



MEETING OF THE AUDIT COMMITTEE

Board of Regents for Higher Education
Room 310
61 Woodland Street, Hartford, Connecticut
Tuesday, October 10, 2017 at 10:00 am

AGENDA

1. Approval of the Minutes of May 23, 2017
2. Compliance Programs (Erika Steiner/Ernestine Weaver)

Introduction of Melissa Schwalbach

3. New Audit Closing Calendar Status (Chris Forster)
4. CSCU 2020 Audit Report by Blum Shapiro - **Committee Vote required to Accept the Audit Report**

Fred Hughes
Virendra Shah

5. Interim Report by Grant Thornton (Claire Esten)

Claire Esten, Partner
Brittany Kelley, Senior Manager
Justin Morrow, Manager

6. Accounting/Reporting of Bond Premiums (Claire Esten)
7. Executive Session (if required)
8. Adjournment

**MEETING OF THE
AUDIT COMMITTEE**
Connecticut State Colleges and Universities
Board of Regents for Higher Education
61 Woodland Street
Hartford, CT
Tuesday, May 23, 2017, at 10:00 a.m.

Minutes

REGENTS PRESENT (TELEPHONIC)

Elease Wright, Chair
William McGurk
Aviva Budd

REGENTS ABSENT

JoAnn Price

BOR/CONNSCU STAFF PRESENT

Erika Steiner, Chief Financial Officer; Karen Stone, Director of Internal Audit; Chris Forster, Controller; Michael Moriarty, CFO Charter Oak; Ernestine Weaver, Counsel; Erin Fitzgerald, Associate for Board Affairs; Louisa Despins, Administrative Assistant for Finance

With a quorum present, Chair Wright called the meeting to order at 10:04 a.m.

1. Approval of the Minutes of December 9, 2016 and December 23, 2016 meetings

Motion by Chair Wright, seconded by Regent McGurk, to approve the Minutes of December 9, 2016 and December 12, 2016 meetings. Motion carried.

2. Welcome to new Regent Aviva Budd

Everyone present at the meeting introduced themselves stating their position title and a brief overview of the job responsibilities. CFO Steiner gave an overview of the Audit Committee Charter as well as the description of various audits conducted.

3. Status of Enterprise Risk Management

CFO Steiner gave an update on ERM (attachment A). She pointed out that one of the changes is that ERM will not be requiring significant up-front commitment and periodic follow up. Risk categories were updated to reflect some additional ones. Working groups have been formed at

each institution to assess risks. Part of the ERM plan is to brief Presidents on ERM plan. CFO Steiner said that along with the System Office she has held kick off meetings at 13 of the institutions. The remaining 4 are scheduled within the next couple of weeks.

4. Status of Year-End Audit Process Improvement Plan

Chris Forster gave an overview of the Year-End Audit Process Improvement Plan. It's important to look internally at key milestones and to identify what needs to be done to meet the deadlines. He stated that more revisions were done to the timeline. Important deadlines and milestones are highlighted in red (Attachment B). Michael Moriarty is assisting in tracking projects that are not being completed on time and the system is working closely with APA to keep people accountable for completion of those projects.

5. Year-End Audit Plan and Industry Update

Claire Esten stated that "Students First" is a big initiative in the System. She added that nothing major will be reflected in this year's financial statements. In October Grant Thornton will touch base on where the System is and have a report on IT part as well. In December Grant Thornton will have a formal presentation. Claire Esten said that during the Audit Committee Meeting Grant Thornton would like to get the Audit Committee Member's perspective on awareness of fraud and whistleblower tips or complaints. Claire Esten added that it was a very quiet year on the accounting side. Claire Esten gave a brief overview of IT procedures (Attachment C).

6. APA Audits since last meeting

Director Stone explained APA Audits issued in FY 2015, 2016, and 2017 (Attachment D).

