

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Audit-Finance Committee Meeting Minutes
May 20, 2020

The Audit-Finance Committee of the State of Connecticut Health and Educational Facilities Authority held a telephonic meeting at 11:30 a.m. on Wednesday, May 20, 2020.¹

The telephonic meeting was called to order by Mr. Mark Varholak, Committee Chair, at 11:30 a.m. and, upon roll call, those present and absent were as follows:

PRESENT: Peter W. Lisi, Board Chair
Mark Varholak, Committee Chair
Michael Angelini
Lawrence Davis
Darrell V. Hill

OTHER CHEFA BOARD MEMBERS PRESENT: Susan Martin

ABSENT: Barbara Rubin

ALSO, PRESENT: Jeanette W. Weldon, Executive Director
Denise Aguilera, General Counsel
Robert Blake, Network and Data Architect
Debrah Galli, Manager of Administrative Services
Eileen MacDonald, Senior Transaction Specialist
JoAnne Mackewicz, Controller
Michael F. Morris, Managing Director
Cynthia D. Peoples-H, Managing Director
Kara Stuart, Administrative Services Assistant of the Connecticut Health and Educational Facilities Authority

GUESTS: Katherine Balukas, BerryDunn
Mark LaPrade, BerryDunn
Robert Smalley, BerryDunn

APPROVAL OF MINUTES

Mr. Varholak requested a motion to approve the minutes of the September 18, 2019 meeting of the Audit-Finance Committee. Mr. Lisi moved for approval of the minutes, which was seconded by Mr. Varholak.

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

AYES

Peter W. Lisi
Mark Varholak

NAYS

None

ABSTENTIONS

Michael Angelini²
Lawrence Davis³
Darrell V. Hill⁴

¹ All attendees participated in the meeting via conference telephone that permitted all parties to hear each other

² Mr. Angelini abstained from voting as he did not attend the September 18, 2019 meeting.

³ Mr. Davis abstained from voting as he was not a member of the committee on September 18, 2019.

⁴ Mr. Hill abstained from voting as he was not a member of the committee on September 18, 2019.

APPROVAL OF MINUTES

Mr. Varholak requested a motion to approve the minutes of the January 15, 2020 meeting of the Audit-Finance Committee. Mr. Angelini moved for approval of the minutes, which was seconded by Mr. Lisi.

Upon a voice vote, the “Ayes,” “Nays” and “Abstentions” were as follows:

AYES

Peter W. Lisi
Michael Angelini
Lawrence Davis

NAYS

None

ABSTENTIONS

Darrell V. Hill⁵
Mark Varholak⁶

INTERNAL AUDIT ENGAGEMENT REPORT – BerryDunn

Ms. Balukas reported on the work BerryDunn performed regarding the oversight of outside vendors for the Connecticut Student Loan Foundation (CSLF) loan programs. The BerryDunn team also gained an understanding of the third-party vendor used, which is Goal Structured Solutions, Inc.

The Scope of Services included:

- Review user agreements for outside vendors of the CSLF loan programs for identification of key terms and deliverables under the agreements.
- Review the System of Organization Controls (SOC) 1 Type 2 Reports performed on the applicable outside vendors, including the available SOC 1 reports for subservice organizations.
- Make recommendations, where necessary, for the improvements of controls, systems, policies and procedures.

Ms. Balukas reported that while CSLF obtains SOC 1 Type 2 reports for the applicable third-party service organizations, there is no formal process to evaluate these reports on an on-going basis or to review vendor contracts to verify compliance with the terms. It was also noted that CSLF does not consistently receive and document the review of SOC 1 reports for subservice vendors used by outside vendors.

Ms. Balukas recommended that CSLF create a formal vendor due diligence policy that includes on-going monitoring and evaluation of outside vendors. The policy should include:

- Reviewing each user agreement for key terms and deliverables under the agreement in order to track compliance with each user agreement.
- Determining if the service organization can provide a SOC 1 Type 2 report. This would also include identifying if there are any subservice organization identified in the reports that have been carved out from the primary service organization. If the subservice organization has been carved out, determine if the subservice organization can provide a SOC 1 Type 2 report.
- Reviewing and evaluating the SOC 1 Type 2 reports for the service and subservice organization to determine if there are any findings that could have a potential impact on CSLF’s internal controls over loan programs.
- Reviewing and evaluating the complementary user controls identified in the reports to determine if these are incorporated into CSLF’s existing internal controls.

⁵ Mr. Hill abstained from voting as he was not a member of the committee on January 15, 2020.

⁶ Mr. Varholak abstained from voting as he did not attend the January 15, 2020 meeting.

