.3% to 2.7%. This includes 20% of the companies that were not giving any merit increase. However, CBIA performed a calculation removing the 20% that were not planning to give merit increases and focused on the 80% of the companies that were planning to give merit increases for 2009, then the average merit ranged from 3% to 3.5% for hourly through executive employees.

Ms. Weldon stated that given the feedback, CHEFA Management believes that its budget proposal is in keeping with the industry feedback. Ms. Weldon added that Management also looked at CHEFA's projected actual FY 2009 compensation compared to the budgeted FY 2010 compensation. In the projected actual 2009 numbers, the Managing Director position was vacant for six months. The vacancy of that position resulted in an artificially low compensation number for FY 2009 projected actual. However, adjusting for that vacancy by adding back the six months of the Managing Director position, the increase from actual FY 2009 projected actual to budgeted FY 2010 is 3.4%.

Ms. Weldon stated that as noted in the memo to the Committee, CHEFA is not recommending a salary freeze as the State is planning. The Authority believes that it is a critical distinction that its employees do not participate in the State's benefit package and that CHEFA employees do not receive any post-retirement healthcare benefits. CHEFA's benefits as a percentage of salary are approximately 30% and its understanding from OPM is that the State's benefits package is approximately 42% of salary. Another key element is that CHEFA's budgeted dollars are a guideline and Management will use this pool of budgeted dollars at its discretion. CHEFA has no commitments to any individuals or groups of individuals that they will receive a set amount for an increase or for an incentive. Ms. Weldon further stated, referring to the memo, in three of the last five years the actual amount of the incentive that was awarded by Management came in below what was budgeted. With regard to the rest of the benefit package, other than things that changed because of the change in compensation, no changes were made to Staff's original April meeting.

Mr. Colangelo inquired if the State benefits consisted of retirement and medical benefits only. Ms. Weldon responded that it would also include benefits for current State employees. Mr. Asher added that that would be along with the post-retirement benefits also included. Ms. Weldon asked if there were any other questions. Mr. Biancamano inquired, what is CHEFA's pension contribution. Mr. Asher responded that CHEFA's pension contribution is 10% of the employee's annual salary excluding any bonus incentive. Mr. Biancamano stated that the State's pension contribution was 8%.

Mr. Cohn inquired if there were any other questions. Dr. Cibes commented that the State took $900,000 from CHEFA reserves last week and asked how this would affect the bottom line given some of CHEFA's pending grant commitments. Mr. Asher responded that it would not affect the FY 2010 bottom line. Mr. Asher stated that the $900,000 would essentially deplete CHEFA's Contingency Reserves. Ms. Weldon further added that the Authority's Operating Reserves as of April 30th was approximately $1.7 million. Mr. Asher added that the State has kept the Student Loan Program intact, took an additional $900,000 from the Authority which depletes its Contingency Reserves, but does leave CHEFA with Operating Reserves of approximately $1.7 million plus the $200,000 that the Authority will generate in bottom line profit in May and in June. Mr. Asher stated, in addition, the Authority has already booked an accrued grant liability contingent for funding commitments already made.

Ms. Weldon stated that under the category of general and administrative expenses, there is an increase over the FY 2009 projected actual amount of approximately $66,000 which is due in part to the scheduled increase in rent. Directors and Officers insurance has been budgeted at FY 2009 levels. Given market volatility, the insurance broker could not provide a projected premium to be effective 1/1/2010.

Ms. Weldon reported that the other item under general and administrative is the Connecticut Forum contribution which is budgeted to stay the same as it has been at $35,000. Mr. Asher stated that he met with the leadership of the Connecticut Forum. Beyond the audiences that attend the Forum events, the Forum has an ongoing program serving teens from numerous school districts. On an annual basis they serve over 750 high school children. A discussion ensued.

Ms. Rubin stated that she believes that the Forum should be evaluated as part of the grant program rather than as part of CHEFA's operating budget. The Committee agreed that funding for the Forum should continue but after FY 2010 should not be part of the Authority's operating budget and that it should be funded as a grant. Mr. Asher agreed and suggested that in future years the commitment could be paid for from CHEFA's Contingency Reserve. The Committee agreed.

