



MINUTES AUDIT COMMITTEE

**Thursday, March 24, 2022 – 9:00 AM
Zoom Videoconference & Conference Room 1
Warneck Pump Station
Watertown, New York**

Committee Members Present:

Thomas Hefferon, Acting Chairman
Mary Doheny
Dennis Mastascusa
Alex MacKinnon
Brian McGrath

Staff Present:

Carl Farone, Executive Director
Jennifer Staples, Chief Financial Officer
Dawn Caccavo, Comptroller
Michelle Capone, Director of Regional Development
Angela Marra, Executive Assistant

Committee Members Absent:

Guests:

Gregg Evans, Bonadio Group

Other Board Members Present:

Margaret Murray, Board Vice Chairperson

1. The meeting was called to order by Chairman Hefferon at 9:05 am.
2. J. Staples stated that every March the Audit Committee meets with the auditing firm to review the upcoming audit plan and to make any changes or additions to this plan. She also introduced G. Evans from the Bonadio Group. He is a partner at the Bonadio Group will lead the audit for FY22. Gregg will give today's presentation. J. Staples turned the meeting over to Gregg Evans.

G. Evans stated that the meeting today is to review the audit plan, and then discuss concerns and expectations the committee has in relation to the audit. He reviewed the members of the client service team, the audit service plan, and the responsibilities of the auditors, management and the Board. He explained that the risk assessment methodology will be discussed as we look at the audit approach, and a few things that are coming up in the auditing and accounting world will be reviewed as well.

M. Doheny joined the meeting at 9:09 AM.

G. Evans stated that he will be Engagement Partner, Tania Budge will be the Engagement Manager, Angela Wilbur will be the Engagement Senior and Kristen Clark will be Quality Assurance/Advisory Partner.

G. Evans continued with a review of the professional services plan. An audit of the Authority's financial statements will be done, and the audit team will provide an opinion on that. A single audit will be done in accordance with uniform guidance. A management letter will then be prepared which will review internal controls, observations, best practices, or other recommendations. Investments will be reviewed to ensure compliance with Public Authorities Law. Agreed upon procedures will be done related to the Regional Waterline Capital and Operating Reserve Funding.

G. Evans reviewed the audit timeline. Some of the preliminary fieldwork has already been completed in January. This meeting today is being held to discuss the Audit Plan. Year-end field work will occur mostly in the month of May, and will meet again with the Audit Committee on June 16th to discuss the approval of a draft of the financial statements. Once approved, they will be presented to the full Board on June 23rd, and filed with New York State prior to the June 30, 2022.

G. Evans explained the audit responsibilities. The auditors are responsible for giving a clear opinion on the Authority's financial statements in accordance with GAAP. They will plan and perform the audit to obtain reasonable, but not absolute assurance, that the financial statements are free of material misstatements. They will consider internal controls over financial reporting in regards to the audit procedures. An opinion will not be discussed regarding the internal controls, but any deficiencies they see will be noted. Management is responsible for effective internal controls, adjusting financial statements if the audit team proposes any journal entry corrections, and the preparation of financial statement in accordance with GAAP.

The Board's responsibilities are to select an audit team, oversee the financial reporting process, evaluate management's process, and promote corporate governments and appropriate ethical standards.

The risk assessment methodology was reviewed by G. Evans. Their audits are risk based in accordance with GAAS. The goal is to assess the risk of material misstatements, which has two components in inherent risk and control risk. Inherent risk is based on characteristics of accounts and assets, liabilities, revenues, and expenses. Control risk is based on the Authority's internal controls. A risk assessment will be done for each significant account to put together the risk of material misstatement.

Gathering information for the audit approach is started with a brainstorming session to figure out areas where there could be problems, as well as rely on work papers from prior years. Our returning audit senior will help point out areas of

emphasis as well. We will make inquiries of the Board throughout the planning process and will speak to management and other staff to gather information to perform the risk assessment. The process has already begun by understanding and documenting controls. A walk through will be performed of those controls to ensure they are operating as designed. Based on this information gathered we will design audit procedures that will hopefully yield adequate audit evidence to support our audit opinion. Risk assessment will continue throughout the entire audit and additional procedures will be performed, as needed, to provide a comfort level to support our audit opinion.

Accounting developments for the upcoming audit were reviewed.

