

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES  
AUTHORITY

The Minutes of  
The Audit-Finance Committee Meeting  
of September 14, 2010

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority met in session on Tuesday, September 14, 2010 at 11:30 a.m.

The Meeting was called to order by John Mengacci, Acting Chair at 11:33 a.m. and, upon roll call, those present and absent were as follows:

PRESENT: Benson R. Cohn, Chair  
Patrick A. Colangelo  
John Biancamano  
John Mengacci (Rep. for Brenda Sisco), Acting Chair  
Sarah K. Sanders<sup>1</sup> (Rep. for Denise Nappier)

ABSENT: Barbara Rubin

GUESTS: Ed Jason, Whittlesey & Hadley, P.C.  
Derek Stubbs, Whittlesey & Hadley, P.C.

ALSO PRESENT: Jeffrey A. Asher, Executive Director  
Paula 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 Educational Facilities Authority

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

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<sup>1</sup> Ms. Sanders arrived at the meeting at 11:45 a.m.

The purpose of the Meeting is as follows:

1. Approval of Minutes – Audit-Finance Committee Meeting of May 25, 2010
2. Review and Approval of the FY 2010 Draft Audited Financial Statements
3. Review and Approval of the Authority’s Investment Policy
4. Review and Approval of Revision of Charters and CIAF Policies and Procedures Manual
5. Executive Session:
  - a.) Review and Discussion of Management’s Performance with Whittlesey & Hadley with respect to the Audit for FY 2010
  - b.) Review of Compliance/Internal Auditor Performance Evaluation  
Approval of Compliance/Internal Auditor Performance Evaluation

### **Approval of Minutes**

Mr. Mengacci requested a motion to approve the Minutes of the May 25, 2010 Audit-Finance Committee Meeting. Mr. Biancamano moved to accept the minutes; Mr. Cohn seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn John Mengacci	None	Patrick Colangelo <sup>2</sup>

### **Review and Approval of the FY 2010 Draft Audited Financial Statements**

Ms. Weldon reported that the first item of significance was the level of issuance that the Authority had in FY 2010. It is reflective of the improvement in the credit markets and also the increased comfort level on the part of the Authority’s borrowers with issuing on their own credit and without credit enhancement.

In FY 2010, the Authority issued \$1.1 billion of debt versus \$341 million in FY 2009. Ms. Weldon stated that approximately \$700 million of that was new money and approximately \$400 million was refunding. Most of the debt issuance was in the higher education sector. Yale University issued \$530 million of which \$450 million was new

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<sup>2</sup> Mr. Colangelo did not attend the May 25, 2010 Audit-Finance Committee Meeting.

money; Wesleyan issued slightly over \$200 million all of which was refunding; and Fairfield University issued \$85 million, the bulk of which was new money.

Fee revenue increased by \$80,000 in FY 2010 compared to FY 2009. This relatively modest increase reflects the impact of the timing of closings. Fees are prorated back to the closing date, which affected fee income revenue.

Despite the increase in fee revenue, total operating revenue relative to FY 2009 declined by \$730,000, largely because in FY 2009 the Authority had \$836,000 of grant recoveries which it did not have in FY 2010. The Grant recoveries in 2009 were primarily nursing education and the insurance captive grants.

Ms. Weldon reported that operating expenses decreased by over \$1.5 million in FY 2010 compared to FY 2009 and was largely due to CHEFA's suspension of the Grant Program in FY 2009. Excluding the Grant Program, expenses declined slightly, by approximately \$127,000.

Operating Income for the Fiscal Year was \$2.369 million and that was an increase of \$848,000 over the FY 2009 levels. Income before capital transfers was \$2.4 million, including investment income of \$32,000. Investment income declined significantly from FY 2009 to FY 2010 because CHEFA had less money to invest after transferring the \$13 million to the State as part of the deficit mitigation plan.

Ms. Weldon reported that as far as the balance sheet is concerned, unrestricted assets increased by approximately \$2.1 million, and reflecting the increase in board designated investments. Restricted Assets, which includes Construction Funds and Child Care bond reserves issue held by the trustee, increased by \$5.5 million largely due to Construction Fund balances. The noncurrent assets which are restricted by Statute are flat from FY 2009 to FY 2010 and represent the \$4.3 million the Authority has set aside for the Child Care School Readiness and Child Day Care Guaranteed Loan Fund Program, which is the same number as last year. It also includes amounts of slightly over \$2 million held on behalf of the State in connection with the Child Care Small Direct Loan and Guaranteed Loan Programs, where CHEFA received funds from DSS that is held in the reserves for these two programs. Ms. Weldon further stated that the Authority has two other reserves - the Credit Union Student Loan Guarantee Reserve Program which was originally \$3.5 million but is now \$1.265 million based on the actual loan outstanding; Green Technology Life Science and the Health Information Technology Loan Forgiveness Program reserve of \$2.235 million.