Ms. Weldon reported on the next category, Business Education Board and Reimbursable Expenses, stating that it is showing an increase of $30,000 compared to Projected Actual for FY 2009. She explained that the staff education budget, which was reduced in 2009 due to the travel ban, was restored. Management will take the same steps that were taken in FY 2009 to control this line item if the travel ban continues into 2010.

Ms. Weldon stated that Outside Services had a significant change. The line item is decreasing by $91,500 relative to FY 2009 projected actual due to a reduction in the use of outside arbitrage consultants and savings on placement fees.

Ms. Weldon reported that the last noteworthy change is in the Grant Program. The grant line is being reduced by more than $1.3 million compared to FY 2009 projected actuals. Program related expenses are decreasing from $1.8 million to $400,000. Mr. Asher added that the Child Care Guaranteed Loan Fund and Interest Rate Subsidy programs was budgeted to just over $390,000 based on all of the actual loans and commitments to date. CHEFA will not be making any additional loans under the Child Care Guaranteed Loan Fund Program. Three out of the seven participating banks have withdrawn from the program. Dr. Cibes inquired why the banks have withdrawn. Mr. Asher responded that the interest was not there any longer; they did not have enough funds and the loan capacity was gone.

Dr. Cibes stated the Child Care Program is a very purposeful social endeavor that is essential for the growth of the State's future economy. He stated that he has observed that both the Governor and the legislature do not appear to be very interested in funding the program this year. Dr. Cibes believes that if the Authority can do something in this area independent of what the State is doing, then the Authority should do so.

Mr. Asher further explained that when the program was initially setup, the State made $1.5 million available to fund the Guarantee. The Authority was required to put up $4.5 million. CHEFA has now spent the entire $6 million guarantee. Even if there were banks that were committed, CHEFA would not be able to make the loans. CHEFA was able to convince People's Bank to take on the last loan alone. Dr. Cibes inquired if the $1.5 million that the State funded was bond dollars or an operating expense. Mr. Asher responded that he did not know the original source for that money but it is set aside in a guaranteed loan fund protection account being held by the Treasurer's Office. Ms. Rubin inquired if any of the existing programs were going to close as a result of this. Mr. Asher responded that no programs would close.

Ms. Weldon stated that this concluded her report on the operating budget and Ms. Peoples would report on the capital budget.

Ms. Peoples reported that there are five different sections that were covered in the capital budget.

The first, Wireless Network for the Conference Center, and the fifth, Leasehold Improvements were approved in the prior year budget. Due to timing, those projects were not completed to date. The Wireless Network for the Conference Center is adding in the wireless access and the Leasehold Improvement was to add a backup A/C unit in the server room which is an absolute necessity. The second section is an upgrade in CHEFA's phone system. Ms. Peoples stated CHEFA purchased another conferencing unit but was not able to install it because of the current phone system version. Ms. Peoples added that the software itself is a free upgrade but needs to be installed by a company consultant with experience in this area.

Hardware requirements are basic recycling of systems. IT is requesting four desktop computers. Although IT has a three-year replacement program, currently in practice, we are extending the replacement program from four to five years. Ms. Peoples stated that there is a laptop request in for one of the Staff that is approximately four years old and a recording computer for the Conference Center.

Ms. Peoples reported that regarding Software Requirements, Crystal Decisions Software – CHEFA is about three versions behind and these two licenses are specifically for the developers. CHEFA's exchange server which is for the Outlook Software – CHEFA is significantly behind with Microsoft Exchange 2000 and Staff is upgrading to 2007. In addition to the network architecture that was modified over the past year, Staff is purchasing a different backup software license and backup upgrades as well for our co-location site.

Mr. Cohn inquired if there were any questions or comments regarding the capital budget. Dr. Cibes inquired if the capital budget is applied against the Authority's Reserves. Mr. Asher responded that the effect of the capital budget flows through depreciation.

Dr. Cibes stated that at some point there was a discussion about taking over additional space on the seventh floor and wanted to know if this was still a possibility. Mr. Asher responded that this was abandoned due to the current state of the economy and scaled back plans for expansion.

