

STATE OF CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Audit-Finance Committee Meeting

Minutes

September 13, 2017

The Audit-Finance Committee of the Board of Directors of the State of Connecticut Health and Educational Facilities Authority met in session on Wednesday, September 13, 2017 at 12:30 p.m.

The meeting was called to order by Mr. John Biancamano, Committee Chair, at 12:31 p.m. and, upon roll call, those present and absent were as follows:

PRESENT: John Biancamano, Chair  
Dr. Peter Lisi, Board Chair  
Mark Varholak

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

BOARD MEMBERS PRESENT: Robert Dakers (Rep. for Benjamin Barnes)\*  
Elizabeth Hammer\*

ALSO PRESENT: Jeanette W. Weldon, Executive Director  
Denise Aguilera, General Counsel  
Daniel Kurowski, Financial Analyst\*  
Carlee Levin, Sr. Accountant  
Eileen MacDonald, Sr. Transaction Specialist  
JoAnne Mackewicz, Controller  
Michael F. Morris, Managing Director  
Cynthia Peoples, Managing Director  
Debra M. Pinney, Manager, Administrative Services  
of the Connecticut Health and Educational Facilities Authority

GUESTS: Kristen Brown, Senior Manager, CohnReznick LLP  
Mark LaPrade, Principal, BerryDunn  
Kimberley Nardone, Partner, CohnReznick LLP  
Robert Smalley, Sr. Manager, BerryDunn

\*These individuals joined the meeting at 1:29 p.m.

**APPROVAL OF MINUTES**

Mr. Biancamano requested a motion to approve the minutes of the May 17, 2017 meeting of the Audit-Finance Committee. Dr. Lisi moved to approve the minutes and Mr. Varholak seconded the 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 Dr. Peter Lisi Mark Varholak	None	None

**PRESENTATION OF DRAFT BERRYDUNN REPORTS: CHEFA WIRE TRANSFER PROCESS; CHEFA CHILD CARE LOAN PROGRAMS AND CSLF BOND REDEMPTIONS**

Ms. Peoples introduced the auditing consultants from BerryDunn: Mr. Robert Smalley and Mr. Mark LaPrade.

**CHEFA Wire Transfer Process**

Mr. Smalley and Mr. LaPrade presented the draft audit review of the CHEFA Wire Transfer Process, CHEFA Child Care Loan Programs and CSLF Bond Redemptions. The auditing consultants reviewed the applicable policies and procedures related to wire transfers and indicated they tested a sample of 25 outgoing wire transfers for adherence to the Authority’s wire transfer policy, proper authorization of the wire transfer, applicable supporting documentation maintained for the wire transfers and timely and accurate transmission, which

also included posting to the Authority's records, reconciliations and account administration. The three risk ratings were defined.

For bank reconciliations, the auditing consultants rated it a medium risk because the bank account reconciliations were not prepared and reviewed on a timely basis. Their recommendation was to establish a policy requiring reconciliations to be prepared and reviewed on a monthly basis. Management was aware that the reconciliations were delayed in their formal completion and they expect that this will not be an ongoing concern and they agreed to implement the recommendation.

Based on the results of their testing, the Authority's internal controls over wire transfers were rated as adequate.

### **Child Care Loan Programs**

The auditing consultants reported they reviewed the applicable policies and procedures related to the three child care loan programs, reviewed controls over monitoring loan performance and tested a quarterly report to the State of Connecticut, Office of Early Childhood.

The loan program reporting was rated a low risk. The loan balance information was properly reported with the exception of the tax-exempt program, which had no loan balance information included. The auditing consultants recommended the Authority modify future reports to include the required information. Management noted that they had performed an adequate review of the quarterly report but that the review was not documented. Staff agreed to implement the recommendations by BerryDunn with the inclusion of tax-exempt loan balances and documented review of the quarterly reports provided to the Office of Early Childhood.

Based on the results of their testing, the Authority's internal controls over the administration of the Child Care Loan Programs were rated satisfactory.

### **Connecticut Student Loan Foundation (CSLF) Bond Redemptions**

The auditing consultants reported that they reviewed the policies and procedures related to bond redemptions and tested a selection of four bond redemptions for adherence to the Foundation's bond redemption policy, proper trustee notification, applicable supporting documentation maintained for the bond redemption and timely and accurate posting of the Foundation's records and reconciliation to the corresponding bank statements.