Ms. Balukas reported that based on the results of BerryDunn’s testing, CSLF’s internal controls over the oversight of outside vendors for the CSLF loan programs were rated as adequate. Mr. Lisi asked why the rating is adequate when the report is overall positive and could possibly be rated satisfactory. Mr. LaPrade stated the ratings are subjective and consistent with the methodology that has been used in past evaluations. Monitoring service controls annually is significant, and since this finding was rated as medium, it takes it out of the satisfactory rating. A brief discussion ensued.

Mr. Varholak requested a motion to approve the Internal Audit Engagement Report from BerryDunn. Mr. Angelini moved for approval of the Internal Audit Engagement Report from BerryDunn which was seconded by Mr. Lisi.

Upon a voice vote, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Peter W. Lisi	None	None
Michael Angelini		
Lawrence Davis		
Darrell V. Hill		
Mark Varholak		

INTERNAL AUDIT PROJECT SCHEDULE REVIEW - BerryDunn

Mr. Smalley of BerryDunn provided a brief overview of the internal audit projects performed to date. He then referred to page 23 of the Audit-Finance Committee meeting package outlining the ‘Upcoming Internal Audit Projects for FY 2021.’ Mr. Smalley stated projects will involve CHEFA, CHESLA, and CSLF. Mr. Smalley discussed the ‘Fiscal Year 20XX’ column, stating a follow-up on previous audit recommendations as well as an internal audit risk assessment would be appropriate upcoming projects. A discussion ensued.

Mr. Varholak asked how long the appointment of BerryDunn is for and if an RFP will be needed in the future. Ms. Peoples stated they are appointed for three years, FY 2018 through FY 2020, and an RFP could go out during FY 2021. A brief discussion ensued.

The BerryDunn Guests left the meeting at 12:00 p.m.

REVIEW AND APPROVAL OF THE FY 2021 PROPOSED OPERATING AND CAPITAL BUDGET

Ms. Peoples provided a summary of the FY 2021 proposed budget which included the following:

- Operating Revenues: \$7.687M
- Operating Expenses: \$3.993M
- Excess Revenues from Operations: \$3.693M
- Nonoperating Revenue/(Expenses): (\$3.165M)
- Change in Net Position: \$527,900

Ms. Peoples discussed the impact of the proposed COVID-19 crisis initiatives on FY 2020 revenues and FY 2021 cash flow. The FY 2020 projected actual revenues are reduced by the waived administrative fees of \$1.8 million resulting in a projected use of net position of \$630,050 for fiscal year end. FY 2021 cash flow impacts include: 1) deferred FY 2020 administrative fees billed in September 2020 anticipated to be received no later than October 31, 2020; 2) projected grant program funding distributed in two or three installments commencing the first quarter of FY

2021, and; 3) the proposed Revolving Loan Program funds disbursed the fourth quarter of FY 2020.

Ms. Peoples reported the FY 2021 proposed budget operating revenues includes two bond issues closing prior to FYE 2020 and six issues projected to close during FY 2021, resulting in \$135,000 additional fee revenues. Ms. Peoples indicated during FY 2020 nine bond issues were either paid off or refinanced away from CHEFA resulting in approximately \$150,000 decrease in revenues. For FY 2021 the total administrative fee revenues are budgeted at \$7.406M.

Mr. Lisi asked why nothing is budgeted for refinancing in FY 2021. Ms. Weldon stated since the Authority is essentially taking one set of bonds and replacing them with another set of bonds, there is no significant net impact on revenues. A brief discussion ensued.

Ms. Peoples discussed FY 2021 other operating revenues, which includes subsidiary support services and bond issuance fees budgeted at \$280,800, with FY 2021 total operating revenue at \$7.687M.

Ms. Peoples provided a general overview of expenses and then followed with a more in depth look at key budgeted areas that reflect the most impact on the FY 2021 budget.

In general, Ms. Peoples reported for the FY 2021 budget that:

- Salaries and benefits combined are 4.0% lower than FY 2020 budget and are comparable to the FY 2018 compensation budget; the increase over FY 2020 project actual is 3.3%
- General and Administrative expenses are 7.0% lower than FY 2020 budget and an increase of 21.4% over FY 2020 projected actual
- Contracted Services are budgeted to increase 24.9% over FY 2020 budget an increase in response to consultant recommendations and strategic initiatives

Ms. Peoples reported the compensation and benefit budget proposal of \$2.933 million for 18 employees was approved by the combined Human Resource and Audit-Finance committee at the April 2020 committee meeting. Compensation increases will take effect January 1, 2021 based on a not to exceed 2.2%, annualized, salary increase pool (over current salaries). Increases will not be retroactive to the start of the fiscal year. Additionally, Management maintains a discretionary one-time award pool of \$15,000 (no more than \$5,000 for any individual). Ms. Peoples stated the total employee benefits budget of \$730.5 thousand represents a 3.0% decrease from the FY 2020 budget and an 8.2% increase over the FY 2020 projected actual.

