

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES
AUTHORITY

Minutes of
The Audit-Finance Committee Meeting
of
January 26, 2010

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session on Tuesday, January 26, 2010 at 12:00 p.m.

The meeting was called to order by Benson Cohn, Chair at 12:08 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: Benson Cohn, Chair
John Biancamano¹
John Mengacci (Rep. for Robert Genuario)
Barbara Rubin

ABSENT: Patrick Colangelo
Sarah K. Sanders (Rep. for Denise Nappier)

ALSO PRESENT: Jeffrey A. Asher, Executive Director
Paula Herman, General Counsel
JoAnne Mackewicz, Controller
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 Mr. Biancamano arrived at 12:29 p.m.

The purpose of the Meeting was to:

1. Approve the Minutes of the Human Resources/Audit-Finance Committee Meeting of October 27, 2009
2. Presentation of Draft Audit Report –
 - Strategic Business Plan Development Process
 - EasyLease and EasyLoan Programs
3. Discuss Compliance Internal Auditor Compensation Process
4. Conduct Other Business
5. Conduct Executive Session

Approval of Minutes

Mr. Cohn requested a motion to approve the Minutes of the October 27, 2009 Human Resources/Audit-Finance Committee Meeting. Mr. Mengacci moved to accept the minutes; 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 Mengacci Barbara Rubin	None	Benson Cohn ²

Presentation of Draft Audit Report – Strategic Business Plan Development Process and EasyLease and EasyLoan Programs

Mr. Ramirez reported that the Strategic Business Plan audit was completed under budget by 92 hours. The audit scope was divided into two phases. The first phase is the development process; the second phase which has not been scheduled as yet will be the implementation process of the Strategic Business Plan. The purpose of the audit was to provide an assessment of the process that Management is using to create a plan that will be used over the next three years to help Staff accomplish identified goals and objectives. The Compliance Internal Audit Function (“CIAF”) reviewed the process and researched some leading practices that were recommended by the Government Finance Officer’s Association as best practices. The CIAF compared these practices against the Logic Model used by CHEFA which was created by the W.K. Kellogg Foundation. The Authority’s process was found to be in keeping with best practices. There were no findings in this audit.

² Mr. Cohn was not present at the combined meeting on October 27, 2009.

Mr. Mengacci inquired if Mr. Ramirez had any idea when the next audit phase would begin. Mr. Ramirez responded that CIAF has submitted the Audit Plan for 2010/2011 and anticipates the next phase would be included in the 2012 Audit Plan. Considering that the Strategic Business Plan is a three-year plan, CIAF wants to complete this audit preferably at the end of the three year period. Mr. Asher added that Management will provide updates to the Board.

Ms. Rubin inquired if the Audit Report was a draft or was it a final report. Mr. Ramirez responded that the report is a draft. The final report would be provided after today's meeting. Ms. Rubin asked if the report is made public; Mr. Ramirez responded that the report was for internal purposes only. Ms. Rubin commented that the first statement on the Executive Summary should be revised to make it a complete sentence. Mr. Ramirez agreed.

Mr. Ramirez reported that CIAF performed an audit on the EasyLease and EasyLoan program from July 1, 2006 to June 30, 2009, including submission of surveys to clients to measure CHEFA's performance in the process. Mr. Ramirez reported that client feedback was excellent, and that all procedures and guidelines were in place. He added that Ms. MacDonald has all the procedures in writing and he found no exceptions on the application process, the approval process or the TEFRA Hearings, and that all documentation was in place. The survey results revealed that CHEFA's clients are satisfied with the benefits that the program provides and also with the Staff diligence during the process. One of the EasyLoans is in default because the institution has filed for bankruptcy. Mr. Ramirez stated that he discussed this issue with Ms. Herman and, since the Authority is acting purely as a conduit, there is no financial impact on the Authority's operations. However, the Authority has \$400,000 undisbursed proceeds in the project fund that is accruing interest and will be held until direction or approval for release is received from the bankruptcy court. Further discussion ensued.

Ms. Rubin inquired as to which entity was in bankruptcy. Mr. Ramirez stated that it is Johnson Memorial Hospital. Ms. Rubin inquired who the lender is. Mr. Asher responded that it is Key Government Finance. Further discussion ensued.

