

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2015
AND
CONNECTICUT STUDENT LOAN FOUNDATION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014 AND JUNE 30, 2015*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

Table Of Contents

| | |
|--|----|
| INTRODUCTION | 1 |
| COMMENTS | 3 |
| FOREWORD | 3 |
| Connecticut Health and Educational Facilities Authority | 3 |
| Connecticut Higher Education Supplemental Loan Authority | 3 |
| Connecticut Student Loan Foundation | 4 |
| BOARDS OF DIRECTORS AND ADMINISTRATIVE OFFICIALS | 4 |
| CHEFA Board of Directors | 4 |
| CHESLA Board of Directors | 5 |
| CSLF Board of Directors | 6 |
| Administrative Officials | 6 |
| SIGNIFICANT STATE LEGISLATION | 6 |
| AUTHORITY PROGRAMS | 7 |
| CHEFA Programs | 7 |
| CHESLA Programs | 8 |
| CSLF Programs | 8 |
| RÉSUMÉ OF OPERATIONS | 9 |
| Changes in CHESLA Bonds Payable | 12 |
| CHEFA Bonds Issued | 13 |
| Reserve Funds | 13 |
| CSLF Loan Portfolio | 14 |
| Staffing Levels | 15 |
| Other Examinations | 15 |
| STATE AUDITORS' FINDINGS AND RECOMMENDATIONS | 16 |
| Short-Term Disability Leave | 16 |
| Grants | 17 |
| RECOMMENDATIONS | 18 |
| CONCLUSION | 19 |

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AUDITORS OF PUBLIC ACCOUNTS

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

JOHN C. GERAGOSIAN

ROBERT J. KANE

October 11, 2017

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AND
CONNECTICUT STUDENT LOAN FOUNDATION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014 AND JUNE 30, 2015

We have audited certain operations of the Connecticut Health and Educational Facilities Authority (CHEFA), Connecticut Higher Education Supplemental Loan Authority (CHESLA), and Connecticut Student Loan Foundation (CSLF) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2014 and 2015 for CHEFA and CHESLA, and September 30, 2014 and June 30, 2015 for CSLF.

Throughout this audit report, CHEFA, CHESLA and CSLF are referred to as the authority on a consolidated basis.

The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authorities or promulgated by other state agencies, as well as certain legal provisions, including but not limited to whether the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority and Connecticut Student Loan Foundation have complied with regulations concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants, and other financial assistance, as applicable; and

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various authority personnel, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying *Résumé of Operations* is presented for informational purposes. This information was obtained from authority management and was not subjected to the procedures applied in our audit of the authority.

For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents the findings arising from our audit of the Connecticut Health and Educational Facilities Authority (CHEFA), Connecticut Higher Education Supplemental Loan Authority (CHESLA) and Connecticut Student Loan Foundation (CSLF). Effective July 1, 2014, the Connecticut Student Loan Foundation was statutorily consolidated as a subsidiary of the Connecticut Health and Educational Facilities Authority and became a quasi-public agency of the State of Connecticut.

COMMENTS

FOREWORD

Connecticut Health and Educational Facilities Authority

Pursuant to Chapter 12 of the General Statutes, CHEFA is classified as a quasi-public agency that operates primarily under the provisions of Chapter 187, Sections 10a-176 through 10a-198 of the General Statutes. Pursuant to Section 10a-179, CHEFA is constituted as a public instrumentality and political subdivision of the state. As a quasi-public agency, CHEFA's financial information is included as a component unit in the State of Connecticut's Comprehensive Annual Financial Report.

CHEFA was established to assist certain healthcare, higher education, and qualified not-for-profit institutions in the financing and refinancing of projects undertaken in relation to programs of such institutions.

CHEFA generates revenue from fees on its portfolio of bonds, as well as investment income, which is used to pay operating expenses. As a result, CHEFA operations do not rely upon any state appropriation either from the General Fund or bond funds. CHEFA is empowered to issue its own bonds, bond anticipation notes, and any other obligations for any of its corporate purposes and to fund and refund the same. Interest on bonds issued by CHEFA is generally exempt from federal income tax to the bondholder. CHEFA's outstanding bond portfolio consists of special obligation bonds for which payments of principal and interest are the responsibility of the institutions and are not a debt of CHEFA or the State of Connecticut. The state is obligated for replenishment of debt service reserve funds for loans or bonds issued under the Child Care Facilities Loan Program. The state's contingent liability is described further under the Resume of Operations section of this report.

Connecticut Higher Education Supplemental Loan Authority

Pursuant to Chapter 12 of the General Statutes, CHESLA is classified as a quasi-public agency that operates primarily under the provisions of Chapter 187b, Sections 10a-221 through 10a-246 of the General Statutes. Pursuant to Section 10a-179a, CHESLA is constituted as a subsidiary of the Connecticut Health and Educational Facilities Authority. As a subsidiary of CHEFA, CHESLA retains its legal identity as a separate quasi-public authority and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

CHESLA was established to assist borrowers (students, their parents or others responsible for paying the costs of education) and institutions of higher education in the financing and refinancing of the costs of higher education.