GASB 89 is accounting for interests costs incurred before the end of a construction period. We are not anticipating any issues here. Interest costs need to be expensed as incurred as opposed to being capitalized with the assets that are related to those interest costs.

GASB 87 will be effective next year and is related to leases. G. Evans stated he has met with J. Staples and D. Caccavo to do a preliminary review of what steps need to be taken right now to inventory the leases and figure out which ones will be covered or excluded. An evaluation of the nature of these leases will also need to be completed. A month to month lease that has been ongoing for 20 years will be considered a long term lease.

G. Evans stated that their firm is part of the AICPA dynamic auditing solution initiative. They have a partner who has dedicated roughly 25% of her time developing this new product. We are anticipating the auditing standards will change and become more data driven. They are developing a product that will automate the audit process using artificial intelligence data analytics. This entails downloading your entire GL and doing some analytics as part of the planning process. We think this process will be incorporated into future auditing standards. There is a commercial team going through the testing process right now. The government team may still be a few years away from this but we want to make you aware of the fact that the auditing world is changing and the way we perform our audits in the future may be different. We believe this change will produce better information and lead to some analysis that will be helpful to both the Board and management team going forward.

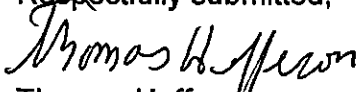
At this time G. Evans asked if there were any additional expectations or concerns from the Audit Committee that we can address during the audit this year.

B. McGrath asked if when the engagement partner is rotated, is the underlying support team also rotated so there is a fresh set of eyes working with the engagement partner? G. Evans responded that the regulation is to rotate partners every five years and that they typically do have a different manager come on board as well. This year they rotated the entire team, with Angela Wilbur being the only

one to come back. T. Phillips's team largely works out of Rochester and G. Evans stated his team mostly operates out of Syracuse. This year the Board will definitely get a different set of eyes with a different audit plan.

Upon a motion by B. McGrath, and a second by T. Hefferon, the Audit Committee Meeting was adjourned at 9:22 AM.

Respectfully submitted,



Thomas Hefferon
Chairman, Audit Committee

Attachment: Bonadio Handout

Development Authority
of the North Country
Audit Committee
Audit Planning

FYE March 31, 2022

THE BONADIO GROUP
CPAs, Consultants & More



MEETING AGENDA

Your Client Service Team	1
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Risk Assessment Methodology	6
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Accounting Developments	8

Your Client Service Team

Gregg Evans	Engagement Partner	gevans@bonadio.com	(315) 214-2743
Tania Budge	Engagement Manager	tbudge@bonadio.com	(315) 214-2741
Angela Wilbur	Engagement Senior	awilbur@bonadio.com	(315) 214-2754
Kristen Clark	Quality Assurance/Advisory Partner	kclark@bonadio.com	(315) 565-3671

We have been engaged to provide the following services for the Development Authority of the North Country:

Professional Services

Provide independent opinion on the presentation of the financial statements in accordance with GAAP.

Perform single audit for the Authority in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and in accordance with *Government Auditing Standards*.

Prepare a letter on internal controls and other observations and recommendations.

Audit of Investments as required pursuant to Section 2925(3) (F) of Public Authorities Law.

Agreed-upon procedures related to the Regional Waterline Capital & Operating Reserve Funding.

Service Plan

Preliminary Fieldwork	Week of January 24, 2022 (approx.)
Audit Plan Review with Board	March 24, 2022
Year-end Fieldwork	May 2 – 27, 2022 (approx.)
Audit Committee Meeting	June 16, 2022
Board of Directors Meeting	June 23, 2022
Reports Due to NYS	June 30, 2022

Auditor's Responsibility

- Form an opinion as to whether your financial statements have been presented fairly, in all material respects, in accordance with generally accepted accounting principles (GAAP).
- Conduct our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatements, whether caused by fraud or error.
- Consider internal control over financial reporting as a basis for designing audit procedures, but not for the purpose of expressing an opinion on internal control.
- Communicate significant matters related to the financial statement audit to the Board of Directors, including all significant deficiencies and material weaknesses in internal control identified in performing the audit.
- Comply with American Institute of Certified Public Accountants (AICPA) and government independence standards.
- **An audit does not relieve management or the Board of Directors of their responsibilities with regard to governance and oversight.**

