

MINUTES AUDIT COMMITTEE

Thursday, June 20, 2024 – 10:00 AM
Zoom Video/Teleconference Call

Dulles State Office Building, 4th Floor, Conference Room
Watertown, New York

Committee Members Present:

Mary Doheny, Chairperson
Nancy Henry
Dennis Mastascusa
Brian McGrath*

Staff Present:

Carl Farone, Executive Director
Jennifer Staples, Chief Financial Officer
Dawn Caccavo, Comptroller
Regina Rybka-Lagattuta, Director of Human Resources
Angela Marra, Executive Assistant

Committee Members Absent:

Guests:

Thomas Smith, EFPR Group

Other Board Members Present:

Margaret Murray, Board Chairperson

*Attended via videoconferencing

1. The meeting was called to order by Committee Chair M. Doheny at 10:04 am.
2. A roll call was completed, and a quorum of the committee was established. Board Chairperson Murray was also in attendance.
3. J. Staples began the meeting by introducing Thomas Smith, a partner with EFPR Group and our auditor from the firm selected to provide our external audit. She expressed her appreciation to Mr. Smith for a very efficient audit process within the first year working with EFPR, and to D. Caccavo and the finance team for an excellent job done in compiling the necessary paperwork for the auditors to complete their task on time.
4. T. Smith began his presentation of the financials and audit results with introducing the engagement team and their specific duties within the process. The team began the audit May 13th on site and issued the first draft of the financial statements on May 30th. Following today's meeting with the Audit Committee. He will meet with the full Board on June 27th to have the final financial statements approved.

T. Smith explained that from an audit results standpoint they are ready to issue a clean, or unmodified, opinion on four different items; basic financial statements, a single audit of the Authority's federal awards, an investment audit and Regional Waterline Capital and Operating Reserve Fund Analysis Agreed-Upon Procedures (AUP). They also

implemented the new Governmental Accounting Standards Board (GASB) Number 96, regarding Subscription Based Information Technology Agreements as assets and liabilities. The results of all their tests resulted in no instances of non-compliance with laws, regulations, or internal control matters that would need to be disclosed under Government Auditing Standards or Uniform Guidance. T. Smith also expressed his appreciation to the Authority's finance team for their assistance in supplying the necessary records in a very organized manner.

T. Smith explained the financial results, stating total assets increased over prior year by \$11.4 million, with a balance of \$241 million, due to a large increase in construction projects in the current year. Deferred outflows of resources decreased by \$375,533 for a balance of \$3.6 million due to actuarial assumptions on long-term health insurance, or other postemployment benefits (OPEB) and the New York State pension plan. The Authority has no discretion on the pension system, and T. Smith explained this upfront because this also impacted many changes throughout the audit. GASB 68 requires that a portion of the proportionate share of the pension system be on the Authority's financial statements and will reflect large changes in the Authority's financial statements under liabilities or assets that are not true cash payments.

Total liabilities increased \$19.5 million for a total of \$85 million due to the addition of short-term loans in the current year that are anticipated to change to long term loans. Deferred inflows of resources decreased \$5.7 million to a balance of \$2.3 million due to changes in the actuarial assumptions related to the pension as well as OPEB. The overall net position decreased by \$2.8 million, but is still in a very healthy financial position of \$157 million at year end. The net position is broken into three categories; net capital assets with a decrease of \$3 million due to new debt associate with construction projects, restricted net position with an increase of \$1.7 million due to the money moved to help fund cell 14 construction, and unrestricted net position which decreased by \$1.3 million due to the transfer from the tip fee reserve to the liner reserve. Operating revenue decreased by \$968,840 due to a decrease in customer billings due to a decreased amount of tonnage being received compared to prior year. Non-operating revenue expense increased \$2.7 million due to better interest rates and reductions in market adjustments. Operating expenses increased \$1.4 million due to pension expenses associated with the GASB 68 requirement.

B. McGrath asked why "expense" is in parentheses in the second bullet point, and why is return on investment including an increase on interest rates classified as an expense. T. Smith responded there are a few items that fall under non-operating revenue (expenses), where overall there is a revenue but there is also interest expense within that line. He further stated that as reflected on page 16 of the financial statements, additional items included are gain on sale of capital assets and debt issuance expense.