Section 10a-232 permits CHESLA to create and establish one or more special capital reserve funds for which the State of Connecticut has a contingent liability. The state's contingent liability is described further under the Résumé of Operations section of this report.

Connecticut Student Loan Foundation

Pursuant to Chapter 12 of the General Statutes, CSLF is classified as a quasi-public agency that operates primarily under the provisions of Chapter 187a, Sections 10a-201 through 10a-220 of the General Statutes. Public Act 14-217, effective July 1, 2014, statutorily consolidated CSLF as a subsidiary of CHEFA and CSLF became a quasi-public agency of the State of Connecticut. As a subsidiary of CHEFA, CSLF has all the privileges, immunities, tax exemptions, and other exemptions of CHEFA and may continue to exercise powers granted pursuant to chapter 187a of the general statutes. Therefore, CSLF still retains its identity as a Connecticut state-chartered nonprofit corporation under the provisions of Chapter 187a and is reconstituted as a quasi-public unit of CHEFA and as a quasi-public agency for purposes of certain provisions of Connecticut law. CSLF is subject to suit and liability solely from the assets, revenues, resources or any other assets of CSLF and without recourse to the general funds, revenues, resources or any other assets of CHEFA or any other subsidiary of CHEFA.

CSLF was established for the purpose of improving educational opportunity and is empowered to achieve this purpose by originating and acquiring student loans and providing appropriate services incident to the administration of programs which are established to improve educational opportunities. CSLF no longer originates or acquires student loans. The CSLF fiscal year end was September 30 and was changed effective October 1, 2014 to a June 30 fiscal year end to coordinate its year end with CHEFA.

Public Act 14-217 also provided that the executive director of CSLF would become an employee of CHEFA or CHESLA and the board of directors of CHESLA shall also serve as the board of directors of CSLF. Public Act 14-47 required the transfer by June 30, 2015 of a total of \$25 million of CSLF's financial assets to fund certain separately administered Connecticut higher education programs (legislative mandates). CSLF completed funding these legislative mandates during the 12 months ending June 30, 2015.

The CSLF financial records are maintained by an administrative agent who performs all of the accounting functions with the oversight of the executive director. In fiscal year 2014-2015, certain operating expenses such as insurance, auditing, and document retention were consolidated with CHEFA.

BOARDS OF DIRECTORS AND ADMINISTRATIVE OFFICIALS

CHEFA Board of Directors

Pursuant to Section 10a-179(a) of the General Statutes, CHEFA operates under a 10-person board of directors. The board consists of the State Treasurer and the Secretary of the Office of

Policy and Management as ex-officio members and 8 residents of the state who are appointed by the Governor. Not more than 4 of the 8 appointed members can be of the same political party. In addition, 3 appointed members shall be trustees, directors, officers, or employees of institutions for higher education, 2 appointed members shall be trustees, directors, officers or employees of healthcare institutions, and 1 shall be a person having a favorable reputation for skill, knowledge, and experience in state and municipal finance.

As of June 30, 2015, the CHEFA board of directors was composed as follows:

Ex-Officio Members:

| | |
|--------------------|--|
| Denise L. Nappier | State Treasurer |
| Benjamin B. Barnes | Secretary, Office of Policy and Management |

Appointed Members:

| | |
|--------------------------|------------|
| Barbara Rubin | Chair |
| Dr. Peter W. Lisi | Vice-Chair |
| Patrick A. Colangelo | |
| John M. Biancamano | |
| Barbara B. Lindsay, Esq. | |
| Dr. Estela R. Lopez | |
| Paul Mutone | |
| Elizabeth C. Hammer | |

CHESLA Board of Directors

Pursuant to Section 10a-179(b) of the General Statutes, CHESLA operates under a 9-person board of directors. The board consists of the State Treasurer, Secretary of the Office of Policy and Management, and the president of the Board of Regents for Higher Education as ex-officio members, the chairperson of the CHEFA board of directors, the executive director of CHEFA, and 4 state residents who are appointed by the board. In addition, 2 appointed members shall be CHEFA board members who are an active or retired trustee, director, officer or employee of a Connecticut institution for higher education; 1 member shall have a favorable reputation for skill, knowledge and experience in the higher education loan field; and 1 member shall have a favorable reputation for skill, knowledge and experience in either the higher education loan field or state and municipal finance. Of the 4 appointed members, not more than 2 may be members of the same political party. Pursuant to Section 10a-179(c) of the General Statutes, the chairperson of the CHEFA board of directors shall serve as the chairperson of the CHESLA board of directors.