Mr. Mengacci inquired if the Authority is waiting for direction on the \$400,000. Ms. Herman explained that as specific pieces of equipment were being delivered, there was a drawdown of the proceeds and it was unexpended proceeds. Ms. Herman further explained that the loan documents state that both the lender and Johnson Memorial Hospital have rights to the funds and consequently, rights to the funds could be a part of the bankruptcy estate. Ms. Herman further stated that she spoke with the Counsel for the lender and advised him that the funds would not be released until direction or approval of the bankruptcy court was provided.

Mr. Mengacci inquired if the minimum amount under EasyLease is \$250,000 or can it be lower than that. Mr. Asher responded that it may be; it is a small amount. Mr. Mengacci further inquired if there is any other nonprofit that could take advantage of this. Mr.

Asher responded that all of CHEFA’s nonprofit clients could. He added that any 501(c)(3) could borrow from this program. The credit assessment has to be made by the individual lease company.

Mr. Asher indicated that the Authority has considered the EasyLoan program as a potential backup if it does not get the hoped-for funding from the federal government for the electronic health records program. Both OPM and the Treasurer’s Office have approved the proposed electronic health records program. The Authority is waiting for the federal government to announce the Grant Program.

Mr. Cohn inquired if there were any other comments or questions on the audit report. There being none, Mr. Cohn requested a motion to accept the audit report with the change noted. Ms. Rubin moved to accept the audit report with the change noted; 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>
Benson Cohn	None	None
John Mengacci		
Barbara Rubin		

Compliance Internal Auditor Compensation Process

Mr. Cohn recommended the Committee discuss the Compliance Internal Auditor Compensation issue in open session rather than in Executive Session. The Committee agreed.

Mr. Cohn stated that the bonus program is not working well with Mr. Ramirez’s position because the nature of the position is that there is a program at the beginning of the year that is accepted by the Board and if a bonus is given for performing more audits, the Committee would shortchange the audits it approved. He further stated that in terms of extra credit or lack of credit or how many of the recommendations are implemented, it is out of the control of the Internal Auditor himself, so it is not appropriate to base a bonus on something that he has no control over. This issue was raised at the last meeting and in the interim, Mr. Asher has come up with a proposal.

Mr. Asher pointed out that he sent the proposal to the Chair of the Human Resources Committee and also to all the members of the Audit-Finance Committee and the proposal was to eliminate the bonus for the Internal Auditor position and instead come up with an agreed upon amount by which the Internal Auditor’s salary would be adjusted retroactive to July 1, 2009. He further explained that on an annual basis, Mr. Ramirez’s compensation would be determined by the Audit-Finance Committee based on his performance of the job that he was hired to perform. This would eliminate any bonus in

the calculation. Mr. Asher added that this is a simple analysis and he did receive feedback from all of the members of the Audit-Finance Committee and Dr. Cibes, Chairman of the Human Resources Committee. Ms. Sanders had a question relating to a comparison of what Mr. Ramirez’s salary would be in 2009 with the bonus added versus what Mr. Asher was proposing for 2010 to make sure that it was comparable and it was. Mr. Asher added that he had initially discussed the concept and how it would work with Mr. Ramirez and he was in agreement.

Mr. Cohn requested a motion to accept the proposal. Ms. Rubin moved to accept Mr. Asher’s proposal; 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>
Benson Cohn John Mengacci Barbara Rubin	None	None

Other Business

Mr. Ramirez stated that Mr. Asher is requesting that the audit plan be modified to provide for an additional special audit of Authority procedures. Ms. Rubin inquired if CIAF was recommending this audit. Mr. Ramirez responded that CIAF is requesting approval of a modification to the audit plan. Discussion ensued.

Ms. Rubin suggested that the proposal be tabled until there is a resolution of potential litigation involving an Authority borrower.

Mr. Cohn suggested that the Committee go into Executive Session to discuss the potential litigation issue. The Committee agreed.

Ms. Rubin moved to go into Executive Session; 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 Barbara Rubin	None	None

The Committee convened for Executive Session at 12:34 p.m.

The Committee reconvened at 12:36 p.m. Mr. Cohn stated that no votes had been taken during the Executive Session. Mr. Mengacci moved that the Committee table the recommendation to modify the Internal Audit Plan to perform a special audit; 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 Barbara Rubin	None	None

Mr. Cohn asked if there were any other business to discuss. There being none, Mr. Cohn requested a motion to adjourn. Ms. Rubin moved to adjourn; 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 Barbara Rubin	None	None

The meeting adjourned at 12:38 p.m.

Respectfully submitted,

Benson Cohn, Chair