

**MINUTES
AUDIT COMMITTEE**

**Wednesday, April 29, 2020 – 10:00 AM
Conference Call
Dulles State Office Building**

Committee Members Present:

Alfred Calligaris, Chairman
Thomas Hefferon
John Johnson, Jr.
Alex MacKinnon
Brian McGrath

Staff Present:

James Wright, Executive Director
Carl Farone, Deputy Executive Director/
Angela Marra, Executive Assistant

Committee Members Absent:

Dennis Mastascusa

Guests:

Terrance Phillips, Partner, Bonadio Group
Michael Sims, Bonadio Group

Other Board Members Present:

Frederick Carter, Board Chairman

1. The meeting was called to order by Chairman Calligaris at 10:05 am.
2. All committee members were present, except for D. Mastascusa.
3. A. Calligaris stated the meeting's objective was to review the audit planning process with the Bonadio Group and introduced T. Phillips.

T. Phillips reviewed the PowerPoint Presentation regarding the Audit Committee planning. T. Phillips stated that this meeting was to establish a line of communication with the Audit Committee. This is an important meeting to review the understanding of our responsibility, management's responsibility, and the government's responsibility to the Audit Committee. This meeting is also intended to identify what the auditors are going to do, as well as their goals and objectives are of the engagement.

T. Phillips commented that we are currently going through unprecedented times regarding COVID-19 and the impact this is having on federal and state levels, as well as the New York State Community. He is confident that the Bonadio Group will be able to do the audit timely and efficiently with the technology they have.

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B. McGrath asked two questions. The first question, what controls does the firm have in place to respond to independent board members communications. Mr. McGrath stated that he had sent an email a few years back and never received a response. The second question, what is the firm's policy on rotating auditors so as to prevent relationships from becoming too comfortable and ultimately defeat the audit purpose.

T. Phillips chose to address the second question first. Their policy follows along with the guidance of rotating partners every five years as per the proposal that is required. Partners can be rotated off the account for lack of performance or personality issues. In addressing Mr. McGrath's first question, T. Phillips apologized for the lack of response and asked if B. McGrath recalled what year the message was not responded to. T. Phillips further stated that they encourage audit committee members to do inquiries, and noted that the firms contact information is on the last slide of the PowerPoint as they try to keep an open line of communication with the committee. B. McGrath stated he will forward the email again.

C. Farone commented in regards to changing the audit partners. C. Farone stated that the Authority does a formal RFP [Request for Proposal] every five years to ensure a competitive process for the auditors. It is then the Audit Committee that actually retains the auditors and part of the RFP is that at least every five years there is a change in audit partner. Typically with a change of audit partner there is a change is staff as well.

T. Phillips continued with the presentation reviewing the Scope of our Audit noting the first four items; audit of financial statements, uniform guidance report on compliance, and agreed upon procedures. He further stated that any time there are internal control observations they will make recommendations if applicable as well as any observations regarding general performance of the organization. These have not changed in the recent years. In years past, the minimum requirements have been met to do a single audit. There may be years where we slip below the \$750,000 resulting in a single audit not being required.

T. Phillips commented on the timetable stating that they were in the field in January of 2020 prior to COVID-19. Many controls tests were able to be done at that time. This is part of the assessment area to ensure that the internal controls are still working as designed. The year-end audit is scheduled to begin next week. Extra steps will be taken as everything will be done electronically as all of their auditors are working remotely. This can be challenging, but a secured shared file system is being used to transfer information between the finance department and the audit team. They will also meet with C. Farone and his team at the end of every day to ensure there are no questions that have not been answered. With a short turnaround, this should allow for the reports to be completed and filed by the end

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of June as required. The Audit Financial Statement will be issued on or before June 30th. This is different than previous years since it is being done electronically.

T. Phillips broke down the responsibilities between the auditor's responsibilities and the Board's responsibilities. The auditor's responsibility is to opine on the financial statements to ensure they are in accordance with generally accepted accounting principles of the United States. They will conduct risk-based audits to obtain reasonable but not absolute assurances of the financial statements. How they come to their planning and how they audit transactions are really important so the committee is assured the auditors are doing the right things. The third bullet covers the internal control, which the auditors do not opine on. These are what they were looking at and testing when they were out in January to help with the risk assessment and planning sets of the audit. The next step of the process would be a Yellow Book uniform guidance statement. The auditors articulated early on that it is important to maintain open lines of communications and response throughout the year. They have spoken with C. Farone several times to inform him of new financial statements that are coming up.