As of June 30, 2015, CHESLA's board of directors was composed as follows:

Ex-Officio Members:

| | |
|--------------------|--|
| Denise L. Nappier | State Treasurer |
| Benjamin B. Barnes | Secretary, Office of Policy and Management |
| Dr. Gregory Gray | Interim President, Board of Regents for Higher Education |

Appointed Members:

| | |
|-------------------|---------------------------|
| Barbara Rubin | Chair |
| Julie B. Savino | Vice-Chair |
| Jeffrey A. Asher | Executive Director, CHEFA |
| Martin L. Budd | |
| Dr. Peter W. Lisi | |
| Paul Mutone | |

CSLF Board of Directors

Pursuant to Section 10a-203 of the General Statutes, as amended by Public Act 14-217, the board of directors of CHESLA also serves as the board of directors for CSLF effective July 1, 2014. Therefore, the CSLF board members are identical to the CHESLA board members.

Administrative Officials

Jeffrey A. Asher served as executive director of CHEFA throughout the audited period, and Jeanette Weldon served as executive director of CHESLA. Subsequent to the audited period, Mr. Asher retired, effective June 30, 2015. Jeanette Weldon was chosen to succeed Mr. Asher as executive director of CHEFA at the April 22, 2015 meeting of the CHEFA Board of Directors, effective July 1, 2015. As CSLF also became a subsidiary of CHEFA, effective July 1, 2014, Jeanette Weldon was appointed executive director of CSLF at the July 23, 2014 CSLF Board of Directors meeting.

SIGNIFICANT STATE LEGISLATION

Public Act 14-217, effective July 1, 2014, statutorily consolidated CSLF as a subsidiary of CHEFA and became a quasi-public agency of the State of Connecticut. As a subsidiary of CHEFA, CSLF has all the privileges, immunities, tax exemptions and other exemptions of CHEFA and may continue to exercise powers granted pursuant to Chapter 187a of the General Statutes. Therefore, CSLF still retains its identity as a Connecticut state-chartered nonprofit corporation under the provisions of Chapter 187a and is reconstituted as a quasi-public unit of CHEFA and as a quasi-public agency for purposes of certain provisions of Connecticut law by operation of Connecticut Public Act 14-217. Certain provisions of Public Act 14-217 were

amended in Public Act 14-222, resulting in the exclusion of CSLF from the list of quasi-public agencies in section 1-120 of the general statutes, effective October 1, 2015. However, Public Act 14-222 was subsequently repealed by Public Act 15-18 and reinstated CSLF as a quasi-public agency effective October 1, 2015.

Public Act 14-47, effective January 1, 2014, required the transfer of \$25,000,000 from CSLF to fund certain separately administered Connecticut higher education programs. As of June 30, 2015, CSLF has funded all requirements under this public act.

AUTHORITY PROGRAMS

CHEFA Programs

Nonprofit and Client Grant Programs

The Nonprofit and Client Grant programs are funded by the annual servicing fee charged to CHEFA clients. Grants under these programs are awarded to nonprofit organizations for programs focusing on essential health, educational, cultural, and childcare services to residents of targeted geographic areas of Connecticut. Nonprofit grants may also be awarded for programs focusing on food insecurity. During the audited period, in response to the recent recession, grant awards from the Nonprofit Program were only awarded for essential services such as food, healthcare, and shelter. Individual grants range from \$5,000 to \$75,000 for both programs. Grant awards for the Client Grant Program totaled \$1,008,192 and \$1,250,000 in fiscal years 2013-2014 and 2014-2015, respectively. Grant awards for the Nonprofit Grant Program totaled \$2,500,000 and \$1,325,022 in fiscal years 2013-2014 and 2014-2015, respectively.

Targeted Investment Program

The Targeted Investment Program is funded by the annual servicing fee charged to CHEFA clients. During the audited period, Targeted Investment Program grants were awarded strictly on a case-by-case basis. For fiscal year 2014-2015, formalized guidelines were adopted aiming to fund activities that have a substantial and measurable impact on a wide scale basis in addressing a demonstrated need. Grants are awarded for projects that impact the areas of childcare, cultural, educational, and healthcare facilities and programs and generally range from \$100,000 to \$500,000. No grants were awarded for the 2013-2014 fiscal year. Grant disbursements totaled \$418,222 for the 2014-2015 fiscal year.

Child Care Facilities Loan Fund

Public Act 97-259 established 3 separate programs to finance the construction, expansion, and renovation of childcare facilities. Under the Tax-Exempt Financing Program, loans are provided to not-for-profit entities or municipalities serving children with school readiness or Department of Social Services contract funds. A portion of loan payments due under the Tax-Exempt Financing Program are made from funds allocated by the state legislature. The Guaranteed Loan Program provides loans to experienced childcare providers serving lower

income children and/or children 0-4 years old. The Small Direct Loan Program serves experienced and new childcare businesses and provides funding for pre-development, minor renovations, equipment, or start-up costs of home-based care.

