

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Audit-Finance Committee Meeting  
Minutes

May 16, 2018

The Audit-Finance Committee of the Board of Directors of the State of Connecticut Health and Educational Facilities Authority met in session on Wednesday, May 16, 2018 at 12:30 p.m.

The Meeting was called to order by Dr. Peter Lisi, Board Chair at 12:30 p.m., and, upon roll call, those present and absent were as follows:

PRESENT: Michael Angelini  
John Biancamano  
Dr. Peter Lisi, Board Chair  
Christopher Martin (Designee for Denise Nappier)  
Barbara Rubin

BOARD MEMBERS

PRESENT: Robert Dakers<sup>1</sup> (Designee for Benjamin Barnes)  
Elizabeth Hammer  
Barbara Lindsay  
Dr. Estela Lopez

ABSENT: Mark Varholak

GUESTS: Robert Smalley, Senior Manager, BerryDunn

ALSO PRESENT: Jeanette W. Weldon, Executive Director  
JoAnne Mackewicz, Controller  
Michael F. Morris, Managing Director  
Kathy Owens, Administrative Assistant  
Cynthia Peoples, Managing Director  
Debra M. Pinney, Manager, Administrative Services of  
the Connecticut Health and Educational Facilities Authority

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<sup>1</sup> Mr. Dakers joined the meeting at 1:30 p.m.

**APPROVAL OF MINUTES – AUDIT-FINANCE COMMITTEE MEETING OF SEPTEMBER 13, 2017**

Dr. Lisi requested a motion to approve the above minutes. Mr. Biancamano moved to approve the minutes. Dr. Lisi seconded the motion.

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

**AYES**

John Biancamano  
Dr. Peter Lisi

**NAYS**

**ABSTENTIONS**

Michael Angelini<sup>2</sup>  
Christopher Martin<sup>3</sup>  
Barbara Rubin<sup>4</sup>

**ELECTION OF COMMITTEE CHAIR**

Ms. Weldon stated that it is a requirement of the Audit-Finance Committee Charter to vote in the person who is elected to chair the committee. Dr. Peter Lisi was voted in as Chair of the Audit-Finance Committee in order to chair the meeting for Mr. Mark Varholak in abstentia.

Mr. Biancamano moved to elect Dr. Lisi to chair this Audit-Finance Committee meeting. Ms. Rubin seconded the motion.

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

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<sup>2</sup> Mr. Angelini was not a member of the Audit-Finance Committee at the time of this meeting.

<sup>3</sup> Mr. Martin was not a member of the Audit-Finance Committee at the time of this meeting.

<sup>4</sup> Ms. Rubin was not a member of the Audit-Finance Committee at the time of this meeting.

**AYES**

**NAYS**

**ABSTENTIONS**

Dr. Peter Lisi  
Michael Angelini  
John Biancamano  
Christopher Martin  
Barbara Rubin

None

None

Dr. Lisi requested a motion to elect Mr. Mark Varholak as Chair of the Audit-Finance Committee Meeting. Ms. Rubin moved to elect Mr. Varholak. Mr. Biancamano seconded the motion.

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

**AYES**

**NAYS**

**ABSTENTIONS**

Dr. Peter Lisi  
Michael Angelini  
John Biancamano  
Christopher Martin  
Barbara Rubin

None

None

Dr. Lisi introduced Mr. Christopher Martin, designee from the State Treasurer’s Office who is now a member of the CHEFA Board of Directors and a new Audit-Finance Committee member. Mr. Martin is currently the new Assistant Treasurer for Debt Management for the State of Connecticut.

## REVIEW RISK ASSESSMENT UPDATE AND RECOMMENDED AUDIT PLANS

Ms. Peoples introduced Mr. Robert Smalley, Senior Manager of BerryDunn to present the Risk Assessment and Scheduling for the Internal Audit Plan.

Mr. Smalley provided an overview of the Risk Assessment Internal Audit projects report. He stated they were engaged by CHEFA to review the audit universe map that was created by CHEFA's previous internal auditor. Mr. Smalley said that they looked at it for completeness. Mr. Smalley said they were also engaged to perform a risk assessment in all of the auditable areas, and from that, build an internal audit schedule which would be done over the next three years.

Mr. Smalley said that he and his staff spent time with management and certain other individuals to discuss their roles at CHEFA, staff roles and to review CHEFA's policies and procedures, etc. that would allow the auditors to assess a general risk in each area.