Management's responsibility is to make sure the finances are in conformity with GASB. This begins with making sure recorded transactions follow GASB. It is not just the financial statements, but the individual business transactions of the organization ensuring that those transactions are made in accordance with GASB and that proper procedures are followed while adopting and communicating acceptable accounting policies. Management representation is also requested to ensure the auditors have received all information needed to complete the audit.

The committee's job is to select and oversee the auditor, oversee the financial reporting practice, and oversee the internal controls of the financial reporting. These controls and proper governance are critical for any organization.

M. Sims presented on the audit approach in more detail to better explain the planning and scope process. The audit is a risk based audit, meaning that the auditors brainstorm risks that lie within the financial statements of the Development Authority, and plan the audit based on those risks. This approach has not changed much over the past decade. This is based on the Development Authority as well as the area the Authority works in.

B. McGrath asked when the brainstorming for the Development Authority took place, and what were the things that were discussed in the brainstorming. M. Sims replied that several meetings were held to include one prior to the preliminary audit work back in January. The topics reviewed were what they were going to test such as, how many areas they were going to look at, and the types of tests they were going to develop based on the last year's financial statements as well as what has been going on within the Authority over the past year. Another planning meeting was held two weeks ago to review the results that came up during the pre-audit testing to develop a game plan for what they were going to test regarding the

financial statement audits for the year. There have then been frequent discussions as things came up during the audit. There weren't any new lines of business or things that needed to be tested or be made aware of.

B. McGrath asked if there weren't any new lines of business and the typical brainstorming for an enterprise that's required new divisions that are not germane to this party, what is done to protect against being stale in the audits and not being vigorous in an entity you've been auditing that's been largely static in its operations. M. Sims replied that the piece of the audit that nobody can tell what we're going to look at is what is being individually tested in the audit area. They review all of the peak controls, such as cash disbursements, payroll, revenue, a random selection of line items and give those to C. Farone and his staff. Within a couple hours the support is typically returned. Supports aside, they test what is in the financial statement or the general ledger for support. Each piece is then reviewed and confirmed that it has the proper controls.

A. Calligaris asked regarding the meetings that took place prior to COVID-19, what is being done about receivables this year. T. Phillips responded that another discussion had taken place the previous evening with senior staff in regards to the confirmations being sent out for loan-receivables. The world has changed and they need to be sure they are following up diligently with these. One specific piece they will be looking at is who the payer is, what their environment is, and the impact on colleges and school districts. There is concern with the state budget right now with some of the information that is coming out and being released in different areas. Another concern is that the economy is taking a very big hit, and that will have a very major impact on the state budget. Much of this and jobs are dependent on some type of federal balance and what New York will receive of that. T. Phillips further stated that they will be looking at how COVID-19 will impact all of these organizations. They are also very concerned about the impact this will have in regards to small businesses in this area.

M. Sims continued with discussing how the audit will break down into five different areas. Regarding Information Technology, they will be looking at the information recorded in the general ledger system and the systems it supports to see if they can be manipulated through fraud or outside interference such as hacking. An area that a significant amount of time is spent on is understanding chief controls and transaction cycles. Once the auditors obtain reasonable accounting estimates and the numbers, they begin testing the actual face of the financial statements in dollar amounts. This will lead into reviewing sound accounting policies being implemented throughout the year, or if any changes have occurred.

M. Sims continued to discuss one of the larger areas they review to see if there is any fraud risk and the responsibilities of these areas. This can perpetuate by either misappropriation of assets or fraudulently recording financial information in the financial statement. This is the auditor's requirement to gain an understanding of the fraud risk, and not to actually detect fraud. If any fraud was found, it would be

brought to the attention of the Board. However this is not the purpose of the audit, but rather to opine on the financial statements. Each year they make inquiries of the audit committee, management team, and to talk to everyday people throughout the organization to discuss whether they know of any fraud that is going on or has occurred. T. Phillips asked M. Sims which departments they had talked to. M. Sims responded that they always talk to C. Farone and A. Austin who does the internal control audit for all the areas, as well as talking to someone in water wastewater management. B. McGrath asked who from the Audit committee they have spoken with this year. M. Sims stated that this has not been done yet, but they will at the end of today's conference call, and it is usually the whole committee.

M. Sims continued stating they will identify the risk in materials within the statement due to fraud and develop some of their tests in relation to the fraud risks that have been identified. The fraud risk that has been identified so far is cash disbursements. Within cash disbursements they look at the controls whether everything has been approved and that everything has support. Fraud risk due to revenue recognition has also been identified. To review this they do a scale test at the waste management facility, as well as other lines of business to test individual transactions and to sample journal entries to adjust any overall risk related to management's ability to override controls. There is also focus on the risk relative to management's responsibility for the design and implementation of the internal controls as to whether they have controls in place that would prevent and detect fraud.