Special Capital Reserve Program

Under the Special Capital Reserve Program, debt is guaranteed by the state under Section 10a-186a of the General Statutes, which provides for such funds to be used for the payment of principal and interest on authority bonds to finance projects at participating nursing homes and public institutions of higher education. The state is contingently liable to provide annual debt service requirements for such bonds if CHEFA's funds are not sufficient to meet minimum reserve requirements for the special capital reserve fund. The state's contingent liability related to these guarantees totaled \$349,385,000 as of June 30, 2014 and \$323,455,000 as of June 30, 2015.

CHESLA Programs

Student Loan Program

Under the CHESLA Student Loan Program, qualifying applicants can receive an education loan for each academic year up to the student's total cost of education for the year, with a cumulative maximum of \$125,000. The cost of education is determined by the college or university in which the student is enrolled and is reduced by all other financial assistance received. Loans are given at fixed interest rates, determined in connection with the series of bonds used to finance the loan. While in school and for a 6-month grace period after leaving school, undergraduates must make interest-only payments while graduate students may choose to defer interest. After this period, interest and principal payments commence.

CSLF Programs

CSLF was established for the purpose of improving educational opportunity by providing or guaranteeing loans under the Federal Family Education Loan Program and alternative student loan programs. The loans made or acquired by CSLF were financed through the issuance of bonds that are secured from the revenues received from such loans. CSLF sold its loan guarantee portfolio in 2009 and no longer originates or acquires student loans. CSLF also has not issued any bonds since 2007. CSLF funds are now used to support various CHESLA and other higher education programs.

RÉSUMÉ OF OPERATIONS

The revenues, expenses, and changes in net position of CHEFA as of June 30, 2015 and 2014 per the management discussion and analysis reported with its audited financial statements are presented below (amounts expressed in thousands):

| | June 30 | |
|-----------------------------------|-------------------|-------------------|
| | 2015 | 2014 |
| Operating Revenues: | | |
| Administrative Fees | \$ 7,513 | \$ 7,233 |
| Bond Issuance Fees | 90 | 80 |
| Other Revenue | 215 | 178 |
| Total Operating Revenues | 7,818 | 7,491 |
| Operating Expenses: | | |
| Salaries and Related Expenses | 2,896 | 2,848 |
| General and Administrative | 1,014 | 1,023 |
| Total Operating Expenses | 3,910 | 3,871 |
| Total Operating Income | 3,908 | 3,620 |
| Non-operating Activity | | |
| Investment Income | 13 | 9 |
| Grant Expense | (2,993) | (3,508) |
| Change in Net Position | \$ 928 | \$ 121 |

CHEFA generates revenue from fees on its portfolio of bonds and investment income and does not rely on any state appropriation. Revenues generated from annual administrative fees during the audited period were based on the board-approved rate of 9 basis points (or .0009) on the outstanding balance for most issues. Special Capital Reserve Fund long-term care bond issues carry an annual fee of 14 basis points (or .0014). Administrative fee revenue increased 4% in fiscal year 2014-2015, and 2% in fiscal year 2013-2014, from \$7,110,000 in fiscal year 2012-2013, reflecting an increase in new issues and the par amount of bonds outstanding. Grant expense decreased overall by \$515,000 during the 2014-2015 fiscal year due to fewer grants being awarded for the Nonprofit Grant Program. Awards for this program decreased from \$2,500,000 during the 2013-2014 fiscal year to \$1,325,000 during the 2014-2015 fiscal year. There was a total increase of approximately \$660,000 in CHEFA's 2 other grant programs.

The revenues, expenses, and changes in net position of CHESLA during the 2014-2015 and 2013-2014 fiscal years per the management discussion and analysis reported with its audited financial statements are presented below (amounts expressed in thousands):

| | June 30 | |
|-------------------------------------|-----------------|---------------|
| | 2015 | 2014 |
| Operating Revenues: | | |
| Interest Income - Loans Receivable | \$ 8,368 | \$ 8,530 |
| Total Operating Revenues | 8,368 | 8,530 |
| Operating Expenses: | | |
| Interest Expense | 6,690 | 6,722 |
| Loan Service Fees | 563 | 706 |
| Bond Issuance and Insurance Costs | 104 | 379 |
| General and Administrative Expenses | 484 | 453 |
| Salaries and Related Expenses | 192 | 197 |
| Provision for Loan Losses (benefit) | 760 | 302 |
| Total Operating Expenses | 8,793 | 8,759 |
| Total Operating Income | (425) | (229) |
| Non-operating Revenues (expenses) | | |
| Investment Income | 1,148 | 1,041 |
| Scholarships | (2,000) | - |
| Revenues from CSLF | 4,000 | - |
| Change in Net Position | \$ 2,723 | \$ 812 |

All of CHESLA's revenues and expenses are considered non-operating except for income on investments and expenses associated with CHESLA's scholarship program. The largest component of CHESLA's operating revenues is interest income received from interest on loans receivable, which increased by \$162,000 during the 2014-2015 fiscal year. Interest expense relating to the issuance of tax-exempt bonds represents the highest operating outlay. Provision for loan losses is based on a weighted average factor of collections, net of write-offs, relative to loans issued and outstanding. A change in methodology increased the provision for loan loss by \$458,000 for the 2014-2015 fiscal year. The \$4,000,000 of revenues from CSLF was due to legislative mandates.

