AUDIT COMMITTEE MEETING MINUTES

Friday, May 13, 2016 – 11:00 AM
Authority Conference Room, 4th Floor
Dulles State Office Building

Committee Members Present:
John B. Johnson, Jr., Chairman
Alfred Calligaris
Dennis Mastascusa

Staff Present:
Thomas Sauter, Deputy Executive Director
Carl Farone, Comptroller
Jo Anne Yaddow, Executive Assistant

Committee Members Absent:
Brian McGrath
Alex MacKinnon

Other Board Members Present:
Gary Turck, Chairman, BOD

Guests:
Bettina Lipphardt, Partner, The Bonadio Group
Terrence Phillips, Partner, The Bonadio Group

1. The meeting was called to order by Chairman Johnson at 11:00 am. Mr. Johnson said the meeting was to discuss the plan for the 2016 audit and turned the meeting over to Bettina Lipphardt.

2. Ms. Lipphardt introduced Terrence Phillips, who has a background in governmental audits. Ms. Lipphardt stated that The Bonadio Group is in the process of undertaking an audit for the last fiscal year ending March 31, 2016. Ms. Lipphardt reminded the Committee that she was at the end of her five year cycle in the contract with the Development Authority. Ms. Lipphardt reviewed the following:

Scope of Services for the Year Ending March 31, 2016:
- Audit of the financial statements of the Development Authority
- Perform an audit under Uniform Guidance (Single Audit) on the schedule of expenditures of federal awards, as required. The Authority will not be required to have a Single Audit for the year ending March 31, 2016 as federal awards were below $750,000 for the year.
- Report on Compliance with the Laws and Regulations related to Investment Guidelines for Public Authorities
- Agreed-upon procedures related to the Regional Waterline
- Internal control observations and recommendations, if applicable
- Observations related to overall performance
Timetable of Audit:
- Preliminary audit field work – January 2016
- Year-end audit fieldwork – May 4, 2016 – May 13, 2016
- Audit Committee Meeting – June 2016
- Board of Directors Meeting – June 23, 2016
- Issuance of final audited financial statement – on or before June 30, 2016

Audit Responsibilities:

**Bonadio Responsibilities** -
- Form an opinion on whether Development Authority financial statements have been presented fairly in accordance with GAAP
- Plan and perform the audit to obtain reasonable, but not absolute, assurance that 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, not for the purpose of expressing an opinion on internal control
- Perform the audit in accordance with Government Auditing Standards (Yellow Book):
  - Report on internal control over financial reporting and on compliance
  - Report on internal control over compliance and provide an opinion on compliance
- Communicate significant matters related to the financial statement audit to the Audit Committee and Board of Directors
- Maintain open lines of communication and responsiveness throughout the year

**Management’s Responsibilities** –
- Fairly present financial statements in conformity with GAAP
- Adopting acceptable accounting policies
- Establishing and maintaining effective internal control over financial reporting
- Compliance with provisions of laws, regulations, contracts and grant agreements
- Providing the auditor with a letter that confirms certain representations during the audit
- Adjusting the financial statements to correct material misstatements

**Audit Committee Responsibilities** –
- Select and evaluate audit firm
- Oversee the financial reporting process
- Oversee the system of internal controls over financial reporting
- Evaluate management’s process for the identification of fraud risk and internal controls established to prevent, deter, and detect fraud
- Promote corporate governance and appropriate ethical standards
Audit Approach

- Is risk based; review of key controls, entity level controls, information technology controls, and monitoring controls over financial reporting, operational activity and strategic issues affecting the Authority.
- Based on significant knowledge of and experience with the Authority and government sector.
- Corporate governance – Gain understanding of Board of Directors’, Audit Committee’s, and management’s level of awareness and actions concerning internal controls. Governance policies including conflicts of interest, whistleblower, executive compensation, travel and entertainment policies will be reviewed.
- Information Technology – Review general controls of IT system and applicable laws and regulations.
- Key controls over significant transaction cycles such as closure and post-closure estimates; loans receivable; revenue and receivables; purchases, payables, and accruals; payroll and human resources; capital assets.
- Reasonable accounting estimates – Gain understanding of significant accounting estimates and evaluate reasonableness of the assumptions used and perform testing on calculations.
- Sound accounting policies – Assess accuracy of accounting policies through audit testing and discussions with management.