Ms. Weldon reported that in the area of liability, accounts payable and accrued expenses decreased by \$365,000 compared to FY 2009 mainly due to a decrease in grants payable. There was an increase in Net Assets of \$2.4 million.

Ms. Weldon stated that it was a good year for the Authority and believes that the audit went smoothly.

Mr. Jason, of Whittlesey & Hadley, stated that Ms. Weldon covered most of the numbers and offered to take a few moments to review the auditor’s opinion. Mr. Jason stated that the audit went well and that Ms. Mackewicz and her staff did a great job and were very helpful in working with the auditors. Mr. Jason reiterated that the Authority had a great year, and continues to have a strong surplus particularly because of the fact that the grants were suspended. He added that the numbers from year to year were astonishingly similar. Mr. Jason further stated that there were no audit adjustments. Mr. Jason referred to the supplementary letter and required communications that elaborate on their review. These indicate that there were no difficulties, no fraud, no new changes to accounting standards, and no unusual transactions.

Mr. Mengacci asked if there were any questions. There being none, Mr. Mengacci requested a motion to go into Executive Session for Review and Discussion of Management’s Performance with Whittlesey & Hadley. Mr. Biancamano moved to go into Executive Session; Mr. Colangelo seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci	None	None

The Committee went into Executive Session at 11:43 a.m.

The Committee reconvened at 11:52 a.m.

Mr. Mengacci requested a motion to accept the FY 2010 Audit. Mr. Biancamano moved to accept the Audit; Mr. Colangelo seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

## Review and Approval of the Authority's Investment Policy

Ms. Peoples explained that the Committee received two copies of the policy, one was black-lined and the other that was a clean document. Mr. Asher added that the reason for the two copies was to help the Committee to view the proposed changes and provide comments explaining the proposed changes that had been made to the policy.

Mr. Mengacci asked how frequently the Authority reviews the Investment Policy. Ms. Peoples stated that it was last reviewed in 2002, but in the future it will be reviewed annually. Ms. Sanders asked if the general tenor of the changes is to create higher credit quality in the overall investment. Ms. Peoples stated it is to better match current market conditions and to match the credit quality of available providers of actual investment vehicles. It does allow the Authority to go lower but hopefully CHEFA should not have to go much lower. Mr. Asher added that particularly with the Construction Funds, the focus will continue to be to make sure they are as "risk free" as possible.

Mr. Mengacci asked if there were any questions. Mr. Biancamano asked if a change could be made to Page 3 of the Investment Policy which reads as follows: "The Audit-Finance Committee shall have the responsibility to review the Scope and Objectives of this Investment Policy with the Investment Officer and Executive Director at least annually." Mr. Mengacci recommended removing the word "responsibility" from the policy. He explained that he is not sure it is the Committee's responsibility to review the policy if it is not brought to their attention by Management. He further explained that the Committee's position is to approve it. After a brief discussion the Committee agreed that the words "to have the responsibility to" would be removed from the statement and "and approve" would be added to "review."

Mr. Mengacci asked if there were any other comments or questions. There being none, Mr. Mengacci requested a motion to approve the CHEFA Investment Policy for FY 2011 with the noted changes. Mr. Biancamano moved to approve the CHEFA Investment Policy and Mr. Colangelo seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

## **Review and Approval of Revision of Charters and CIAF Policies and Procedures Manual**

Mr. Mengacci stated that there were no changes in the Charters and asked if Mr. Ramirez had any comments. Mr. Ramirez stated that he had no changes; however, if the Audit-Finance Committee had any changes he will incorporate those changes before the Charters are approved. There being none, Mr. Mengacci requested a motion to approve the Charters and CIAF function. Ms. Sanders moved to approve the Charters; Mr. Cohn seconded her motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

## **CIAF Policies and Procedures Manual**

Mr. Ramirez stated that he has submitted for the Committee’s review and approval the Revised Policies and Procedures Manual for the CIAF. He reported that there were some minor changes and updates. Mr. Ramirez stated that the most significant update was found on Page 8, under the “External Quality Control Review” section. Mr. Ramirez indicated that the CIAF is supposed to be reviewed every three years by external auditors but the Audit-Finance Committee decided to waive that standard due to costs. Mr. Cohn commented that it was not primarily a matter of costs, but currently there are auditors of public accounts and independent auditors conducting audits. Mr. Mengacci added that the introductory phrase “Due to matter of costs,” is not necessary and recommended striking that part of the phrase. The Committee and the Compliance Internal Auditor agreed.