C. Farone stated that he wanted to clarify for the audit committee that the cash disbursements is talking about checks or ACH. The Development Authority eliminated all petty cash roughly ten years ago so there is no actual cash on hand resulting in that risk being eliminated.

T. Phillips continued the presentation to cover new GASB statements that will impact the audit. The first, GASB Statement No. 83, regarding certain asset retirement obligations is a legally enforceable liability associated with the retirement of tangible capital assets. They will be reviewing this to see if there will be any additional cost that will cause need to establish liability, primarily in the sewage treatment plant. The next is GASB 88 pertaining to certain disclosures related to debts. More information is being added about means and other information on debt. GASB 84 is regarding fiduciary activities. This one should be minimal in regards to the Authority, but the auditors wanted everyone to be aware it was out there, as well as that it is being delayed. One of the things coming out of this is that the auditors are seeing are delays in implementation of certain new accounting updates. They have been written, but are being delayed primarily in relation to COVID-19 and everyone struggling to get through that. Next is GASB 89 impacting any new accounting for interest incurred before the end of a construction period and impacting any borrowings regarding that, again for 2021.

T. Phillips reviewed the professional fees as they represent a 2% increase from last year, which is in accordance with the proposal that was submitted four years ago. This year is the fourth year of a five year cycle in the proposal and the fees on slide 17 are those that would have been recorded therein.

The last slide of the presentation is the audit team as reviewed by T. Phillips. Gerry Archibald is the relationship partner and is listed because he is their statewide partner. He is always available for consult and his cell phone number is listed. He is also who any issues would be directed to. Kristen Clark is listed as she is their quality assurance partner of the professional excellence division. Kristen and her team are responsible for reviewing the auditors' finances and making sure they are in compliance with all the new accounting principles. If there are any questions about the engagement team, T. Phillips would recommend contacting either G. Archibald or K. Clark, or himself as he is always open and available. T. Phillips further commented that K. Clark is responsible for the education and training of their 800 employees. M. Sims is the engagement manager, and S. Reed is the engagement senior, all are very capable people within the New York region.

T. Phillips stated this completed their PowerPoint presentation, and he would like to open the meeting to the audit committee for any questions.

B. McGrath asked approximately how much time was put into our audit thus far this year. T. Phillips responded that this engagement is usually 370 to 400 hours and stated they are roughly at about 35% - 40%, and a lot of that is before they do the audit work, they need to understand the organization and what its risks are.

With no other questions, T. Phillips went on to ask a few questions of the committee. The first question being does the committee have any concerns over specific areas. He mentioned that A. Calligaris had a concern on some of the receivable issues especially post COVID-19 and the impact on the organization. T. Phillips asked further if there are any specific areas of concern with either internal controls or conversations you've had or things that you would like the auditors to look at specifically.

B. McGrath asked if this question was only for A. Calligaris, T. Phillips clarified that this question was for the whole committee, and that they want to make sure that if there is something that came up or a transaction that there are concerns with or an area that they think needs to be taken a little deeper, to let him know.

B. McGrath stated that he certainly share's A. Calligaris' concern, but felt that a good preliminary answer had been provided. B. McGrath did state that he had another question in regards to a situation several years ago. He further stated that early on in his tenure on the Board another Board member had made a comment that the Authority needed to do certain things before the state found out the money the Authority really had. B. McGrath further commented that he never really understood that question and has spent years trying to figure out what that meant.

He also stated that he doesn't believe there are hidden pots of money anywhere, and asked if C. Farone or J. Wright had any insight as to what that individual meant. B. McGrath further stated this has bothered him for five years as he is unsure how to test this other than being a Board member and he has not seen any evidence of streams or pools of money that the state would not be aware of. C. Farone stated that some people may look at our financials and see a reserve for MMF for closure and post closure and think that is just money that is available to spend. These are funds the Authority is required to have, and are tested annually by NYSDEC as well as the auditors. C. Farone said he is unsure of which Board member may have made the comment; he believes that the Authority operates with full transparency to the Board. There are no hidden pots of money. A complete reconciliation is completed for the budget process to show every single reserve with its intended use. If someone were to review the Authority's balance sheet they would see it as healthy, but also very conservative. The telecommunications division has a reserve because it cannot be insured. Each division has its own reserves. The Authority believes they are being prudent in the management of these resources of the Authority, and much of the reserves are actually restricted reserves that do not leave a choice, but have to be maintained. The Authority is 100% transparent. Every dollar the Authority has is documented to the Board. There are no hidden pots of money. The auditors look at every dollar to ensure it is Board designated or restricted, and appropriate. B. McGrath stated this is all consistent with his oversight over the last several years. He agrees and would say everything that C. Farone just said verbatim. He also stated he never understood the comment, and is satisfied with C. Farone's response.