Fraud Risks and Responsibilities

- Fraud perpetuated in two ways – Misappropriation of assets and fraudulent financial reporting.
- Required to gain understanding of risk of material misstatement due to fraud and develop audit procedures to respond to fraud risks identified.
- Engagement team will meet to assess the risk of material misstatement due to fraud.
- Inquiries will be made to the Audit Committee, management, and others within the Authority regarding their knowledge of fraud or fraud risk. Inquiries extend beyond accounting and finance offices, along with corroborating evidence in detecting fraud.
- Identification of risks of material misstatement due to fraud from information gained from inquiries, results of analytical procedures, and results of testing of controls.
- Evaluate programs and controls Authority has put in place to address the risk of material misstatement due to fraud.
- Sample of journal entries will be reviewed to address the risk of management override.
- Focus will be on the risk of fraud relative to revenue recognition.
- Management is responsible for design and implementation of controls to prevent, deter and detect fraud.
GASB Update

- GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27." Statement No. 68 will require government agencies, as participants in NYS cost-sharing pension plans, to recognize their proportionate share of collective unfunded net pension liability, pension expense, and deferred pension outflows of the NYS and Local Employees' Retirement System within their financial statements.
  - Effective for fiscal year ending March 31, 2016

- GASB Statement No. 72, "Fair Measurement and Application." Statement No. 72 defines fair value, provides guidance for determining fair value measurement for financial reporting purposes and requires additional footnote disclosures for assets and liabilities measured at fair value.
  - Effective for fiscal year ending March 31, 2017

- GASB Statements No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Statements No. 75 relates to postemployment benefits other than pensions (OPEB) and is intended to make the OPEB accounting and financial reporting consistent with the pension standards in GASB Statements No. 57 and 68.
  - Effective for fiscal year ending March 31, 2019

3. B. Lipphardt explained the Development Authority does not need a single audit in 2016 since the Authority had no federal awards in excess of $750,000. Although C. Farone had requested a single audit, the request was turned down. C. Farone explained the Development Authority will be considered high risk for the next year’s single audit since a single audit will not be done this fiscal year. Per the audit timetable, there was discussion that June 13, 14 or 15 would be the best time for the Audit Committee Meeting to convene. June 13, at 10:30, will subsequently be selected. The Bonadio Group will attend the June Board Meeting to give a presentation to the Board.

A. Calligaris asked if there is an allowance for uncollectable landfill fees. C. Farone responded no, they are sound from an accounts receivable perspective and there is not an allowance for bad debt. J. Johnson asked if there are any problems with customers on the water lines. C. Farone said no. C. Farone stated that SLIC (Telecom) is the only customer whose receivable balance is concerning and is overdue by $500,000, but the Authority still believes the total will be collected.

4. GASB 68 – C. Farone reviewed and explained the GASB Updates.

5. Audit Services – FYE 2017 – C. Farone noted that this is the last year of a five year contract with The Bonadio Group to perform audit services. Staff will complete a Request for Proposal for Audit Services as soon as the fiscal year 2016 audit is complete. The Audit Committee will review the RFP prior to distribution.
6. Comptroller's Correspondence – J. Johnson explained that following the August 2015 audit conducted by the State Comptroller's Office, the Authority changed its method of historic posting documents to comply with the annual PARIS reporting. As requested by the Comptroller, the Authority now posts all of its procurement transactions to PARIS. However, the Authority took exception to the recommendation to post all previous transactions, citing the unnecessary cost of retrieval and manual entry of data that no one has sought for as much as a decade. Recently, the Authority was contacted by the Comptroller staff indicating they had reviewed PARIS posting and it had not been updated with historic PARIS data. From this point forward, the Authority has met and will meet the standard. All records from the years referenced by the Comptroller's letter are available for review upon request, but the Authority will not post these old transactions.

7. Executive Session –

Upon a motion by D. Mastascusa, and seconded by G. Turck, Chairman Johnson stated the Audit Committee would go into Executive Session.

Chairman Johnson stated no action was taken during Executive Session.

8. Upon a motion by D. Mastascusa, and seconded by G. Turck, Chairman Johnson adjourned the meeting.

Respectfully submitted:

[Signature]

John B. Johnson, Jr.
Chairman