Ms. Peoples gave an overview of the general and administrative expenses and first noted an anticipated lower increase in business insurance than budgeted. Updated consultant estimates provided to Management indicate premium increases of approximately 3-5%.

Ms. Peoples stated the Authority recently increased its internet bandwidth from 20GB to 100GB, to accommodate increased cloud computing and business continuity efforts, which will result in an increase of \$12,000 in FY 2021. Legal expenses were increased by \$5,000 for services related to outside counsel. The budget for marketing costs was decreased significantly due to the strategic initiatives that were completed in FY 2020. Actual contracts for the strategic initiatives were less than half of the budgeted amount for FY 2020. Depreciation expense has been budgeted as an increase over FY 2020 projected based on capital project purchases still to be made in June of FY 2020 and those being budgeted for FY 2021.

Ms. Peoples discussed contracted services, which includes consultants and maintenance, that will have the most impact on the FY 2021 budget. The budget for the current accounting system consultant was decreased to reflect a lower number of hours anticipated for assistance with the new accounting system implementation. New consultant engagements were included to address network infrastructure recommendations from BerryDunn. The consultant budget also includes engaging with a human resource consultant to address 1) an update to the Authority performance evaluation process and implementation, and 2) communications training, which was an outcome of the staff satisfaction survey. Additionally, a consultant engagement for the website redevelopment strategic initiative has been carried forward to FY 2021 and was increased by \$7,000.

Maintenance contract increases reflect including full year subscriptions to SaaS (Software as a Service) platforms used by the Authority. Hardware maintenance contract increases are due to the addition of support contract renewals. Software maintenance increases reflect the addition of services for the Authority cloud backup for colocation (in lieu of hardware purchases) and infrastructure virtualization software/service license renewals.

Ms. Peoples provided an overview of nonoperating income/(expense) indicating a decrease in investment income budgeted for FY 2021 at 0.50%. The childcare program expense (3.0% childcare interest subsidy) was budgeted to increase in FY 2021 and grant programs were budget to remain flat at \$3 million.

Ms. Peoples detailed the proposed capital project budget which includes two firewall replacements, one for Hartford, CT and one for Cologix in NJ. The current firewall was purchased In FY 2013 and fully depreciated In FY 2018. The new firewalls will include intrusion detection. The expected implementation will be in Quarter 1 or 2 of FY 2021.

Mr. Varholak requested a motion to approve the FY 2021 Proposed Operating and Capital Budget. Mr. Lisi moved for approval of the FY 2021 Proposed Operating and Capital Budget which was seconded by Mr. Angelini.

Upon a voice vote, the “Ayes,” “Nays” and “Abstentions” were as follows:

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Peter W. Lisi	None	None
Michael Angelini		
Lawrence Davis		
Darrell V. Hill		
Mark Varholak		

REVIEW OF THE RFP TIMELINE FOR ARBITRAGE REBATE INTERNAL AUDIT ENGAGEMENT

Ms. Peoples gave an overview of the RFP timeline for the arbitrage rebate internal audit, stating that the engagement was separated from the BerryDunn engagement for a more in-depth review. The timeline included interviews and selection of the firm to conduct the audit by the Audit Finance Committee at a committee meeting to be added in July 2020 and the results of the internal review to be present to the committee in November of 2020.

Other Business

Ms. Peoples addressed the draft state audit the Authority received with a finding regarding the required quarterly Office of Fiscal Analysis reports and the lack of timeliness of the Authority

report submissions. It was stated that the legislation does not include a deadline for reporting. However, the Authority did not file the reports in a timely manner. The primary lag was a result of when the accounting for CSLF transitioned from a third-party provider to internal management. Ms. Peoples indicated these reports are now fully integrated with the regular financial reporting schedule so they are more readily available for quarterly submission. A discussion ensued.

ADJOURNMENT

There being no further business, at 12:33 p.m., Mr. Lisi moved to adjourn the meeting and Mr. Angelini seconded the motion.

Upon a voice vote, the "Ayes," "Nays" and "Abstentions" were as follows:

AYES

Peter W. Lisi
Michael Angelini
Lawrence Davis
Darrell V. Hill
Mark Varholak

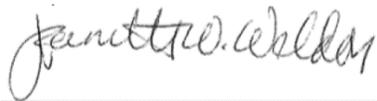
NAYS

None

ABSTENTIONS

None

Respectfully submitted,



Jeanette W. Weldon
Executive Director