7. Internal Audit Update and FY2018 Plan Approval

Director Stone stated that four auditors audit 17 institutions and the System Office, then they evaluate and make recommendations to improve the effectiveness of risk management by providing analyses. Director Stone gave an update on high risk comment themes by institution. A lot of themes are the same. As of May 9, 2017 out of 124 reviewed, 13 were new, 85 had a revised date, 26 were closed and 98 were still open. Director Stone pointed out that due to consolidation throughout the System, with CFO's Steiner's agreement it was determined to have reports prepared twice a year instead of four times.

Director Stone gave a brief overview of FY2018 Audit Plan. There were 150 hours added to it. In order to be in compliance with new 2017 Financial Aid Policy, 50 hours will be added to each community college. 2018 IT projects are being worked on. The rest of the items are to be followed up (Attachment E).

Motion by Chair Wright, seconded by Regent McGurk, to approve FY2018 Audit Plan. Motion carried.

8. Executive Session

*Motion by Chair Wright, seconded by Regent McGurk, to go into Executive session at 11:42 a.m.
Motion carried.*

CFO Steiner and Counsel Weaver joined the Executive Session.

9. Adjournment

With no other business to discuss, the meeting was adjourned at 12:23 PM on a motion by Chair Wright, seconded by Regent McGurk.

CONNECTICUT STATE COLLEGES AND UNIVERSITIES SYSTEM

SCHEDULE OF CSCU 2020 CONSTRUCTION EXPENDITURES - CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2017

DRAFT
FOR DISCUSSION PURPOSES ONLY

CONNECTICUT STATE COLLEGES AND UNIVERSITIES SYSTEM

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DRAFT
FOR DISCUSSION PURPOSES ONLY

Independent Auditors' Report

To the Board of Regents and Audit Committee
Connecticut State Colleges and Universities System
Hartford, Connecticut

We have audited the expenditures paid during the year ended June 30, 2017 as reported in the accompanying schedule of CSCU 2020 construction expenditures - cash basis (the Schedule) of the Connecticut State Colleges and Universities System, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in conformity with the cash basis of accounting; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the construction expenditures related to identified CSCU 2020 projects of the System that were paid during the year ended June 30, 2017 in conformity with the cash basis of accounting.

Emphasis of Matter

We have not audited the expenditures paid during the period from July 1, 2008 through June 30, 2013 or the adjusted expenditures paid through June 30, 2013, and, accordingly, we express no opinion or other assurance with respect to these amounts. Annual expenditures for prior years through June 30, 2013 were previously audited by other auditors. Our opinion on cash paid for the year ended June 30, 2017 is not modified with respect to this item.

Restriction on Use

This report is intended solely for the information and use of the Board of Regents, the Audit Committee and management of the Connecticut State Colleges and Universities System and is not intended to be and should not be used by anyone other than these specified parties.