T. Smith continued with the required communication Report to the Board which describes the significant accounting practices that states that financial statements are consistent with the prior year, and they had no difficulties in performing the audit. They will obtain the management letter, which will allow them to issue the financial statements that will be dated for June 27th as the date of the presentation to the Board. They did not have any changes to their original audit plan and no other matters have been communicated to the Board that

the committee needs to be aware of such as fraud, misstatements, or unplanned risks. They are also not aware of any consultations with other firms, there were no disagreements with management during the audit process, and there are no significant matters to be considered regarding the Authority's financial reporting process.

B. McGrath asked how often T. Smith was on site, and who did he or his team meet with when there during the audit. T. Smith responded he was onsite for three or four days, and met mostly with Dawn Caccavo and Erica Belt. He further stated that they had access to the software and were able to look up invoices which reduced the amount of time needed to request more information.

T. Smith continued by explaining upcoming GASB pronouncements such as GASB 99 – Omnibus 2022 to update previously issued requirements, GASB 102 – Certain Risk Disclosures will mainly affect smaller entities, and GASB 103 – Financial Reporting Model Improvements, which will be effective in 2027 and will focus on improving components of the financial reporting model. Overall, the effects of these statements on the Authority's financial statements are currently unknown.

M. Doheny asked why several references were made to the pension obligations and what caused the dramatic changes. T. Smith responded referring to the supplemental schedule within the packet that shows the last 10 years. This information is driven by the actuarial assumptions put in place by New York State, which changes the inflation rate, discount rate, and expected salary increase each year. The pension system is audited by KPMG, who verifies that these assumptions are accurate. J. Staples commented that in 2023 our liability changed by a \$500,000 credit and in 2024 by a \$750,000 increase, showing that from one year to the next can have drastic changes. C. Farone stated that the important piece is what was budgeted as a cash expenditure, and that our OPEB calculation is very conservative because we are not allowed to include the money that we have in the bank for this specific purpose.

B. McGrath asked if the retirement passes through to the state at year end, regardless of whether the employee has retired, and is the Authority funding a state plan or is that what we pay staff as they retire? C. Farone responded that the retirement is dictated 100% by the State of New York where the Authority sends them a check once a year and the state pays out all pension expense to the retirees.

C. Farone asked about the last line of the Plan Fiduciary New Position showing a percentage of total Pension Asset Liability 2024 at 90%, and 2023 at 103%, if that number is the percentage funded by the plan. T. Smith concurred that this is New York State's funded percentage.

B. McGrath asked as EFPR's first year auditing the Authority, if this was more labor intensive and if they anticipate next year to be a more streamlined process. T. Smith responded that year one is the hardest lift with so much going on behind the scenes before and after they are on site. He further stated that year one was incredibly smooth and he is optimistic for subsequent years. B. McGrath further asked and T. Smith agreed that they had no obstacles, they received all necessary information and they feel this is a clean audit.

5. Upon a motion by D. Mastascusa, and seconded by N. Henry at 10:34 AM, the Committee moved into Executive Session to discuss the audit.

Upon a motion by D. Mastascusa, and seconded by N. Henry at 10:39 AM, the Committee moved to come out of Executive Session.

Committee Chair Doheny stated that no action was taken during Executive Session.

6. Resolution No. 2024-06-XX accepts the Audited Financial Statements, Single Audit, Agreed Upon Procedures and Report on Investments as of and for the year ending March 31, 2024.

Upon a motion by B. McGrath, and seconded by D. Mastascusa, Resolution No. 2024-06-XX, Approving Audited Financial Statements, Single Audit, Agreed Upon Procedures, and Report on Investments for Fiscal Year Ending March 31, 2024, was unanimously approved and recommended to the full Board for approval.

7. Internal Audit Work Plans – Human Resources (HR)

J. Staples continued the meeting with discussion of the internal audit results for FYE 24 and a review of the proposed FYE 25 internal audit plan. C. Farone stated that each year a review is done of the current year Audit Work Plan results, and of the internal audit workplan for the upcoming year. We also consult with the external auditors to see if there is anything that they suggest we implement as an internal audit to help strength our process. Since 2020 HR has been conducting the internal audits, but beginning with FYE 25 we will be changing the audit body to the Administrative Coordinator, who has an accounting background, leaving the Human Resources Director and her team to complete the HR Audit.