Mr. Cohn inquired if there were any further questions or issues. There being none, Mr. Cohn requested a motion to recommend approval of the FY 2010 Capital and Operating Budget to the full Board. Mr. Asher recommended delaying full Board approval of the FY 2010 Capital and Operating Budget until the June Board Meeting due to the absence of the board members from the State.

Mr. Cohn moved to recommend approval of the FY 2010 Capital and Operating Budget by the full Board at the June Board meeting. Mr. Biancamano seconded his motion.
Upon roll call, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano William Cibes Benson Cohn Patrick Colangelo Barbara Rubin	None	None

Ms. Rubin left the meeting at 12:50 p.m.

Approval of Revised Charters

Mr. Ramirez reported that he made some revisions to the CIAF Charter. He stated that at the December 2008 Audit-Finance Committee Meeting it was agreed that CIAF should not follow the Quality Assessment Review which is an external peer review to look at internal audit functions required by the Government Auditing Standards and the International Standards of the Institute of Internal Auditors. Mr. Ramirez also stated that he is proposing a two-year audit plan based on a biennial risk assessment. Mr. Ramirez reported that he included adequate language under Scope and Responsibilities to reflect these changes. In addition, Mr. Ramirez stated that he added one item to the Scope and Responsibilities section regarding his responsibility to follow-up on recommendations. He stated that the final revision is to change the title on the signature page from Chief Financial Officer to Managing Director.

Mr. Ramirez stated that no changes were proposed to the Audit-Finance Committee Charter. Mr. Ramirez requested input from the Committee regarding potential changes to be made to the Audit-Finance Committee Charter. Mr. Cohn inquired if there were any comments or questions regarding Mr. Ramirez's report on the Audit Charters. There being none, Mr. Cohn requested a motion to accept the changes to the Charter. Mr. Biancamano moved to accept the changes to the Audit Charter, Mr. Colangelo seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Benson Cohn Patrick Colangelo	None	None

FY 2010 & 2011 Risk Assessment and Audit Plan

Mr. Ramirez stated that CIAF conducted a survey with Management. The survey was done using the Authority's Audit Universe in order to identify the ten most critical areas that Management believe are the most risky areas to the financial function of the Authority and also related to the controls. Based on the survey, the following most critical areas were identified: arbitrage, underwriting guidelines, investment (methodology and policy), construction fund, strategic planning, business continuity plan, wire transfers, bond covenant tests, and BOND System. CIAF is proposing for FY 2010 to audit the areas of the EasyLoan and EasyLease Programs. Although it is not considered one of the risky areas, this is a relatively new program that has never been audited. Therefore, CIAF is including it in this year's audit plan. In addition, CIAF is also including the following areas: underwriting and credit analysis, strategic planning and business continuity plan. Mr. Ramirez stated that considering the underwriting and credit analysis is a unique area, it will be a very difficult area to perform an audit. Therefore, CIAF has decided to do a comparison to other organizations to see if there are similarities in the underwriting and credit functions.

Mr. Ramirez reported that CIAF is also proposing to review the business continuity plan and disaster recovery plan which were not audited last year because of time constraints. IT was unable to make progress in this area due to other priorities. Mr. Ramirez added that he will be participating in the process with IT and documenting the process. Two additional areas were included as an alternative. The first area is IT general controls, application controls and data access security; and the second area is Child Care programs: Tax-Exempt Financing and Guaranteed Loans.

Mr. Ramirez reported that for FY 2011, CIAF is proposing to audit the following areas: construction fund and wire transfers, investments, compliance system and the bond covenant tests. The construction fund and wire transfer, and the compliance system were included in order to meet the recommended audit frequency of two years. Mr. Ramirez explained that the bond covenant test is a new function created by Management to perform and monitor requirements of the loan agreements for all client sectors with the Authority and should not be audited until it has at least a one-year operating history.