West Hartford, Connecticut
Month XX, 2017

DRAFT
FOR DISCUSSION PURPOSES ONLY

CONNECTICUT STATE COLLEGES AND UNIVERSITIES SYSTEM

SCHEDULE OF CSCU 2020 CONSTRUCTION EXPENDITURES - CASH BASIS FOR THE YEAR ENDED JUNE 30, 2017

	Approved Budget as of June 30, 2017	Expenditures Paid in the Year Ended June 30, 2017	Recommended Adjustments	Adjusted Expenditures Paid in the Year Ended June 30, 2017	Expenditures Paid During the Period From July 1, 2008 Through June 30, 2016	Total Adjusted Expenditures Through June 30, 2017
Eastern Connecticut State University						
Code Compliance/Infrastructure Improvements	\$ 16,076,863	\$ 1,413,526	\$ -	\$ 1,413,526	\$ 13,557,710	\$ 14,971,236
Fine Arts Instructional Center (design and construction)	87,666,885	2,427,381	-	2,427,381	78,067,429	80,494,810
Athletic Support Building	1,921,000	-	-	-	1,918,873	1,918,873
Goddard Hall Renovations	31,348,997	1,059,726	-	1,059,726	192,583	1,252,309
Outdoor Track - Phase II	1,816,000	5,876	-	5,876	1,631,772	1,637,648
New Warehouse	2,269,000	3,035	-	3,035	1,856,972	1,860,007
Western Connecticut State University						
Fine Arts Instructional Center	84,321,000	10,735	-	10,735	83,142,876	83,153,611
White Hall Renovations	4,792,203	-	-	-	-	-
Higgins Hall Renovations	34,544,406	881,991	-	881,991	66,816	948,807
Code Compliance/Infrastructure Improvements	17,390,653	1,618,474	-	1,618,474	11,378,998	12,997,472
University Police Department Building (design and construction)	6,443,226	3,082,554	-	3,082,554	395,899	3,478,453
Central Connecticut State University						
Code Compliance/Infrastructure Improvements	26,652,510	2,804,800	-	2,804,800	20,073,008	22,877,808
New Classroom Office Building	29,478,000	-	-	-	29,109,582	29,109,582
New Engineering Building	9,900,000	887,146	-	887,146	69,702	956,848
New Maintenance/Salt Shed Facility	2,503,000	-	-	-	2,233,317	2,233,317
Renovate/Expand Willard and DiLoreto Halls	61,016,846	4,291,521	-	4,291,521	2,670,615	6,962,136
Kaiser Hall Bubble Renovations	25,367,125	1,028,897	-	1,028,897	435,240	1,464,137
Barnard Hall Additions and Renovations	3,680,000	423,412	-	423,412	82,524	505,936
Buritt Hall Additions and Renovations	5,155,839	-	-	-	-	-
Southern Connecticut State University						
Code Compliance/Infrastructure Improvements	28,887,382	1,928,796	-	1,928,796	23,472,958	25,401,754
New Laboratory Building/Parking Garage	72,108,159	1,593,722	-	1,593,722	67,656,791	69,250,513
Buley Library	17,436,817	-	-	-	17,436,816	17,436,816
Health and Human Services Building	6,650,613	53,686	-	53,686	47,383	101,069
School of Business	3,766,237	-	-	-	-	-
Ashnuntuck Community College						
Advanced Manufacturing	25,476,500	13,225,484	-	13,225,484	2,380,449	15,605,933
Various Community Colleges						
Code Compliance/Infrastructure Improvements	34,995,267	7,172,127	-	7,172,127	8,748,873	15,921,000
Connecticut State Colleges and Universities						
New and Replacement Equipment Program, Smart Classroom & Technology Upgrades	76,239,293	19,497,726	-	19,497,726	52,986,510	72,484,236
Land and Property	8,248,190	-	-	-	3,654,943	3,654,943
Telecommunications Infrastructure Upgrade	15,413,000	1,317,465	-	1,317,465	12,356,962	13,674,427
Consolidation & Upgrades of System Student Financial Information Technology Systems	20,000,000	3,096,088	-	3,096,088	11,931,580	15,027,668
Strategic Master Plan of Academic Programs	3,000,000	1,259,461	-	1,259,461	1,332,442	2,591,903
Professional fees	272,567	75,500	-	75,500	83,390	158,890
Alterations/Improvements: Auxiliary Service Facilities	43,662,422	5,187,034	-	5,187,034	17,860,761	23,047,795
	\$ 808,500,000	\$ 74,346,163	\$ -	\$ 74,346,163	\$ 466,833,774	\$ 541,179,937