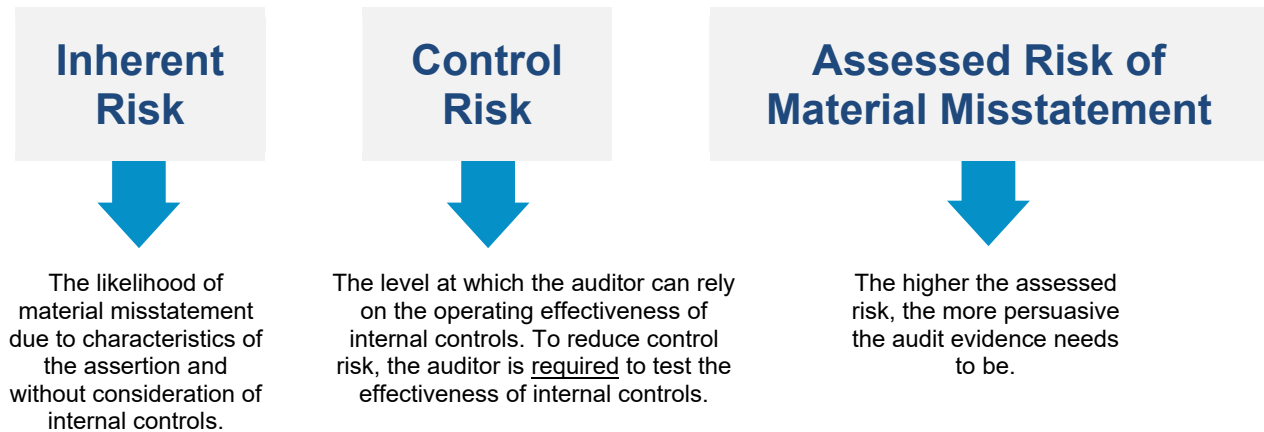
Management's Responsibility

- Adopt acceptable accounting policies.
- Establish and maintain effective internal control over financial reporting.
- Identify and ensure that Authority complies with laws and regulations applicable to its activities.
- Make all financial records and related information available to the auditor.
- Provide the auditor with a letter that confirms certain representations during the audit.
- Adjust the financial statements to correct material misstatements.
- **Management is responsible for the preparation of the financial statements in conformity with GAAP.**