R. Lagattuta reported that there were no significant findings on any of the internal audits conducted during the FY 2024 Internal Audit. She explained that the various audits are conducted daily, weekly, monthly, quarterly, and bi-annually, and within some audits they found areas for improvement:

- Telecom Tax Audit could show continuous improvement in how we operationalize that function and a standard operating procedure (SOP) has been created for this task. C. Farone commented that this is in reference to our request for various tax forms annually from the customers. This process was not documented and we have had a staffing transition so we thought it would be good practice to have this process formalized in writing for consistency going forward.
- Purchase Orders being created after the invoice has been received, such as subscriptions or unexpected expenses, could be improved upon. C. Farone added that the typical process is to create the PO prior to the order, but there are infrequent circumstances where this happens.

R. Lagattuta stated that employee expense audits are done daily, prior to the expense being reimbursed. These are conducted in a timely manner of five to seven business days after the expense has been submitted.

J. Staples stated that all audits are the same from FYE 2024 to FYE 2025, with the addition of a pension audit. The pension rate audit was added at the suggestion of T. Smith, and will be included in the HR Audits to be processed annually during the first quarter. C. Farone explained this audit would entail making sure that the correct contribution is being made per employee by tier. Reviewing this within the first quarter of the fiscal year ensures it is being done correctly for the year, as opposed to finding the error later.

M. Doheny stated that she recalled something being done with petty cash several years ago. C. Farone stated that we no longer have petty cash.

Upon a motion by N. Henry, and seconded by D. Mastascusa, the Internal Audit Work Plan was unanimously approved for FY25.

8. Resolution No. 2024-06-XX approves the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country, for the fiscal year 2024.

J. Staples reviewed the Assessment of the Effectiveness of Internal Controls – FY 2024, as attached to the resolution. She further explained the purpose of these internal controls is to prevent and detect fraud and to detect irregularities or error in financial reporting. Within the Authority's accounting manual, which documents the procedures, policies, and principals that govern our accounting practice, is a system of checks and balances for the Authority.

J. Staples discussed several examples of these controls, including the purchase requisition process and described this process of checks and balances in detail. J. Staples stated that another check and balance procedure that is in place is the monthly reconciliation of Authority bank accounts where the accounting procedures are divided among employees so the work of one employee complements the task and checks on another. While the auditors were not engaged to perform the audit for internal controls, they did not identify any deficiencies within our internal controls. J. Staples further commented that the present internal control structure is sufficient to meet the objections as they pertain to the prevention and detection of fraud, errors, and irregularities.

Upon a motion by D. Mastascusa, and seconded by M. Doheny, Resolution No. 2024-06-XX, Approving the Assessment of the Effectiveness of Internal Controls of the Development Authority of the North Country for Fiscal Year 2024, was unanimously approved and recommended to the full Board for approval.

9. Resolution No. 2024-06-XX approves the Annual Bond Sales Report for Fiscal Year Ending March 31, 2024. This is an annual report that includes the results of any Bond Sales during the year, to include Underwriter's Compensation, Net Interest Cost, and the Method of Sale.

J. Staples reviewed the new sales report for the Authority's Bond Sale Policy and stated that this resolution is reviewed annually to provide an understanding to the Board. Within this report J. Staples explained the following changes in detail; the Telecom Letter of Credit, the Army Water Line Drinking Water Facility Note, and the Army Sewer Line Revenue Note.

She also reviewed the outstanding bonds listed on the report, such as the 2019 Revenue Bonds and 2015 Revenue Bonds, both associated with the Materials Management Facility.

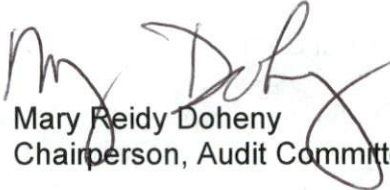
Upon a motion by D. Mastascusa, and seconded by B. McGrath, Resolution No. 2024-06-XX, Approving Annual Bond Sales Report for Fiscal Year Ending March 31, 2024, was unanimously approved and recommended to the full Board for approval.

C. Farone expressed his appreciation to finance and the audit team for a job well done.

M. Doheny also expressed her appreciation for all their hard work.

Upon a motion by D. Mastascusa, and seconded by N. Henry, the Audit Committee meeting was adjourned at 10:58 AM.

Respectfully submitted:


Mary Reidy Doheny
Chairperson, Audit Committee