CONNECTICUT STATE COLLEGES AND UNIVERSITIES SYSTEM

NOTES TO SCHEDULE OF CSCU 2020 CONSTRUCTION EXPENDITURES - CASH BASIS

NOTE 1 - PRESENTATION

The Connecticut State Colleges and Universities System (the System) is a comprehensive institution of higher education and is a major enterprise fund of the State of Connecticut. The Connecticut State University System Infrastructure Act authorized the issuance of up to \$950,000,000 in general obligation bonds over a ten-year period beginning in the year ended June 30, 2009. Effective July 1, 2014, The Connecticut State University Infrastructure Act (CSUS 2020) was repealed and renamed as The Board of Regents for Higher Education Infrastructure Act (CSCU 2020). The act was amended to include the regional community-technical colleges and Charter Oak State College and authorized additional issuance of general obligation bonds in the amount of \$80,000,000 during the year ended June 30, 2015 and \$23,500,000 during the year ended June 30, 2016. The proceeds from the bonds fund capital improvements for all four universities (Eastern Connecticut State University, Central Connecticut State University, Western Connecticut State University and Southern Connecticut State University), regional community-technical colleges and Charter Oak State College along with improvements made to the Central Office of the System.

The Schedule has been prepared by System management to comply with Connecticut General Statutes Section 10a-91h requiring independent auditors to annually conduct an audit of any project of CSCU 2020 as defined in subdivision (4) of Section 10a-91c. The purpose of the legislation is to provide assurance that invoices, expenditures, cost allocations and other appropriate documentation reconcile to project costs and are in conformance with project budgets, cost allocations agreements and applicable contracts. The audit is required to be submitted to the Governor and the General Assembly in accordance with Section 11-4a.

The System has prepared the schedule of CSCU 2020 construction expenditures (the Schedule) on the cash basis of accounting rather than under the accrual basis method in accordance with accounting principles generally accepted in the United States of America. As such, expenditures are recognized when cash is disbursed rather than when the related obligation is incurred.

The Schedule does not include expenditures paid for or incurred by the Department of Public Safety (DPS). DPS directly pays for the costs associated with Building Code and Fire Code inspections of threshold buildings. Threshold buildings are defined by Connecticut State Statute §29-276b as, "(1) having four stories, (2) sixty feet in height, (3) with a clear span of one hundred fifty feet in width, (4) containing one hundred fifty thousand square feet of total gross floor area, or (5) with an occupancy of one thousand persons." The System provides funding through its operating funds for the necessary costs of the DPS for the inspection of nonthreshold buildings that are part of CSCU 2020. Because these expenditures paid by DPS are not paid with CSCU 2020 bond funds, the expenditures are not included in the Schedule.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

Management uses estimates and assumptions in preparing the Schedule in accordance with the cash basis of accounting. Those estimates and assumptions affect the reported amounts of project costs and disclosure of contingent project costs. Actual results could vary from the estimates used.

Approved Budget

The approved budget amounts are the revised budgeted amounts for the entire contract approved by the Department of Construction Services (DCS) on CSCU 2020 projects. The breakdown by category is provided by System management and approved by the DCS.

CONNECTICUT STATE COLLEGES AND UNIVERSITIES SYSTEM

NOTES TO SCHEDULE OF CSCU 2020 CONSTRUCTION EXPENDITURES - CASH BASIS

Expenditures Paid in the Year Ended June 30, 2017

Expenditures paid in the year ended June 30, 2017 represent expenditures that were paid on CSCU 2020 projects during the fiscal year ended June 30, 2017.

Recommended Adjustments

Recommended adjustments represent the net value of costs reviewed that either lacked sufficient supporting documentation or represented errors.

Adjusted Expenditures Paid in the Year Ended June 30, 2017

Adjusted expenditures paid in the year ended June 30, 2017 include expenditures that were paid on CSCU 2020 projects during the fiscal year ended June 30, 2017 plus (or minus) the recommended adjustments.

Expenditures Paid During the Period from July 1, 2008 Through June 30, 2016

Expenditures paid during the period from July 1, 2008 through June 30, 2016 represent expenditures that were paid on CSCU 2020 projects from inception of the projects through June 30, 2016.

Total Adjusted Expenditures Through June 30, 2017

Total expenditures through June 30, 2017 represent expenditures that were paid on CSCU 2020 projects from the inception of the project through June 30, 2017.

Subsequent Events

In preparing the Schedule, management has evaluated subsequent events through **Month XX, 2017**, which represents the date the Schedule was available to be issued.

