

NASDCTEc/NCTEF Finance/Audit Committee

**MINUTES**  
**CONFERENCE CALL**

April 29, 2015

3 p.m. – 4 p.m.

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**Attendees:** Jo Anne Honeycutt, Tim Hodges, Bernadette Howard, Mike Mulvihill, John Fischer, Rich Katt

**Staff:** Karen Hornberger, Kimberly Green

**Guest:** Mark Friese, Merrill Lynch Advisor

**Welcome:** Honeycutt welcomed the Finance/Audit Committee and thanked them for joining the call.

**Approval of Finance/Audit Committee Minutes:** Honeycutt presented the minutes from January 23 and June 12, 2014 Finance/Audit Committee conference calls.

**MOTION: To approve the January 15, 2015 Finance/Audit Committee minutes.**

**Howard; Mulvihill.**

**MOTION ADOPTED.**

**Auditor Rotation:** Hornberger reported that the staff has secured an agreement for our 5<sup>th</sup> year with the current auditing firm Dembo, Jones, Healy, Pennington & Marshall, PC for \$1,000 less than the previous fiscal year for the fiscal year 2015 audit.

Hornberger stated that the Finance/Audit Committee asked the staff to conduct research and bring forward information and a draft audit firm/partner rotation policy. Hornberger shared that their research findings indicated that non-profit organizations have inconsistent policies for audit firm rotation. She also stated within the Sarbanes-Oxley Act there are no direct regulations on not-for-profit organizations and requires partner rotation for publicly held companies, every 5 years. However, the Act is often used as a benchmark of good practice in non-profits. Hornberger shared that the NASDCTEc/NCTEF Finance Manual currently states:

*In keeping with the intent of Sarbanes-Oxley, NASDCTEc/NCTEF will distribute an RFP at least every 5 years to select an auditing firm. The Finance Committee will review all responses to the RFP and make the selection of the firm to engage.*

Staff is recommending for the following modifications to the existing policy within the Finance Manual:

1. Maintain the required RFP requirement to benchmark audit costs at least every five years. If the financial position of the organizations change substantially or there is dissatisfaction with the firm's performance, benchmarking can be conducted on an as needed basis.
2. If staying with the same auditing firm for more than three years, require partner rotation as early as every three years, if warranted, but a partner change is required at five years.

3. Based on these recommendations, an RFP will need to be conducted in FY16 for price benchmarking purposes.

**MOTION: To approve the proposed modifications to the existing policy per the recommendations of the staff.**

**Howard; Hodges.**

**MOTION ADOPTED.**

**Investment Policy Changes:** Hornberger shared that in September the Finance/Audit Committee met with our investment advisor Mark Friesse from Merrill Lynch. Friesse made a recommendation to increase the maximum amount of equity investment from 60% to 75%. The Finance/Audit Committee voted to recommended change and to submit the proposed policy modification to the Board for approval. The NASDCTEc and the NCTEF Boards both approved the change in the investment policy based on the recommendations of the Finance/Audit Committee.

Hornberger shared that in January, during the Finance/Audit Committee review of the audit and the 990's our auditor, Don Marshall, flagged the change in the investment policy and underscored with the Finance/Audit Committee that he finds the organization to have a lot of money in stocks and bonds in relation to the total assets. Due to the caution raised by the auditor, staff put the approved policy modification on the Finance/Audit Committee's agenda for further discussion and review.

Hornberger asked Friesse to share some feedback and a response to the auditor's concerns. Friesse stated the goal of the investment policy statement is establish the parameters the organization is comfortable with related to its investments. These are the direction the investment advisor uses in concert with the staff and Finance/Audit Committee to guide the portfolio. The ranges within the investment policy statement give the investment advisor the flexibility to manage the portfolio to achieve the performance goals are met within existing market environment. Friesse stated it is important to note that the organization's resources are not invested in individual stocks, which are sector-based funds that are a compilation of multiple stocks. This mitigates some of the risk but also has a proven record of positive performance, especially as compared to cash or bonds. It is also important to note that the strategy is not a short-run focus, where we are modifying the portfolio on a daily basis as the market changes – but a long-term, consistent return. To that end, Friesse works with the staff to ensure that the organization has the appropriate cash flow while also working to maximize investment returns.

Green asked if the Finance/Audit Committee is comfortable with the existing policy and given the concerns of the auditor, can we confidently say that we are comfortable with the current risk of equity? Friesse shared to help ease the concerns of the Finance/Audit Committee that if the worst case scenario happened and the stock market crashed, Merrill Lynch would communicate with the staff if adjustments are needed that require more authority than is provided in the investment policy statement. Friesse assured the Finance/Audit Committee that they only need to react to long term and not short term issues and their job is to put together a diversified portfolio to make sure that the investments are safe.

The consensus of the Finance/Audit Committee was to keep the cap as is and to not make any changes to the investment policy statement. The Finance/Audit Committee will also continue to monitor the accounts and revisit the investment policy changes on an as needed basis. The Finance/Audit Committee appreciated the concerns of the auditor as well as the investment advisors explanation of these concerns.

**Finance Policy Manual Update:** Hornberger shared that the Finance Policy Manual was last updated and approved on October 13, 2010. She stated that since the auditors use the Finance Policy Manual to audit the internal, financial processes and procedures, it is necessary to update the document. Some of the changes relates to process changes due to technology advances, changes to staff responsibilities as the team composition and roles have evolved and improvements/streamlining of processes. Hornberger also reminded the Finance/Audit Committee that the new auditor rotation policy, that was just approved, will be included in the updated Finance Policy Manual.

**MOTION: To approve the Finance Policy Manual as presented with the inclusion of the newly approved auditor rotation policy.**

**Katt; Mulvihill.**

**MOTION ADOPTED.**

**Meeting adjourned 4:04 p.m. ET**