CSLF changed its fiscal year end from September 30 to June 30 following the completion of its audited financial statements for the fiscal year ending September 30, 2014. Due to changes in the presentation of its financial statements, comparative information is not presented separately,

but is described briefly as follows. Interest income represents the largest operating revenue component. CSLF earns interest income, interest subsidies, and special allowances on student loans. Interest income for the fiscal year ending June 30, 2015 totaled \$11,586,000, as compared to \$12,740,000 for the fiscal year ending September 30, 2014. These revenue sources are variable in nature and are a direct function of market conditions. In total, operating revenues decreased by \$1,253,000 from \$13,031,000 during the 2013-2014 fiscal year to \$11,778,000 during the 2014-2015 fiscal year. The largest CSLF expense is debt payments on the auction rate certificates it issued to raise resources to make or acquire student loans. It has not disbursed new student loans since February 2010. Operating expenses also decreased by \$1,210,000 from \$9,974,000 during the 2013-2014 fiscal year to \$8,764,000 during the 2014-2015 fiscal year. As a result of Public Act 14-47, CSLF was required to fund \$25,000,000 for certain legislative initiatives during the 2014-2015 fiscal year. This is included as a non-operating expense in its statement of revenues and expenses. Change in net position from operations totaled \$3,057,000 for the fiscal year ended September 30, 2014 and \$3,014,000 for the fiscal year ended June 30, 2015, per its audited financial statements.

The consolidating financial position of CHEFA, CHESLA and CSLF as of June 30, 2015 per its audited financial statements is presented below (*amounts expressed in thousands*):

| Assets | June 30, 2015 | | | | |
|--|---------------|--------|--------|--------------|----------|
| | CHEFA | CHESLA | CSLF | ELIMINATIONS | TOTAL |
| Current Assets: | | | | | |
| Unrestricted Assets: | | | | | |
| Cash | \$ 441 | \$ 48 | \$ 965 | \$ - | \$ 1,454 |
| Investments | - | 1,278 | - | - | 1,278 |
| Accounts Receivable less Allowance of \$86 | 155 | - | - | - | 155 |
| Board-designated Investments | 5,413 | 1,000 | - | - | 6,413 |
| Due from CSLF | - | 2,000 | - | (2,000) | - |
| Prepaid Expenses and Other Assets | 74 | 14 | 34 | - | 122 |
| Total Unrestricted Assets | 6,083 | 4,340 | 999 | (2,000) | 9,422 |
| Restricted Assets: | | | | | |
| Fund Investments | 323,724 | - | - | - | 323,724 |
| Trust Investments | - | 28,512 | 11,758 | - | 40,270 |
| Current Portion of Loans Receivable, net of Allowances for Loan Losses of \$2,787 | - | 16,754 | - | - | 16,754 |
| Current Portion of Loans Receivable, net of Allowances for Loan Losses of \$1,335 | - | - | 21,787 | - | 21,787 |
| Loan Interest Receivable | - | 465 | 5,390 | - | 5,855 |
| Interest Receivable on Investments | - | 134 | - | - | 134 |
| Total Restricted Assets | 323,724 | 45,865 | 38,935 | - | 408,524 |
| Total Current Assets | 329,807 | 50,205 | 39,934 | (2,000) | 417,946 |

Auditors of Public Accounts

Non-current Assets:

| | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Unrestricted Assets: | | | | | |
| Capital Assets, net | 169 | - | - | - | 169 |
| Restricted Assets: | | | | | |
| Prepaid Bond Insurance Premiums | - | 155 | - | - | 155 |
| Restricted Investments | 10,407 | 23,557 | - | - | 33,964 |
| Loans Receivable, net of Current Portion | - | 102,988 | 307,638 | - | 410,626 |
| Total Non-current Assets | 10,576 | 126,700 | 307,638 | - | 444,914 |
| Total Assets | \$ 340,383 | \$ 176,905 | \$ 347,572 | \$ (2,000) | \$ 862,860 |