NOTE 3 - CONSTRUCTION EXPENDITURES

Construction expenditures include all general contractor and subcontractor costs, and certain indirect costs related to project performance that can be attributed to specific projects. Indirect costs not specifically allocable to contracts and general and administrative costs are not included in construction expenditures.

RESOLUTION

concerning

ACCEPTANCE OF CSCU 2020 AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2017

October 19, 2017

WHEREAS, A draft of the Schedule of CSCU 2020 Construction Expenditures – Cash Basis audit report for the year ended June 30, 2017 was provided and reviewed by the Audit Committee of the Board of Regents at its October 11, 2017 meeting, and

WHEREAS, The audit report includes a clean opinion by the audit firm of Blum Shapiro covering the CSCU 2020 capital projects paid during the year ended June 30, 2017, be it therefore

RESOLVED, That the CSCU 2020 Construction Expenditures – Cash Basis audit report is hereby accepted by the Board of Regents.

A True Copy:

Erin A. Fitzgerald, Secretary

2017 Audit status update to the Audit Committee of the **Connecticut State Colleges and Universities**

October 10, 2017



Status Update - CSUS

1. Central

- On campus audit fieldwork September 21st through September 29th
- On track in all audit areas
- No audit adjustments to date

2. Eastern

- On campus audit fieldwork September 21st through September 29th
- On track in all audit areas
- No audit adjustments to date

3. Southern

- On campus audit fieldwork September 11th through September 20th
- On track in all audit areas
- No audit adjustments to date

4. Western

- On campus audit fieldwork September 11th through September 20th
- On track in all audit areas
- Two audit adjustments noted to date:
 - Removal of deferred revenue and AR for students who have been billed but have not paid
 - Reclassification student insurance revenue from Tuition and Fee to Auxiliary revenues

5. System Office

- Fieldwork scheduled to begin on October 9th

Status Update – CCC and Charter Oak

1. CCC

- On campus audit fieldwork began September 18th
- On track in all audit areas
- No audit adjustments to date

2. Charter Oak

- On campus audit fieldwork began October 2nd
- No audit adjustments to date

Status Update – IT Audit

1. University System Office and CCC (Banner)

- Testing of System Office and CCC instances of Banner is complete and currently going through the review process
- Any findings will be communicated to management later this month

2. Eastern University (Banner)

- Testing is currently in process. The IT audit team is following up on open items at Eastern

3. Charter Oak State College (Jenzabar)

- Testing of Charter Oak system (Jenzabar) is complete and currently going through the review process
- Any findings will be communicated to management later this month

Accounting for Bond Transactions

When public bonds are sold at an interest rate higher than the stated rate, a **premium** on the bond issuance must be reflected, as follows:

Receive cash from proceeds of bond issuance (\$1,000,000)

Record liability for obligation to repay bonds (\$800,000)

Difference is a premium (\$200,000)

Total Bonds Payable= \$1,000,000 (\$800,000 liability and \$200,000 premium)

The premium is presented in the financial statements as an increase to the liability, and is considered similar to a deferred revenue, amortized over the life of the bond, offset against interest expense associated with the bond.

When public bonds are sold at an interest rate lower than the stated rate, a **discount** on the bond issuance must be reflected, as follows:

Receive cash from proceeds of bond issuance (\$800,000)

Record liability for obligation to repay bonds (\$900,000)

Difference is a discount (\$100,000)

Total Bonds Payable= \$800,000 (\$900,000 liability and \$100,000 discount)

The discount is presented in the financial statements as a decrease to the liability, and is considered similar to a prepaid expense, amortized over the life of the bond, increasing interest expense associated with the bond.

Bonds Payable- gross	\$1,900,000
Premium on Bonds	200,000
Discount on Bonds	<u>(\$100,000)</u>
Bonds Payable, net	<u>\$1,800,000</u>

This communication is intended solely for the information and use of management and the Board of Trustees of the Connecticut State Colleges and Universities and is not intended to be and should not be used by anyone other than these specified parties.



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