Mr. Mengacci asked if there were any other questions or comments on the changes to Mr. Ramirez’s recommendations. There being none, Mr. Mengacci requested a motion to approve the CIAF Policies and Procedures Manual. Mr. Colangelo moved to approve the CIAF Policies and Procedures Manual; Mr. Cohn 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 Patrick Colangelo John Mengacci Sarah Sanders	None	None

### **Approval of Compliance/Internal Auditor Performance Evaluation**

Mr. Mengacci requested that Mr. Ramirez give an overview of the CIAF Performance Evaluation.

Mr. Ramirez stated that the Compliance Internal Audit Function has successfully completed its third Audit Plan approved by the Audit-Finance Committee in May 2009. The CIAF issued three (3) final audit reports in Fiscal Year 2010: Strategic Business Plan Development Process; EasyLease/EasyLoan Programs; and the Bond Covenants Analysis Function. The Business Continuity and Disaster Recovery Plan are in process at year-end and it will be completed in FY 2011.

Mr. Ramirez further reported that since his appointment by the Board, he has provided a risk-based and systematic approach to audit the Authority’s high/medium risk business processes on a cyclical basis. As of June 30, 2010, the CIAF has completed ten audits and made 41 recommendations, of which 73% have been implemented. In FY 2010, CIAF audited three Authority functions and made two audit recommendations: to efficiently customize the bond covenants analysis spreadsheets, and develop a new insurance database, which Management accepted and expects to implement by December 2010 and 2011, respectively.

In addition, this year, the CIAF completed a revision of the 2009 Risk Assessment Report and 2010/2011 Audit Plans; updated the CIAF Policies & Procedures Manual; and provided an Internal Audit presentation to the Authority’s Staff.

Mr. Ramirez reported that the CIAF used the standards that were created in FY 2009 stating that the CIA plan was to issue three audit reports and the CIAF completed those audit reports under budget by 13 hours. The CIAF used an allocation of 66%-34% of direct versus indirect time which was estimated at 70% versus 30%; 66% of the time was spent on audits and 34% was spent on administrative indirect functions. The standard in the industry is 70%-30%. Mr. Ramirez stated that he fell a little low in that area.

Mr. Ramirez also reported that he underspent his budget by \$2,700; and completed 45 hours of Continuing Professional Education (CPE). In Addition, Mr. Ramirez reported that he obtained a 3.75 average on the audit survey that he submitted after each audit.

Mr. Ramirez asked if the Committee had any questions. Ms. Sanders referred to Page 6, looking at hours versus budget, stating that the time off appeared to be so much higher than the budgeted time and asked Mr. Ramirez for clarification. Mr. Ramirez explained that he budgeted 196 hours which was 100 hours of vacation time and the other hours were floating holidays and holidays. He explained that the difference between the 196 hours budgeted and the 315 actual hours was due to the following reasons: an additional 31 hours were charged to vacation; also, the 196 hours did not include sick time, volunteer time and office closings due to inclement weather. Mr. Ramirez made it clear that the additional 31 hours charged to vacation were within his amount of earned vacation time.

Mr. Mengacci requested a motion to go into Executive Session to review the Compliance/Internal Auditor’s performance evaluation. Mr. Cohn moved to go into Executive Session; Ms. Sanders seconded his motion. Mr. Asher remained in the room for Executive Session.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

The Committee went into Executive Session at 12:10 p.m.

The Committee reconvened at 12:40 p.m.

Mr. Mengacci stated that no votes were taken in Executive Session. Mr. Mengacci requested a motion to approve the recommendation of the Executive Director with respect to the Compliance/Internal Auditor’s Performance Evaluation. Mr. Colangelo moved to approve the recommendation of the Executive Director; Mr. Biancamano seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

Mr. Mengacci asked if there was any other business. There being none, Mr. Mengacci requested a motion to adjourn the meeting. Mr. Cohn moved to adjourn; Mr. Colangelo seconded his motion.

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

<b><u>AYES</u></b>	<b><u>NAYS</u></b>	<b><u>ABSTENTIONS</u></b>
John Biancamano Benson Cohn Patrick Colangelo John Mengacci Sarah Sanders	None	None

Respectfully submitted:

John Mengacci, Committee Acting Chair

Benson R. Cohn, Chair