CSLF's bank reconciliations were rated as a low risk. They noted that the bank account reconciliations performed by an outside party were not reviewed by a second person. The auditing consultants recommended that the Foundation establish a policy requiring a timely documented review of all bank reconciliations either by the outside party or by someone at the Authority. The auditing consultants reported that during FY 2018, Ms. Weldon expects to transition CSLF accounting to the CHEFA accounting staff.

Based on the results of the testing, the Foundation's controls over bond redemptions were rated satisfactory by the auditing consultants.

## PRESENTATION OF FY 2017 DRAFT AUDITED FINANCIAL STATEMENTS

Ms. Peoples introduced Ms. Kristen Brown and Ms. Kimberley Nardone, independent auditors from CohnReznick.

Ms. Mackewicz provided a summary of the draft audit of the FY 2017 financial statements as of June 30, 2017. In the statement of net positions, the revenues were approximately \$7.9 million, as compared to \$7.8 million in the prior year, which was budgeted at approximately \$7.6 million. Ninety-five percent of the revenues were generated from the Authority's administrative fees which were assessed based on each institution. Seventeen bond issues were closed in fiscal year 2017 which totaled approximately \$1.4 billion, which was an increase of \$51 million over FY 2016. The average-sized bond issue was approximately \$52 million, which is a slight increase from 2016.

Ms. Mackewicz reported that 88% of this year's issues were from refunding issues and 12% were from new money issues. For operating expenses, the change was approximately \$44,000 from 2016 and under budget by approximately \$212,000. Some factors contributing to that were the merit increases that went into effect July 1, 2016 and the offset of the cost that the Authority did not have this year for the community hospital analysis that was completed. The vacation expense increased significantly over prior years due to the change in CHEFA's vacation policy and the hire of new employees that have accrued time. Total operating income remained level. Compared to 2016, it is approximately \$4.3 million. The change in net position for 2017, after grant funding, is approximately \$3.2 million, which is an increase of approximately \$1.1 million over last fiscal year, due to the decrease in grants that the Authority was allowed to award this year. Net position after mandated transfers to the State, which were \$3.5 million and \$875,000, was a negative \$1.2 million, compared to last year which was a negative \$1.4 million.

Ms. Mackewicz stated that year after year, the balance sheet remains consistent. Notable changes were in Board designated investments and State transfer reserves. Two hundred and twelve million dollars of the restricted investment institutions on the audit represents the construction funds on behalf of the institutions, which continues to decline and was approximately \$308 million last year. Total net position as of June 30, 2017 is approximately \$3.3 million.

Ms. Nardone reviewed the various reports issued in the audited financial statements.

Ms. Brown reviewed the notable items and stated that CohnReznick provided an unmodified opinion on the FY 2017 audited financial statements as of June 30, 2017, which is the best opinion that an organization can obtain. She pointed out that in the statement of net position, a new total column was added, which shows all three entities. There were not many changes this year pertaining to CHESLA and CSLF. Total assets decreased approximately \$6 million, which was basically due to a decrease in the amount of loans and the payoff of some debt on the liability side. For CSLF, total assets decreased approximately \$42 million due to a reduction of loans.

Ms. Brown reported that the equity for the three institutions were approximately the same as the prior year. She pointed out, related to CHEFA, is that as of this current time period, the auditors are not aware of any current State mandates to make payments in 2018, therefore, there is no restricted balance. Total operating revenues are similar to the prior year with the exception of CHESLA, because they had a large transfer from CSLF for the refinance program. Expenses were very similar to last year overall. Net income for CHESLA after net change in position is \$432,000 and \$588,000 for CSLF. A discussion ensued.

Ms. Brown explained the cash flow statements in Exhibit C and reviewed the investments. She reported that, overall, CHEFA had a net increase in cash. She pointed out that they added two schedules, Schedule 3 and 4, Combining Schedule of Net Position for CSLF, per management's request.

Ms. Nardone stated that in reviewing internal controls, reporting, as well as general compliance, there were no findings based on their testing. A discussion ensued.