Liabilities and Net Position

Current Liabilities:

| | | | | | |
|---------------------------------------|----------|----------|-------|---------|----------|
| Accounts Payable and Accrued Expenses | \$ 2,297 | \$ 2,073 | \$ 94 | \$ - | \$ 4,464 |
| U.S. Department of Education Payable | - | - | 1,676 | - | 1,676 |
| Trust Estate Payable | - | - | 541 | - | 541 |
| Current Portion of Bonds Payable | - | 11,105 | - | - | 11,105 |
| Accrued Interest Payable | - | 814 | - | - | 814 |
| Due to CHESLA | - | - | 2,000 | (2,000) | - |
| Amounts held for Institutions | 320,224 | - | - | - | 320,224 |
| Total Current Liabilities | 322,521 | 13,992 | 4,311 | (2,000) | 338,824 |

Non-current Liabilities:

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Bonds Payable, net of Current Portion | - | 144,573 | 311,226 | - | 455,799 |
| Amount held on behalf of the State of CT | 2,172 | - | - | - | 2,172 |
| Total Non-current Liabilities | 2,172 | 144,573 | 311,226 | - | 457,971 |
| Total Liabilities | 324,693 | 158,565 | 315,537 | (2,000) | 796,795 |

Net Position:

| | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Net Investment on Capital Assets | 169 | - | - | - | 169 |
| Restricted | 11,735 | 15,923 | 7,891 | - | 35,549 |
| Unrestricted | 3,786 | 2,417 | 24,144 | - | 30,347 |
| Total Net Position | 15,690 | 18,340 | 32,035 | - | 66,065 |
| Total Liabilities and Net Position | \$ 340,383 | \$ 176,905 | \$ 347,572 | \$ (2,000) | \$ 862,860 |

Changes in CHESLA Bonds Payable

Changes in CHESLA bonds payable for the fiscal year 2014-2015 per its audited financial statements is presented below (*amounts expressed in thousands*):

| | BALANCES AT 7/1/2014 | INCREASES | DECREASES | BALANCES AT 6/30/2015 | DUE WITHIN ONE YEAR |
|---------------------------|---------------------------------|------------------|--------------------|----------------------------------|--------------------------------|
| Bonds Payable - Principal | \$ 173,205 | \$ - | \$ (19,115) | \$ 154,090 | \$ 11,105 |
| Discount | (483) | - | 70 | (413) | |
| Premium | 2,129 | - | (128) | 2,001 | |
| | \$ 174,851 | \$ - | \$ (19,173) | \$ 155,678 | \$ 11,105 |

CHEFA Bonds Issued

Bonds issued by CHEFA during the 2014-2015, 2013-2014, and 2012-2013 fiscal years per its audited financial statements are presented below (*amounts expressed in thousands*):

| | 2014-2015 | | 2013-2014 | | 2012-2013 | |
|---------------------------|-------------|------------|-------------|--------------|-------------|------------|
| | # OF ISSUES | PAR AMOUNT | # OF ISSUES | PAR AMOUNT | # OF ISSUES | PAR AMOUNT |
| Healthcare | 3 | \$ 263,025 | 5 | \$ 891,820 | 3 | \$ 207,145 |
| Higher Education | 5 | 331,275 | 5 | 240,610 | 3 | 46,060 |
| Private Secondary Schools | 5 | 78,741 | 6 | 65,426 | 10 | 103,609 |
| Long-term Care | 2 | 16,200 | 1 | 5,000 | 1 | 44,454 |
| Child Care | 1 | 33,475 | 0 | - | 0 | - |
| Other | 1 | 27,500 | 1 | 9,987 | 1 | 20,000 |
| | 17 | \$ 750,216 | 18 | \$ 1,212,843 | 18 | \$ 421,268 |

During the 2014-2015 fiscal year, CHEFA bond issuance volume decreased 38.1% over the 2013-2014 fiscal year and remained at the second highest level in the past 3 fiscal years. Although the number of bond offerings remained relatively level to the 2013-2014 fiscal year levels, the average issue size declined from approximately \$67,400,000 during the 2013-2014 fiscal year to \$44,200,000 during the 2014-2015 fiscal year.

Reserve Funds (*table amounts expressed in thousands*)

| | June 30, | |
|------------------------------------|-----------------|-----------------|
| | 2015 | 2014 |
| Restricted Reserves | | |
| School Readiness and Child Daycare | \$ 4,320 | \$ 4,320 |
| Guaranteed Loan Fund Program | | |
| Held for the State of Connecticut | 2,172 | 2,182 |
| Connecticut Credit Union Student | 415 | 587 |
| Loan Guarantee Program | | |
| | <u>\$ 6,907</u> | <u>\$ 7,089</u> |

Reserves for the School Readiness and Child Daycare Guaranteed Loan Fund Program were established by CHEFA pursuant to Public Act 97-259. Reserves held for the State of Connecticut consist of the balance of reserve funds contributed by the state after expenses for administration costs and defaults. At inception, the state deposited \$1,500,000 for the Guaranteed Loan Fund Program established under Section 17b-749g of the General Statutes and \$750,000 for the Small Direct Revolving Loan Program established under Section 17b-749h of the General Statutes. The Connecticut Credit Union Student Loan Guarantee Program is not currently accepting applications for new loans. Reserve amounts equate to the authority's exposure under the program at the respective reporting dates.

