

**SPECIAL MEETING OF THE  
AUDIT COMMITTEE  
VIA TELECONFERENCE**

Connecticut State Colleges and Universities  
Board of Regents for Higher Education  
39 Woodland Street  
Hartford, Connecticut  
Tuesday, May 3, 2016, at 11:00 a.m.

Minutes

**REGENTS PRESENT (TELEPHONIC)**

Elease Wright, Chair  
Gordon Plouffe  
William McGurk  
JoAnn Price

**BOR/CONNSCU STAFF PRESENT**

Erika Steiner, Chief Financial Officer; Sandra Bispham-Haywood, Director of Contracts, Procurement & Purchasing; Karen Stone, Director of Internal Audit; Ernestine Weaver, Counsel; Louisa Despina, Administrative Assistant for Finance

*With a quorum present, Chair Wright called the meeting to order at 11:00 a.m.*

1. Approval of the appointment of independent, external auditors.

CFO Steiner explained that the Audit Committee, including one abstention, voted to appoint PwC as a recommended firm for audit services for CSCU on January 15, 2016. In March of 2016 PwC advised that their firm was including a new term that would require binding arbitration in the event of a dispute. CSCU contract team and legal team worked with the Attorney General on the new term of the contract and by late April it was clear that no reasonable compromise could be reached. Per prior agreement PwC was supposed to provide a one-year bridge which would allow CSCU get through the current year audit. PwC's risk management team refused to provide that bridge contract. CFO Steiner stated that at the end of April CSCU began dialogue with Grant Thornton to determine if they could accept CSCU's contract terms and be ready to conduct the audit for fiscal year ending June 30, 2016. Grant Thornton agreed to contract terms and was eager to begin work immediately. CFO Steiner provided the Board with the Selection of Audit Firms Briefing (attached).

Chair Wright expressed her disappointment towards unprofessional work relationship provided by PwC. She believed it would be necessary to file a formal complaint with the senior leadership of PwC. Regent McGurk agreed with Chair Wright.

*Motion by Regent McGurk, seconded by Regent Plouffe, to approve the appointment of Grant Thornton as CSU's independent, external auditors for the Fiscal Years 2016 through 2018. Motion carried unanimously.*

## 2. Adjournment

*With no other business to discuss, the meeting was adjourned at 11:27 a.m. on a motion by Regent McGurk, seconded by Regent Plouffe.*

**Audit Committee Briefing****Selection of Audit Firms****May 3, 2016****Sequence of Events**

- CSCU went out with an RFP for audit services on July 1, 2015.
- A search committee was formed to evaluate the responses and recommend a firm for Audit Committee approval; the RFP responses were due on August 13, 2015
  - Committee included CSCU CFO and Controller, COSC Finance head, CCSU Accounting Manager
- We had 8 firms respond including our incumbent PwC
  - Evaluated based on following criteria:
    - ✓ Ability to provide the specific auditing services requested in the RFP
    - ✓ Experience with the requirements of state government auditing and accounting requirements including GASB and GAAP
    - ✓ Experience with the finance-based computer systems relevant to higher education
    - ✓ Experience in higher education, especially in public higher education and multi-campus systems
    - ✓ Staff and resources available to meet timeframes contained in the RFP
    - ✓ Completeness of response
    - ✓ Cost
    - ✓ References
- Based on our evaluation we had essentially a tie for first choice to recommend: PwC and Grant Thornton.
  - We had a distant third selection (the firm of Clifton, Larson, Allen) however the committee felt that they were too small to handle this size of an audit.
  - PwC was the only of the top four firms to bid; we had three second tier firms and the rest were smaller/regional firms.
  - Close in all aspects except (1) cost, and (2) ease of process for our staff.
  - PwC agreed to split the difference between them and Grant Thornton, and we felt that a small premium was warranted since PwC would be easier for our staff.
  - PwC had been our auditors for over 20 years.
- The Audit Committee, including one abstention, voted to approve management's recommendation on January 15, 2016.
- We began working with PwC immediately to finalize a contract.
- On March 10, 2016 PwC advised that there was a new term their firm was including in all client contracts: the term would require binding arbitration in the event of a dispute.
- Our contract team and legal team began to work with our Attorney General's (AGs) office to discuss the binding arbitration.
  - The state of CT is a sovereign state and therefore by law we retain the right to both (1) allow a party to sue the state, by the state, and (2) to litigate in a court of law. To do anything different

would require an act of the General Assembly (GA) and a change of state statute. The likelihood of the GA giving up a right deemed to be preferential to the state and/or change of state statute is remote.

- The teams went back and forth between the AG and PwC's attorneys and risk management personnel.
- By late April it was clear that we could not find a reasonable compromise.
- Until then we had agreed with PwC that they would at a minimum provide a one-year bridge with terms our AG would approve. This would allow us to get through the current year audit, which was already scheduled to begin.
- On April 27 we were advised that PwC's risk management team refused to provide a one-year bridge contract.
- On April 28 we began a dialog with Grant Thornton to determine if (1) they could accept our contract terms, and (2) if they could gear up staff quickly enough to conduct our audit for the fiscal year ended June 30, 2016.
- It appears that we will be able to agree on contract terms; our Contract Director and Legal Counsel have been working with their team and we are fundamentally in agreement.
- They have staff who could come on board immediately to begin interim work, and they are eager to do so.

### **Conclusion**

As we were unable to successfully contract with PwC to conduct our audit for the current and next two fiscal years, we request that the Audit Committee approve the appointment of Grant Thornton as our independent, outside auditors at the fee originally proposed by that firm. Total fees for FY16, FY17 and FY18 would be \$513,000, \$530,000, and \$545,000 respectively.