

**MINUTES
AUDIT COMMITTEE**

**Thursday, March 18, 2021 – 10:00 AM
Zoom Video/Teleconference Call
Dulles State Office Building
Watertown, New York**

Committee Members Present:

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

Staff Present:

Carl Farone, Deputy Executive Director
Jennifer Staples, Chief Financial Officer
Dawn Caccavo, Comptroller
Angela Marra, Executive Assistant

Committee Members Absent:

Guests:

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

Other Board Members Present:

Frederick Carter, Board Chairman

1. The meeting was called to order by Chairman Calligaris at 10:02 am.
2. A roll call was completed, and a quorum of the committee was established.
3. A. Calligaris stated the purpose of this meeting was for the Bondaio Group to review their audit plan for the Authority, and then turned the meeting over to Terry Phillips.

J. Johnson made a statement honoring the recent passing of H. Douglas Barclay by stating that the reason this Authority exists is because of the legislation that was created by the late H. Douglas Barclay, who passed away on Sunday. The long, successful run of what this Authority has accomplished since 1985 is a legacy to what Doug Barclay set up for the North Country as his part of his legislative career.

T. Phillips stated that this is a planning and scope audit presentation. He introduced himself as the engagement partner, M. Sims as the senior manager, and G. Evans as the team leader in their Central New York Governmental team.

T. Phillips reviewed the first five slides of the planning and scope presentation. He stated this is a risk based model, and the risks are based on their knowledge of the industry and the Authority's control environment. A significant amount of walk-through and preliminary testing was completed in January. As a team, they then review the industry, new GASB updates, and any other pronouncements to develop their scope for the current year. The preliminary work has been completed, the planning meeting will be held this weekend, and the audit will begin in May.

Today's meeting will cover the scope of services, the timetable, audit responsibilities, audit approach, and fraud risks. T. Phillips reviewed the reports they will generate and what they will do with any internal control observations and recommendations. He also mentioned that due to the challenges of the pandemic, things are going to appear differently than in years past.

The preliminary audit work was done in January, and they will continue to follow the Authority timeline and requirements by meeting with the Audit Committee prior to the June Board meeting, and will then issue the audited financial statements on or before June 30th.

M. Sims reviewed the audit responsibilities. The Bonadio Group will be performing an audit by issuing an opinion on the Authority's financial statements in accordance with GAAP using the same standards as in previous years based on the Governmental Auditing Standards Board (GASB). The Bonadio Group will perform a single audit based on the Authority's uniform guidance and yellow book reports. Management's responsibility is to present the financial statements in conformity with GAAP. The management team has adopted acceptable auditing, accounting policies, and procedures to maintain effective controls. The Audit Committee's responsibilities is to evaluate and select and auditing firm, and oversee the financial reporting process on a monthly basis, as is recorded in the minutes. Annually the committee oversees the internal controls by reviewing and approving all policies.

M. Sims stated their audit approach is based on a risk assessment, meaning they assess the Authority's overall controls to then concentrate on their testing and audit procedures. The areas they review are corporate governance, meaning the Board and management, internal IT as related to the accounting department, key controls over significant transaction cycles, reasonable accounting estimates, and sound accounting policies. They will also review fraud over the whole organization. This has been discussed during this meeting, but was also discussed with management as well as select people outside of accounting to see if there is any fraud taking place. Bonadio then begins an internal brainstorming session with their

engagement team members to assess where the risks are and where fraud could be perpetuated.

G. Evans began by reviewing the new GASBs. This year does not see much taking place, but next year will bring changes.

GASB 89 states we should no longer capitalize interest costs as part of the historical cost of the Authority's assets during a construction period.

GASB 93 will be relating to hedging transactions or interest rate swaps. The guidance states we are no longer to use the LIBOR rates. This should not have an effect on the Authority.

GASB 87 will reform the way we account for leases. They will no longer be classified as operating and capital leases, but just leases. GASB has been very specific regarding the definition of a lease. Items may be pulled in that were not considered in the past. This is not effective until 2023 which allows for time to develop practice aids to help determine any accounting adjustments that may need to be done.

C. Farone stated the Authority has small leases such as postage meters, but the only large operating lease with OGS for the office space. He asked if this three year lease with the State of New York OGS for office space would fall under GASB 87, and would the Authority then have to capitalize this asset. G. Evans responded that the smaller leases would be immaterial. One of the things they will be looking at are leases that may have not been recorded month to month in the past, but we will need to begin looking at the nature of those transaction as we would be recording a right to use asset. T. Phillips volunteered to help G. Evans implement this change.

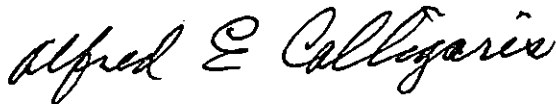
T. Phillips continued by covering the fee arrangement based on the Bonadio proposal. There has been no change to the proposal, leaving the audit fee at the same cost as previous years. T. Phillips also reviewed the full client service team by member and task as is listed on the last page of their report.

C. Farone asked if it is the intent that this audit could be done virtually if need be, due to the prevalence of Covid. T. Phillips responded that he had discussed this with J. Staples and last year's preliminary audit was done on site, but after the shutdown the majority of work was completed remotely. They believe the majority of work will be done remote this year as well, but if they are needed on site to do anything they will make arrangements beforehand. They are making sure to adhere to follow social distancing rules, making sure people are properly protected, and making sure they have adequate space for their work area. They also make sure the clients are comfortable with their staff being there.

B. McGrath asked what the audit team is specifically doing when there is a substantial change in personnel position, such as the Authority had with Carl (Farone) moving to Executive Director and Jennifer moving up. B. McGrath continued by specifically asking if there is anything done to make sure handoffs were done and anything enhanced in this particular situation. T. Phillips responded they will conduct more thorough interviews. T. Phillips stated they have gone more remote and want to be sure they dive deeper into information technology and have strong controls over that. They will further ensure that the understanding for what has changed in people's responsibilities and report back to the committee. T. Phillips also stated that they have seen an increased risk of remote staff not working when they say they are. This has caused the audit team to change controls, how they audit certain things, how they ask questions, how they look at and how signoffs happen, and how bank transfers happen. They are concerned with keeping their staff up to speed and have done significant training on the remote environment with their staff so they are aware of these challenges.

The meeting was adjourned by committee chair A. Calligaris at 10:28 AM.

Respectfully submitted:

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

Alfred E. Calligaris
Chairman, Audit Committee

Attachment: Bonadio Handout