In accordance with Section 10a-232(b) of the General Statutes, the State of Connecticut is contingently liable to CHESLA for amounts needed to maintain debt service reserves for 1 year's

principal and interest on outstanding bonds. Required set asides are held in a special capital reserve fund, and amounted to approximately \$23.1 million as of June 30, 2014 and \$23.6 million as of June 30, 2015. To date, the state has not made or been required to make any payments into the reserve fund.

CSLF Loan Portfolio

CSLF also made loans to students from bond proceeds until 2010. The foundation's portfolio consisted of loans that originated from the Federal Family Education Loan Program (FFELP) and the foundation's Solutions Alternative Loan Program. FFELP loans are student loans insured by the U.S. Department of Education. These loans are repaid by borrowers on a monthly basis for a term of up to 30 years. The interest rate on these loans varies and ranges from approximately 1% to 12%. Alternative loans are student loans that are not insured by the U.S. Department of Education. These loans are repaid monthly over a period of years ranging from 10 to 30 years and the interest rate varies.

CSLF loan portfolio assets at September 30, 2014 and June 30, 2015 are summarized as follows (*amounts expressed in thousands*):

| | September 30, 2014 | | | June 30, 2015 | | |
|-------------|---------------------------|--------------------|-------------------|----------------------|--------------------|-------------------|
| | FFELP | ALTERNATIVE | TOTAL | FFELP | ALTERNATIVE | TOTAL |
| In School | \$ 2,048 | \$ 433 | \$ 2,481 | \$ 1,131 | \$ 223 | \$ 1,354 |
| Grace | 1,590 | 168 | 1,758 | 711 | 32 | 743 |
| Deferral | 39,121 | 889 | 40,010 | 28,894 | 753 | 29,647 |
| Forbearance | 36,479 | 627 | 37,106 | 32,743 | 492 | 33,235 |
| Repayment | 283,912 | 5,990 | 289,902 | 259,807 | 5,974 | 265,781 |
| Totals | 363,150 | 8,107 | 371,257 | 323,286 | 7,474 | 330,760 |
| Allowances | (1,038) | (579) | (1,617) | (769) | (566) | (1,335) |
| | <u>\$ 362,112</u> | <u>\$ 7,528</u> | <u>\$ 369,640</u> | <u>\$ 322,517</u> | <u>\$ 6,908</u> | <u>\$ 329,425</u> |

Staffing Levels

CHEFA retained 20 employees as of June 30, 2015 and 2014. CHESLA retained 2 employees as of June 30, 2015 and 2014. CHESLA's executive director is also a CHEFA employee, and is only included in the CHEFA employee count. CSLF did not have any employees as of June 30, 2015. As mentioned previously, CSLF financial records are maintained by an administrative agent.

Other Examinations

Independent public accountants audited the authority's consolidated financial statements for the fiscal year ended June 30, 2015 and 2014. Those audits reported that the financial statements presented fairly, in all material respects, the financial position of the authority as of the respective fiscal year end dates, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. CSLF had a separate financial statement audit for the fiscal year ended September 30, 2014, and it was included in the CHEFA consolidated financial statement audit for the fiscal year ended June 30, 2015.

As an integral part of their financial statement audits, the independent public accountants also provided reports on compliance and internal control over financial reporting for each of the 3 audits noted above. These reports disclosed no instances of noncompliance concerning these requirements. The reports on internal control indicated that no material weaknesses in internal control over financial reporting were identified. However, an internal control deficiency was identified that was considered to be a significant deficiency in the authority's consolidated financial statement audit for the fiscal year ended June 30, 2015. The finding relating to this significant deficiency stated that the 2013-2014 basic financial statements of CHEFA included and presented CHESLA as a blended component unit and information for both entities was presented in a single column in the aggregate. It was determined that the boards of CHEFA and CHESLA did not meet the GASB 61 criteria of "substantially the same", and as such, CHESLA should have been reported on a discrete basis. The 2014-2015 financial statements were prepared showing CHESLA on a discrete basis, and the opening net positions of both CHEFA and CHESLA as of July 1, 2014 were restated.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Short-Term Disability Leave