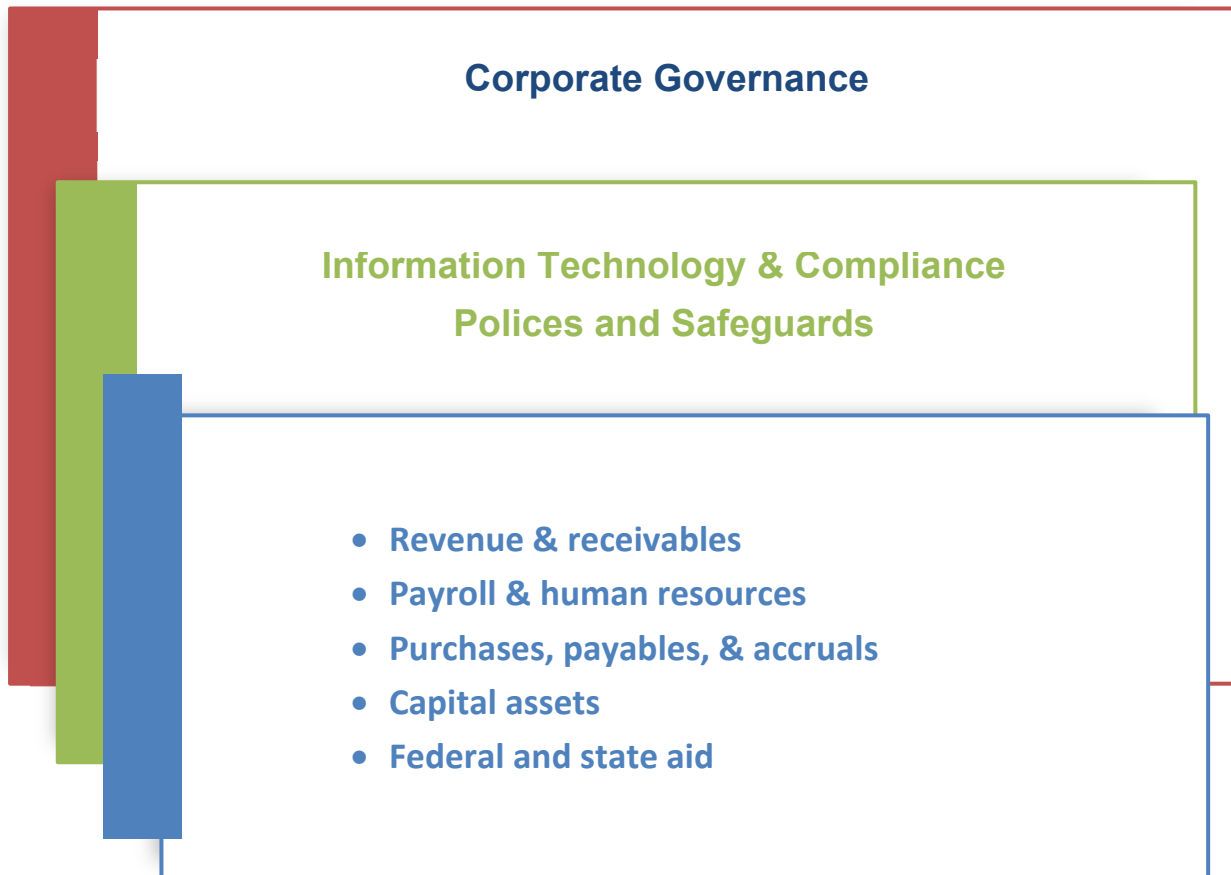
Board of Directors' Responsibility

- Select and evaluate audit firm.
- Oversee the financial reporting process and the system of internal controls over financial reporting.
- Evaluate management's process for the identification of fraud risk and its internal controls established to prevent, deter, and detect fraud.
- Promote corporate governance and appropriate ethical standards.

In accordance with generally accepted auditing standards (GAAS), we will perform a risk-based audit.



Control risk is assessed based on our understanding of the effectiveness of your internal control systems. We will evaluate key controls in the following areas:



Audit approach

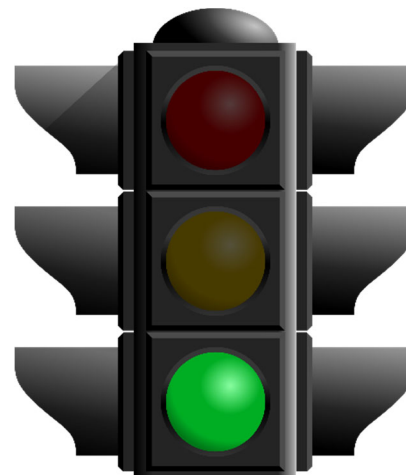
- We will begin with an internal “brainstorming” meeting with our engagement team members to share knowledge, experience and past year(s) workpapers, as well as assess the risk of material misstatements whether to due to fraud and/or undetected error.
- We will make inquiries of the Board of Directors, the Authority management, and other staff members. Inquiries will include but not be limited to knowledge of fraud, undetected errors, noncompliance, and instances in which controls were overridden.
- Based upon our knowledge of the industry, audit results from the prior year, information obtained as part of our inquiries, and the results of our preliminary analytical procedures, we will identify any significant inherent risks that are driving a risk for material misstatement of the financial statements. We will evaluate the inherent risk of each significant transaction class by individual assertion.
- We will obtain an understanding of controls that mitigate risk for fraud or undetected error that could result in material misstatement of the financial statements through inquiry, observation, reperformance and recalculation. We will evaluate the control risk of each significant transaction class by individual assertion.
- We will perform walkthroughs of said key controls to solidify our understanding of the control activities designed by management.
- Based upon our evaluation of both inherent risk and control risk, we will calculate a risk of material misstatement of each significant transaction class at the individual assertion level. We will then design appropriate audit procedures that will yield adequate audit evidence to support our opinion on the financial statements.
- We will consider and evaluate the entire population of journal entries in order to address the risk of management override.
- As it relates to the single audit, we will identify and test compliance with those requirements that are deemed to be direct and material to the Authority. We will also identify and test the effectiveness of key controls over each direct and material compliance requirement.
- We will focus on the risk of fraud relative to revenue recognition.
- Based upon results of our audit procedures, we will review and reevaluate our previously established audit strategy and determine if the risk assessment should be modified. Further extended procedures will be performed as deemed necessary.