Ms. Nardone reported that there was an increase in the capitalization policy to \$2,500. Other than that, no new policies were adopted. She stated that there were no significant audit adjustments and no uncorrected misstatements, along with no significant unusual transactions or disagreements with management. There were no consultations with other accountants other than the special work that was done on internal controls. She added that there were no difficulties in performing the audit and there was good communication between everyone involved. Management advised the auditors that they are not aware of any instances of fraud or illegal acts and no matters came to the auditors' attention during the audit. The auditors will be requesting that management sign a representation letter as part of the standard audit process.

Ms. Brown explained GASB 86 and 87 requirements which will change the presentation of the financial statements in the future.

**EXECUTIVE SESSION- MANAGEMENT’S PERFORMANCE IN CONNECTION WITH FY 2017 PRELIMINARY DRAFT AUDITED FINANCIAL STATEMENTS**

Mr. Biancamano requested a motion to go into Executive Session at 1:13 p.m. Dr. Lisi moved to go into executive session and Mr. Varholak seconded the motion. Everyone left the meeting room with the exception of the Board members and the CohnReznick auditors.

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 Dr. Peter Lisi Mark Varholak	None	None

The meeting reconvened at 1:29 p.m. Mr. Biancamano stated that no votes were taken during executive session.

Mr. Biancamano requested a motion to accept the BerryDunn reports on the CHEFA Wire Transfer Process; CHEFA Child Care Loan Programs and the CSLF Bond Redemptions. Dr. Lisi moved to accept the reports and Mr. Varholak seconded the 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 Dr. Peter Lisi Mark Varholak	None	None



Mr. Biancamano requested a motion to accept the Preliminary Draft Report from CohnReznick on the FY 2017 Audited Financial Statements as of June 30, 2017. Dr. Lisi moved to accept the report and Mr. Varholak seconded the 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 Dr. Peter Lisi Mark Varholak	None	None

**PROPOSED REVENUE AND PROGRAM RELATED EXPENSE BUDGET FOR THE TWELVE MONTHS ENDING JUNE 30, 2018**

Ms. Peoples reported on the proposed revenue and child care program related expense budget for the twelve months ending June 30, 2018. On the revenue side, staff budgeted an increase of 1.21% for CHEFA fees. There is a conservative increase in investment income for FY 2018. There is an increase in support services primarily due to accounting services in-house for CSLF for FY 2018. The total budget is approximately \$7.8 million for FY 2018.

On the Child Care program related expense side, there is a decrease in administrative costs. The total budget for Child Care Programs expense is approximately \$147,140.

Mr. Biancamano moved to approve the revenue budget and child care program budget for the twelve months ending June 30, 2018, with program related expenses to be addressed at a later date. Mr. Varholak seconded his motion.

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

**AYES**

John Biancamano  
 Dr. Peter Lisi  
 Mark Varholak

**NAYS**

None

**ABSTENTIONS**

None

**REVIEW OF INVESTMENT POLICY**

Ms. Peoples reviewed the recommended changes to the investment policy described in her cover memorandum.

Mr. Biancamano inquired if CHESLA and CSLF have their own investment policies. Ms. Weldon stated that CHESLA does not have a formal investment policy at this time, but she is looking at creating an investment policy. Mr. Biancamano inquired if CHESLA and CSLF's investment policy can be the same as CHEFA's. Ms. Weldon stated it could be the same for the CHESLA and CSLF for their operating accounts.

Mr. Biancamano requested a motion to approve the revisions to the Investment Policy and to also include CHESLA and CSLF in the investment policy for CHESLA and CSLF's operating accounts, Resolution #2017-16. Dr. Lisi moved to approve the revised investment policy and including CHESLA and CSLF in the investment policies for their operating accounts, Resolution #2017-16. Mr. Varholak seconded the motion.

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

**AYES**

John Biancamano  
Dr. Peter Lisi  
Mark Varholak

**NAYS**

None

**ABSTENTIONS**

None

**ADJOURNMENT**

There being no further business, Mr. Biancamano requested a motion to adjourn. Dr. Lisi moved to adjourn the meeting; Mr. Biancamano seconded the motion.

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

**AYES**

John Biancamano  
Dr. Peter Lisi  
Mark Varholak

**NAYS**

None

**ABSTENTIONS**

None

The meeting adjourned at 1:36 p.m.

Respectfully submitted,

John Biancamano, Chair