Mr. Smalley stated they reviewed CHEFA's financial statements as well as those for CHESLA and CSLF. In addition, they reviewed CHEFA's Strategic Plan, not only the current plan, but also the new plan. Mr. Smalley stated that from all of the information gathered, they developed a risk assessment plan. He explained each area of the risk assessment plan, pointing out specific areas that they described as auditable areas, which is slightly different from what the audit

universe looks like. He stated that the audit universe was built on departments and functions and their report is built more on auditable areas that cover those functions.

Mr. Smalley pointed out they measured both inherent and control risks. He stated that the inherent risk of payroll is higher. He stated that when they are assessing risk in medium, high and low, it is based on inquiry. Mr. Smalley indicated they spent time inquiring about past procedures, as well as who is currently performing certain functions. He stated the control risk of payroll is currently high driven by the fact that there was a change of vendors. An actual test could result in a low risk once payroll is fully audited. The combined risk is that of the inherent risk and control risk of an area. He stated using the combined risk they reviewed best practices to create the audit cycles. Mr. Smalley referred to the suggested audit schedule in the report is for three years, 2019, 2020 and 2021. A discussion ensued.

Mr. Smalley stated that everyone they spoke to was transparent. Further discussion ensued.

Ms. Rubin asked who will be conducting the internal audits. Ms. Peoples stated that an RFP will be issued. Mr. Biancamano stated that normally in an RFP process, those who are proposing on the position should not design the RFP. Further discussion ensued.

Ms. Peoples stated the Committee should be able to conduct interviews and select the internal audit firm during the September Audit-Finance Committee meeting.

Ms. Peoples indicated that the State auditor is on premises now and may cover some of the auditable areas. The State auditor will be finishing up her report by the end of June. Mr. Biancamano indicated a desire to invite the State Auditor to meet with the Committee.

Dr. Lisi stated an interest in the Committee reviewing the scope of services for the RFP at the next meeting. The Committee agreed to have an additional meeting in June and invite the State Auditor.

#### **REVISED AUDIT-FINANCE COMMITTEE CHARTER**

Ms. Peoples highlighted the changes made to the Committee charter to exclude the internal auditor function that no longer exists at the Authority. Other changes were made regarding the minimum number of meetings each year and incorporating the oversight bullets from the mission to the responsibilities and duties section. A discussion ensued.

Mr. Biancamano remarked that the responsibility for examining monthly operating financial statements is more a board function and should not be part of the Audit-Finance Committee Charter. Ms. Peoples said she would remove this item from the Charter.

Ms. Rubin moved to approve the Revised Audit-Finance Committee Charter with the noted changes. Mr. Biancamano seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Michael Angelini John Biancamano Christopher Martin Barbara Rubin	None	None

### **REVIEW OF LEGAL FEE AND OPERATING RESERVES**

Ms. Peoples stated that periodically management reviews the legal and operating reserves for the Authority and distributed a copy of the proposed changes. Ms. Peoples stated that Ms. Aguilera recommends an increase to the Legal Fee Reserve, as \$1.5 million may not be adequate coverage for defense cost for legal fees the Authority might incur that is not currently covered under its policy. Ms. Aguilera recommended the Legal Fee Reserve be increased from \$1.5 million to \$2 million. A discussion ensued.

Ms. Weldon explained the proposed Operating Reserve allows for an average of ten months of coverage for expenses instead of the current eight months and the Contingency Reserve is excess revenues, not a set amount. Ms. Peoples added that the Authority would like the ability to cover 10 months or approximately 75% of the projected expenses. Mr. Biancamano stated a preference to have \$4 million in the Operating Reserve and less in the Legal Fee Reserve. Further discussion ensued. Ms. Rubin suggested leaving the Legal Fee Reserve at \$1.5 million

and increase the Operating Reserve to equal the average of the future year proposed operating expense budget and the current actual operating expenses. Mr. Biancamano suggested setting this as the Authority’s policy moving forward.

Ms. Rubin moved to change the current Operating Reserve policy to reflect the average of the two years, the current year operating expenses and projected future year operating expenses.

Dr. Lisi seconded the motion.

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

<u>AYES</u>	<u>NAYS</u>	<u>ABSTENTIONS</u>
Dr. Peter Lisi Michael Angelini John Biancamano Christopher Martin Barbara Rubin	None	None

**REVIEW OF THE FY 2019 PROPOSED OPERATING BUDGET**

Ms. Peoples indicated she would highlight the key variances in the FY 2019 proposed budget.

Ms. Peoples reported that at last month’s Human Resources meeting the presentation included a calculation error for the projected actual for compensation. The calculation has been updated in this presentation, resulting in a variance of less than \$100,000 from budget. The



proposed FY 2019 budget resulted in a net position of approximately \$1.028 million after the \$900,000 transfer to the State. She stated revenues are budgeted to include six new money bond transactions totaling approximately \$125 million and resulting in over \$75,000 of revenue for FY 2019 based on the timing of the closing of those bond issues.

