

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Audit-Finance Committee Meeting

Minutes

February 20, 2019

The Audit-Finance Committee of the Board of Directors of the State of Connecticut Health and Educational Facilities Authority met in session on Wednesday, February 20, 2019 at 12:30 p.m.

The meeting was called to order by Mr. Mark Varholak, Committee Chair, at 12:30 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: Mark Varholak, Chair
Michael Angelini
Christopher Martin, Designee for Shawn T. Wooden, State Treasurer
Peter Lisi, Board Chair
Barbara Rubin

OTHER BOARD MEMBERS PRESENT: Elizabeth Hammer¹
Dr. Estela Lopez²

ALSO PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Krista Johnson, Compliance Specialist
JoAnne Mackewicz, Controller
Michael F. Morris, Managing Director
Kelli Petrone, Administrative Assistant
Cynthia Peoples, Managing Director
Debra M. Pinney, Manager, Administrative Services

GUESTS: Katharine Balukas, BerryDunn
Mark LaPrade, BerryDunn

¹ Ms. Hammer joined the meeting at 1:12 p.m.

² Dr. Lopez joined the meeting at 1:18 p.m.

APPROVAL OF MINUTES

Mr. Varholak requested a motion to approve the minutes of the October 17, 2018 special meeting of the Audit-Finance Committee. Mr. Lisi moved to approve the minutes and Ms. Rubin seconded the motion.

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

AYES

Mark Varholak
Michael Angelini
Peter Lisi
Christopher Martin
Barbara Rubin

NAYS

None

ABSTENTIONS

None

INTERNAL AUDIT ENGAGEMENT WITH BERRYDUNN – FY 2019

Ms. Peoples introduced the internal auditors from BerryDunn and stated that they will be updating the Board on the areas that were tested and report their findings. BerryDunn will be back next week to start testing the Authority’s Payroll and Human Resources functions.

Mr. LaPrade introduced Ms. Balukas who updated the Board on the bond covenant analysis internal control testing. She stated that the review was of the policies and procedures that are in place for setting up new bonds, monitoring existing bonds and the review of that monitoring process. The first recommendation stems from policies and procedures in tracking a new bond transaction. Currently the procedure is that legal counsel and the compliance specialist do separate reviews, with legal reviewing first and the compliance specialist reviewing second to make sure their findings are the same. These findings are tracked on an internal tracking spreadsheet that the compliance specialist maintains. The compliance specialist then inputs

into the tracking software. Ms. Balukas stated that there is no an additional review of the information that is inputted into the software. BerryDunn's recommendation to the Authority is for the Authority to formalize the procedures for the set-up process related to new bonds on the internal bond tracking software.

The second recommendation within the policy and procedures review related to the ongoing monitoring. Currently the compliance specialist is tasked with collecting the data, reviewing the data that comes from the borrowers, following up on outstanding items, and keeping Mr. Morris, Managing Director of New Business, apprised of any outstanding compliance issues with borrowers. Mr. Morris also performs a periodic review of outstanding items and there is also a bi-monthly meeting to review any outstanding compliance issues with borrowers. BerryDunn's recommendation to the Authority is for a second person to review the source documents as a safeguard. A discussion ensued concerning the structure of the internal control tracking software and who has access to it.

Ms. Balukas reported that BerryDunn also reviewed a sample of 25 loans that were opened during the year. This included a review of the quarterly and annual compliance submissions, and the internal tracking system to ensure they agree with the bond document and that no steps are being missed. Ms. Balukas stated that the review done by BerryDunn also recalculated all the debt coverage service ratios, as well as the net asset ratios, back to the source documents. Through this review, BerryDunn also looked at the internal tracking spreadsheet that the compliance specialist maintains and data inputted into the bond software. One of the findings was that two of the 25 loans reviewed had one covenant that was not listed on the Excel spreadsheet for tracking but it was included in the bond software. Ms. Balukas stated there was an inconsistency between the Excel spreadsheet and the bond software, but the Bond software was up to date. Ms. Balukas noted that one of these loans took place during a time when Ms.

Johnson was transitioning into the compliance specialist role. When Ms. Johnson took over the role, she also performed an internal audit of everything she inherited. She made sure there were no discrepancies and performed a thorough review of the systems. Ms. Balukas also stated that the coverage ratio testing and other ratios that are required had no issues and no missing documentation. All 25 loans met the covenant agreements. BerryDunn recommended an additional review to address this issue and ensure that all documentation contained the same information.

Mr. LaPrade provided an overview of the Tax-Exempt Equipment Loan Program audit. He noted there was no formal process documented for the on-going monitoring of covenants. The compliance specialist did indicate that CHEFA is in the process of developing a formal review process to monitor covenants. Ms. Peoples stated that as of the date of this meeting, those procedures have been implemented.

Mr. LaPrade stated that the third area that was tested was the Travel and Expense Reimbursements Approval policies and processes. For this project 30 reports were reviewed and all reports were in compliance with the Authority's policies and procedures. BerryDunn recommended some minor additions the next time the Authority updates the policy.

Ms. Balukas then spoke about upcoming testing that would start on the next two functional areas: Payroll and Human Resources. BerryDunn will do an internal review for adding and terminating employees, transactional payroll testing, and the setup of personnel files.

Mr. Varholak requested a motion to accept the BerryDunn internal audit draft reports. Ms. Rubin moved to accept the draft reports and Mr. Angelini seconded the motion.

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

AYES

Mark Varholak
Michael Angelini
Peter Lisi
Christopher Martin
Barbara Rubin

NAYS

None

ABSTENTIONS

None

Mr. LaPrade indicated he will finalize the audit reports and submit them to Management.

APPROVAL OF INDEPENDENT AUDITING FIRM

Ms. Peoples reviewed the Request for Proposal process and recommended the Authority stay with the current auditors, CohnReznick. Ms. Peoples explained that the Authority's internal review committee met and after reviewing additional proposals, the recommendation is to continue with CohnReznick as the Authority's independent auditors based on their experience, their prior relationship with the Authority and the experience they have with community development entities, (CDEs). Ms. Peoples added that the Authority is very happy with CohnReznick's work.

Mr. Lisi inquired about the fee schedule for the three year period and if the auditor could come back and change the fees for the following year. Ms. Peoples stated that the fees that are in the proposal from CohnReznick are a maximum of what they can charge and they are actually less the previous years and she indicated that the fees did not include work for Community Development Corporation (CDC). The Authority did not include the CDC audit on the Request for Proposal (RFP) at that time.

Ms. Rubin asked why the fees for the CDC fees were not included in the proposals. Ms. Peoples stated that it was not included in the RFP because the Authority did not have enough information to provide to potential auditors for them to be able to give an accurate fee. Ms. Rubin was not comfortable with approving the auditors without the fee schedule for the audit work to be performed on the CDC. A discussion ensued.

Mr. Varholak recommended that this item be tabled until quotes were obtained from CohnReznick and Blum Shapiro with regards to the auditing fees for the CDC. Ms. Peoples will obtain the additional fees from the vendors and a special meeting of the Audit-Finance Committee would be scheduled prior to the March 27th Board meeting to decide on the independent auditing firm for the next three years.

Mr. Varholak requested a motion to adjourn the meeting. Mr. Angelini moved to adjourn. Ms. Rubin seconded the motion.

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

AYES

Mark Varholak
Michael Angelini
Peter Lisi
Christopher Martin
Barbara Rubin

NAYS

None

ABSTENTIONS

None

The meeting adjourned at 1:19 p.m.

Respectfully submitted,

Jeanette W. Weldon
Executive Director