- Background:* CHEFA offers employees optional short-term disability coverage provided by a third-party insurance company. This benefit provides qualified employees a maximum of 60% of their salary, up to 90 days. The authority will supplement an additional 20% so that the employees will receive replacement of up to 80% of their salary during the period of short-term disability. The CHEFA policy further states that employees can use any accrued and unused vacation or sick time to address the shortfall between the maximum amount available through the short-term disability policy and 100% of their normal salary.
- Criteria:* Authority management is responsible for complying with its short-term disability policy. Per the policy, employees on short-term disability leave can only use earned vacation or sick time to receive the additional 20% of their normal salary that is not provided by the insurance company and CHEFA. If employees do not have any accrued vacation or sick time available, they only receive 80% of their normal pay.
- Condition:* One employee used approximately 6.5 days of unearned vacation time over a period of 3 months while out on short-term disability. The employee was allowed to carry a negative balance of vacation time by continuously using unearned vacation each pay period for 3 months (July 15, 2013 through October 15, 2013), and was therefore able to receive 100% of the normal salary.
- Effect:* CHEFA did not follow its policies and procedures regarding short-term disability and use of vacation time, and therefore allowed an employee to receive payment in advance for vacation time that was not earned.
- Cause:* Management decided to allow the employee to carry a negative vacation balance and use unearned vacation time.
- Recommendation:* CHEFA should follow its short-term disability policy and procedures regarding use of sick and vacation time to ensure that employees are using only earned leave time. (See Recommendation 1.)
- Agency Response:* "Management agrees and notes that it was aware and given the circumstances used its discretion to allow for usage of unearned vacation time during the short-term disability leave of the employee

selected by the State auditor for review. In accordance with the Vacation and Floating Holiday Use and Carryover policy, the Executive Director approved, in writing, the payment of unearned time. When the employee returned to work it was communicated to them that the unearned time paid would be retracted over the next several months.”

Grants

- Criteria:* The CHEFA grant policies and procedures manual states that final project reports prepared by the grantees are due to CHEFA within 60 days following the grant period end. These final reports include detailed information on how grant monies were spent and identify any excess funds that should be returned to CHEFA. The grant policies further state that any grantee not providing the required report within the allotted time period will be contacted by the CHEFA grant specialist to request the report along with any unspent funds. Any further follow-up will be at the discretion of the executive director.
- Condition:* Final project reports were not obtained by CHEFA from the grantees for 5 of 20 grants reviewed. There was no documentation in the grant files to show that CHEFA made an effort to obtain these reports, which were between 6 and 18 months past due at the time of our review.
- Effect:* CHEFA did not follow its grant policies and procedures with regards to obtaining final project reports for each grant disbursed within 60 days of the grant period end. Final projects reports are important to verify that the grants were spent for the intended purpose and any unspent funds are returned to CHEFA.
- Cause:* It appears that this was due to a lack of management oversight.
- Recommendation:* CHEFA should strengthen internal control to ensure that final project reports are obtained within 60 days of the grant period end. (See Recommendation 2.)
- Agency Response:* “A new grant program manager has been hired and reports are being developed to assist with monitoring outstanding items and the overall status of each grant in the data system to ensure receipt of final reports on a timely basis.”

RECOMMENDATIONS

Status of Prior Audit Recommendations:

- **The Connecticut Higher Education Supplemental Loan Authority should strengthen procedures to ensure adequate monitoring of outside service organizations.** The current review noted improvements in procedures and adequate monitoring of outside organizations. As a result, the recommendation will not be repeated.
- **CHEFA and CHESLA should strengthen internal controls to ensure that quarterly reports are provided to the Office of Fiscal Analysis in a timely manner.** The current review noted improvements in internal controls and timely submission of the quarterly reports to the Office of Fiscal Analysis. As a result, the recommendation will not be repeated.
- **CHEFA and CHESLA should comply with their policies and procedures to ensure that supervisory approval is granted in advance of the requested leave time.** The current review noted improvement with preapproval of vacation time. As a result, the recommendation will not be repeated.

Current Audit Recommendations:

1. **The Connecticut Health and Educational Facilities Authority should follow its short-term disability policy and procedures regarding use of sick and vacation time to ensure that employees are using only earned leave time.**

Comment:

Our review noted that 1 employee used approximately 6.5 days of unearned vacation time over a period of 3 months while being out on short-term disability. The employee was allowed to carry a negative balance of vacation time by continuously using unearned vacation each pay period for 3 months (July 15, 2013 through October 15, 2013), and was therefore able to receive 100% of the normal salary.

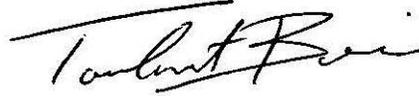
2. **CHEFA should strengthen internal controls to ensure that final projects reports are obtained within 60 days of the grant period end.**

Comment:

A review of 20 grants noted that CHEFA did not obtain final project reports for 5 grants. There was no documentation in these grant files to indicate that CHEFA made an effort to obtain these reports, which were between 6 and 18 months past due at the time of our review.

CONCLUSION

In conclusion, we wish to express our appreciation for the cooperation and courtesies extended to our representatives by the staff of the Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, and Connecticut Student Loan Foundation during the course of our examination.



Taulant Baci
Auditor I

Approved:



John C. Geragosian
Auditor of Public Accounts



Robert J. Kane
Auditor of Public Accounts