Ms. Peoples reported that revenue from support services is budgeted just under \$290,000. She stated that last year management created memorandums of understanding between CHEFA, CHESLA and CSLF that dictates some of the costs and expense allocations. Each year we also review the number of hours anticipated of CHEFA staff for work for the subsidiaries.

Ms. Peoples reported that for compensation, the projected actual variance is due to a staff resignation in July and a new hire that started in November, amounts associated with payments for short term disability and the delay in one full week of pay after the change to paying in arrears as of January 1.

Ms. Peoples stated the notable increase in the lease and storage line is expense related to moving our off-site file storage from one facility to another. Iron Mountain is no longer a State approved vendor for the service. The new provider is William B. Meyer. The expenses associated with the process of retrieval, transfer and destruction, based on our retention policy, account for the increase in this line item.

Ms. Peoples stated the notable increase in office supplies and non-capital is related to the renewal and purchase of upgrades for Microsoft licenses for Office, SQL Server and Windows Server. A discussion ensued.

Mr. Biancamano proposed to increase the budgeted Grant Program in 2019 by \$500,000. This would create a level of funding consistent with prior year trends. A discussion ensued.

Ms. Peoples continued the review of the proposed operating budget, stating the increase in maintenance service contracts is associated with a DBC license that is approximately \$4,000. The virtual platform software increase is \$5,000 and there is an additional estimated contractual increase for colocation services of approximately \$4,000. A discussion ensued.

Ms. Peoples reported the marketing cost increases are due to the addition of a marketing strategy consultant to assist with a strategy and implementation of certain marketing concepts for reaching the Authority's current and future clients as well as legislators.

Ms. Peoples reported the increase for outside services reflects additional services for the current accounting systems consultant. The Human Resources consultant is for a compensation study for \$25,000, last performed in 2006, and the inclusions of placement agency costs for \$20,000. The strategic consultant is included for the purpose of performing an updated client survey, last performed approximately 6 years ago. The other consultant is related to the Authority's insurance consultant.

## REVIEW OF THE FY 2019 PROPOSED CAPITAL BUDGET

Ms. Peoples reviewed the colocation network infrastructure project as the second phase of the network infrastructure rebuild that was approved at the combined committee meeting last month. Since that meeting, an RFP was issued for both phases. The secondary site would not happen until next fiscal year within the first quarter, providing the opportunity to review the colocation structure and to reduce those costs if possible. Ms. Weldon stated that some of the options we would be looking at would include cloud-based options. A discussion ensued.

Ms. Peoples reviewed the website project included in the capital budget geared toward a strategic initiative to increase CHEFA's client web portal that may be more quickly designed and implemented externally.

Ms. Peoples addressed the phone system upgrades included in the budget reflecting an upgrade from version 8 to version 11 along with two hardware components that must be upgraded for compatibility.

Ms. Peoples highlighted the software projects including a request to purchase the license for an additional module of SS&C DBC called Project Finance. This license will assist with improving the ability to perform arbitrage and sizing for pooled financings.

Ms. Peoples discussed the cloud based software by Foundant requested for the grant program. The Grant Life Cycle Program software offered by Foundant will be customized for the Authority's grant process.

Ms. Peoples stated that the final item is a leasehold improvement to upgrade our door key pad entry system to that of the building key card access system, including adding the IT machine room doors not previously on the Authority's system. The building is upgrading their system, at which time we will be able to include these changes for our suite.

Mr. Biancamano requested management come back to update the committee regarding the colocation and accounting system projects, for informational purposes, before the contracts are signed. In addition, the committee would like to review the scope of services for the compensation and marketing RFPs before they are issued. A discussion ensued.

Ms. Rubin requested a motion to approve the FY 2019 Proposed Budgets to include an additional \$500,000 for the FY 2019 Grant Program. Mr. Biancamano seconded the motion.

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

**AYES**

**NAYS**

**ABSTENTIONS**

Dr. Peter Lisi  
Michael Angelini  
John Biancamano  
Christopher Martin  
Barbara Rubin

None

None

**ADJOURNMENT**

Dr. Lisi requested a motion to adjourn. Ms. Rubin moved to adjourn the meeting.

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

**AYES**

**NAYS**

**ABSTENTIONS**

Dr. Peter Lisi  
Michael Angelini  
John Biancamano  
Christopher Martin  
Barbara Rubin

None

None

The meeting adjourned at 2:02 p.m.

Respectfully submitted,

Dr. Peter Lisi, Acting Chair