Currently Effective Guidance

FULL SPEED AHEAD

GASB 89 - Fiduciary Activities

- The principal objective of this Statement is to relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.



Effective: fiscal year ending March 31, 2022 (following GASB 95 that allowed the due date to be deferred).

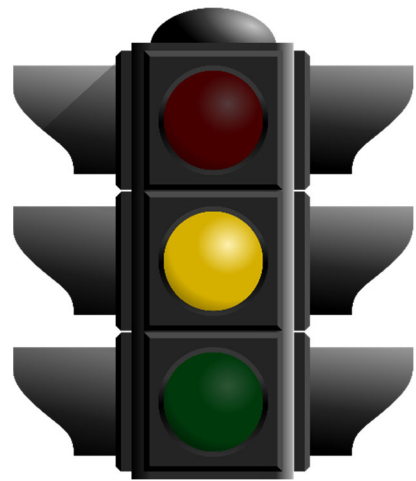
Impact: Interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset and will be recognized as an expense in the period in which the cost is incurred

Prospective Accounting Guidance

CAUTION. CHANGES RIGHT AROUND THE CORNER

GASB 87 - Leases

- In June 2017, GASB released Statement No. 87, Leases
- Defines leases as financing arrangements that give the government the right to use the leased asset.
- Covers nonfinancial assets like vehicles, equipment, and property.
- Will bring substantially all leases on to the statement of net position.
- Excludes short-term leases covered by contracts of 12 months or less (including any options to extend).
- Requires lessees to report a liability as long-term debt for the contract and an intangible asset representing the right to use the item being leased.
- Financial statement impact:
 - Lease payments will be capital financing outflows on the cash flow statement
 - Amortization expense for using leased asset (similar to depreciation)
 - Interest expense on lease liability
 - Expanded footnote disclosures



Effective: fiscal year ending March 31, **2023**. This due date has been deferred as a result of GASB 95.

Impact: Will require the Authority to recognize all leases, which extend over 12 months, as liabilities on the Statement of Net Position with a corresponding right-to-use asset.

Action Item: Start reviewing contracts NOW and consider any arrangements where the Authority has received, or extended to a third party, a right-to-use asset.

Leading the way through leading edge technology

Dynamic Auditing Solution (DAS)

About 3 years ago, the AICPA began discussions with major national firms to *“develop a transformational auditing methodology supported by a state-of-the-art technology platform.”* We are proud to report that **The Bonadio Group is the only firm in Upstate New York** that is taking the lead in this project that will transform our industry. Bonadio is working directly with the AICPA to reimagine the auditing standards and develop the audit methodology that will be used in the Dynamic Audit Solution. The goal of the DAS is to develop a flexible and scalable, cloud-based platform that uses the power of automation, artificial intelligence, data analytics and updated methodologies to transform auditing. While the technology behind the DAS initiative is complex, its purpose is clear: to deliver innovations to drive audit quality and add value to our clients.

What does this mean for our clients?

We are fundamentally reimaging the audit with our investment in the Dynamic Audit Solution. The future of auditing will include predictable workflows, fast data driven decision making, and being able to predict issues before they arise.

Bonadio is committed to embracing leading edge technology: not for the sake of technology, but for how technology empowers our people, provides the tools we need to do our jobs and ultimately to better serve our clients. By taking a proactive approach to inevitable change, we are positioned to meet the challenges of the future and reinforce our commitment to implementing strategies that increase opportunities for our people and create better experience for our clients.

As our partner in business, you can expect greater insight into your business as 100% of your financial data will be imported into our secure DAS cloud-based platform where it is available for analysis. As part of our audit strategy, we will leverage the use of artificial intelligence that will yield more effective and efficient audit procedures. Furthermore, with DAS, you can expect a more streamlined overall experience as it relates to communicating with your audit engagement team and sharing sensitive data.

What are we doing now to get ready for the future?

Today, we’re building tech savvy teams who can respond faster and more efficiently. We’re diversifying our people and giving them more technology experience. We’re using myPortal which gives you real-time data flow with your audit team. It reduces time spent to provide Bonadio with data. There is greater transparency with information exchange and audit requests are made one-time. FS Tool is a new technology used to automate the preparation of your financial statements and drive accuracy. We’re using data auditing tools like IDEA that will look at entire populations instead of sampling. With this tool, we can test data against expected outcomes and identify outliers.