A. MacKinnon commented that he had heard that comment from certain other elected officials that are really not in a position to understand. They look at the financial statement and see a large amount of money in reserves without understanding the role of the Authority and the projects they are involved with. These do not offer any opportunities for remedies when something goes wrong. If there is a problem at the landfill there is no time to apply for a grant. If the sewer lines break, they need to be repaired right away. There is no opportunity to look for extra money to help. Because of this, the Authority has to maintain a substantial amount of available cash to take care of these things. When this is explained in this way to some of these folks, they begin to understand it. On the other hand, this is a concern that people have.

J. Wright stated that the only time he has ever heard that issue raised was at a county legislature presentation. As A. MacKinnon articulated and as C. Farone articulated, there are more adequate reasons for the reserves that the Authority has. The local governments, and particularly St. Lawrence County, always see that as money that could be utilized for their purposes and that was never what it was intended for. Once this has been clarified, and it is pointed out that the entire history of the Authority there has never been a bill submitted to the county governments, which if the reserves were not maintained as they are, there would be a billing to the counties at the end of each year. J. Wright stated that the

Authority has always disclosed this information in the 11 or 12 budgets that he has been part of.

T. Phillips concurred with the comments made by C. Farone, J. Wright and A. MacKinnon. He further commented that what is not seen is that both M. Sims and he spend a great deal of time looking at those reserves. The staff certainly do their work. The auditors go back and make sure anything that should be called a restricted reserve is, and by that they mean it is either done by regulation or a third-party agreement. This then dictates what the reserves need to be. When the Board designated reserves, such as the telecommunications network, which needs to be self-insured since the Authority's fiber optic network goes through a significant amount of the North Country, there are a lot of woods and areas where you get into ice storms and other damages, accidents happen. People run into telephone poles. Because this portion is self-insured, it is important to review those reserves and the requirements every year, and to report them to the state. The state receives the financial statements as the transparency. There is a report that C. Farone will have completed by June 30th. The Public Authority Board does a very good job reviewing those statements and they ask questions when they do not understand something.

F. Carter asked a question pertaining to the beginning of the meeting as he joined late. His question is directed to B. McGrath regarding the question he had emailed back in 2015. B. McGrath stated he is unsure of the year, but it is not 2015, and instead the year in which the comptroller identified a couple of reporting errors. It was either 2017 or 2018, and following the call B. McGrath stated he would review his emails and forward that to T. Phillips. F. Carter continued with his question, asking if when B. McGrath had sent that question, did he also send it to C. Farone. B. McGrath responded that it was an appropriate question for an outside auditor. F. Carter stated that he wanted to ask because he had never known C. Farone not to get back to him with information. B. McGrath concurred stating that C. Farone has never taken longer than 15 minutes to respond to a question of his.

T. Phillips also commented that if the email had been sent to him and he failed to respond he apologizes. He further asked if B. McGrath could forward the email in question to him and he would take a look at the responses and make sure a reply was sent immediately. B. McGrath stated that he will.

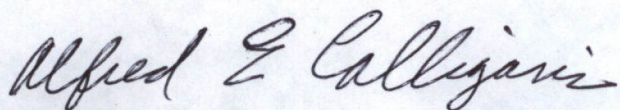
T. Phillips commented asking if any other committee members had any areas that they would like the auditors to take a look at, and that the auditors will take a deeper look at receivables. He further stated that confirmations had already been sent out, but if there is anything else in any other area that a committee member was concerned about to please contact him either by email or by text.

B. McGrath had one last question for T. Phillips regarding not being able to locate him on his firm's website. T. Phillips responded that the website had been redesigned and they took off the old presentation. They are working on rectifying

this issue. They have hired a new marketing director, and in redesigning the website he dropped T. Phillips. He expressed their apologies for this and said it should be rectified within the week.

Upon a motion by T. Hefferon, and seconded by A. MacKinnon, the meeting was adjourned at 11:00 AM.

Respectfully submitted:

A handwritten signature in cursive script that reads "Alfred E. Calligaris".

Alfred E. Calligaris
Chairman, Audit Committee

Attachment: Bonadio Handout