Mr. Cohn inquired if there were any questions. Mr. Biancamano inquired why bond covenant tests would not be higher up on the list in terms of risk. Mr. Ramirez responded that the bond covenants test area is new and the survey revealed that there is a majority of managers that consider this area addressed by the assignment of an individual dedicated to the function. Mr. Biancamano stated that he believes the bond covenants tests should have a higher risk than the underwriting and credit analysis, and the investment areas. Mr. Asher agreed, adding that managers that were surveyed were identifying certain issues and not everyone felt that the bond covenants test was ranked as number one. Ms. Weldon further added that it is high in terms of significance but it is only medium in terms of the control weaknesses. Mr. Asher stated that he believes that if the Audit-Finance Committee sees that as being a much higher risk area, there is nothing to prevent the Audit-Finance Committee from instructing the CIAF to increase the ranking on that particular area. Further discussion ensued.

Mr. Biancamano inquired if Staff checks all the covenant tests. Ms. Herman replied that at the beginning of April 2009, an employee was transferred from the Accounting Department to become a Compliance Analyst. Now, CHEFA has one employee who is focusing on compliance full time and Staff believes that this is an area where the Authority has taken some positive action. Mr. Biancamano stated that in an organization the bond covenants test represents a higher risk due to the effect it could have on its clients. He stated that the investment methodology is an internal policy and the highest exposure to the Authority is in the Arbitrage area. He also stated that in the underwriting and credit analysis area, there are many people that are experts. Mr. Colangelo stated that he agreed with Mr. Biancamano adding that this is a very vulnerable area. Further discussion ensued.

The Audit-Finance Committee instructed Mr. Ramirez to increase the level of risk of the bond covenant tests and decrease the one assigned to the investment methodology and underwriting and credit analysis. Mr. Ramirez agreed, adding that the bond covenant tests will be planned to be audited every year.

Mr. Cohn inquired if there were any questions or comments. There being none, Mr. Cohn requested a motion to approve the FY 2010 and FY 2011 Risk Assessment Report and Audit Plans with the requested changes of increasing the bond covenant tests to a higher level of risk and moving it to the FY 2010 Audit Plan. Mr. Colangelo moved to approve the Risk Assessment Report and Audit Plans; Mr. Biancamano seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Benson Cohn Patrick Colangelo	None	None

Approval of Personnel and Payroll Functions Audit Report

Mr. Ramirez reported that in summary, it was determined that Management was following personnel and payroll procedures well and the Authority is following best recommended practices. Two items were identified as minor findings. CIAF is asking the Authority to write more detailed procedures in regards to the hiring and termination processes which was also identified by the State Auditors. CIAF is also recommending the Authority to properly maintain and update all job descriptions for its employees, in which it was determined that some were updated but some were not.

Mr. Ramirez stated that Management was in agreement with both recommendations, and will be working on job descriptions and writing more detailed procedures in the area of hiring and termination within the next fiscal year. CIAF also conducted, as part of this audit, a survey with employees. CIAF received 21 responses out of 22. The survey demonstrated that employees are happy working at CHEFA; and they are comfortable with the policies and procedures that CHEFA has in place. One personnel matter that was not included in this report was communicated to Management and will be discussed in Executive Session. Mr. Ramirez further stated that, overall, the Authority is following procedures properly and communication between Management and employees is good.

Mr. Ramirez reported that there were no major complaints or findings in the survey.

Mr. Cohn inquired if there were any questions or comments. There being none, Mr. Cohn requested a motion to accept the Personnel and Payroll Audit Report. Mr. Colangelo moved to accept the Audit report; Mr. Biancamano seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Benson Cohn Patrick Colangelo	None	None

Executive Session

Mr. Cohn requested a motion to go into Executive Session to discuss a personnel matter. Mr. Biancamano moved to go into Executive Session and asked Mr. Asher, Mr. Ramirez, and Ms. Herman to remain for the Executive Session discussion. Mr. Colangelo seconded his motion.

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

AYES	**NAYS**	**ABSTENTIONS**
John Biancamano Benson Cohn Patrick Colangelo	None	None

Executive Session concluded at 1:50 p.m. and no votes were taken.

Respectfully submitted,

Benson Cohn, Chair, Audit-Finance Committee

William J. Cibes, Jr. Chair, Human Resources Comittee