

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
AUDIT COMMITTEE
FEBRUARY 7, 2013

The meeting of the Audit Committee of the Northeast Ohio Regional Sewer District began at 1:24 p.m.

I. Roll Call

PRESENT: G. Starr
K. Koncilja
M. Oleska

Mayor Starr advised that a quorum was present and welcomed the two new Committee members. He asked them to introduce themselves.

Mr. Koncilja stated that he works for Dana Holding Corporation, which is a tier-one automotive supplier based in Toledo. He lives in Cleveland and has about 30 years' experience in accounting and auditing. His career began at Arthur Anderson and also includes experience with Cleveland-area companies such as American Greetings, Parker Hannifin and GenCorp.

Mr. Koncilja explained that he is in charge of audit and SOX compliance of a \$7 billion company with 235,000 employees in 26 countries, giving him ample experience in the realm of auditing, including compliance, SOX, internal fraud investigations and corporate governance. He was looking forward to identifying opportunities to improve the District's process and to help management.

Mr. Oleska advised that he is the Internal Audit Director for Steris Corporation, of Mentor, Ohio, which is a \$1.3 billion company with 5,000 worldwide employees. Like Mr. Koncilja, his experience is a blend of both audit and finance. He has been the group controller at Steris for 10 years and has worked for a number of other Cleveland corporations. He also was looking forward to being an active member and providing good input.

Mayor Starr stated that he has served four terms on the Board of Trustees.

II. Approval of Minutes

MOTION – Mr. Wasko advised that two of the three Audit Committee (hereinafter "Committee") members were not present nor members at the time of the previous

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meeting and Mayor Starr could solely render an opinion on their approval. Mayor Starr approved the minutes of the January 5, 2012, Committee meeting.

III. External Audit Update

Mr. Wasko stated that the next agenda item was the External Audit Update and noted that Jennifer Demmerle, Finance Director, included a copy of the single audit for review.

Ms. Demmerle advised that last year's Auditor of State report did not contain compliance or internal control issues or material events. There were a couple of management recommendations on policies which were developed and implemented.

This year the Beachwood audit firm of Ciuni & Panichi will begin the audit in April and complete it by the end of May. The report will be filed by the end of June.

Executive Director Ciaccia noted that this was the first time the State had performed this particular audit on the District; the audit had previously been conducted by private firms. He explained that the State was prompted to perform the audit themselves due to past issues with corruption and corruption in Cuyahoga County. He was pleased they decided to return it to private firms.

Mr. Koncilja asked how staff deals with the Auditor adjusting entry for payables. Ms. Demmerle stated that it was unadjusted. Controls have been implemented to hold January and February invoices when they come in so everything is recorded. She advised that is immaterial in the scheme of things, but when contracts were not picked up it was because the reports were typically run and recorded. Invoices are now held and checked individually.

Mr. Koncilja questioned how staff determines whether to book adjustments when they are brought to their attention versus deciding they are not material. Ms. Demmerle advised that it is materiality; it was less than 1% and anything over 5% would be adjusted.

Mr. Koncilja inquired whether the corrective actions and new controls strengthened the process. Ms. Demmerle explained that staff holds each invoice and looks at the descriptions. Staff may not pick up all of the invoices depending on how they are dated and put into the system. They now make sure it was related to services from the prior year. Previously invoices would be dated in February and the system would not know it was a prior year service.

Mr. Oleska asked if there was a cut-off issue, lack of accrual or both. Ms. Demmerle advised that it was a cut-off issue because of the way invoices were dated.

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Mr. Koncilja inquired if a process is in place to estimate an accrual for potential unrecorded liabilities. Ms. Demmerle explained that the process is the same as the auditors'. A report is run for all checks cut during January and February. Instead of running that report staff holds the invoices and records them at the time they are received. When the invoices come in staff looks at each one rather than posting them.

Mr. Oleska questioned what the filing requirements and deadlines are for closing and filing financial statements. Ms. Demmerle stated that they are to be filed with the State by June 30.

Mr. Oleska inquired if she anticipated closing the books by the April audit. Ms. Demmerle advised that they will be closed by the end of February; the firm of Ciuni & Panichi will conduct their audit in April. The books will be open until the end of February to make sure the invoices coming in relate to prior years.

Mayor Starr asked how many purchase orders the District has per year. Ms. Demmerle and Deputy Executive Director Bucci estimated between 4,000 and 5,000.

IV. Internal Audit Update

John Wasko, Risk & Internal Audit Manager, stated that the Committee had been provided with a summary of the functional areas staff has been auditing over the past three years and areas to be examined over the next two years of the audit plan. The 2012 schedule provides an idea of which activities staff engaged in over the past 12 months.

Mr. Wasko stated that the Engineering & Construction final has gone out with cash remittances and tuition program and the IT strategic review. Staff has had closing meetings and are working with management on responses. Once the quality assessment review and outstanding construction contracts are finished the only pending item would be the 2012 governance review.

Mr. Koncilja questioned what percentage of 2012 had been completed. Mr. Wasko indicated it was three-quarters complete.

Mr. Koncilja noted that most of the in-process audits' estimated end dates were January 31 and inquired when they will be completed. Mr. Wasko advised that staff has closed on Engineering & Construction, cash remittance, tuition reimbursement, IT strategic planning and other construction. He anticipates receiving management responses by the end of February. The responses are then distributed to management because they may not be involved in the audit or understand the issues. They review the responses and amendments to which management has committed the organization.

Deputy Executive Director Bucci explained that staff thought the IT strategic plan was broader than just its director. Senior management developed the response. A broad

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group was formed because IT is more global. Executive Director Ciaccia stated that to obtain the proper response staff must pull together various parts of the organization. Deputy Executive Director Bucci explained that a small group of senior staff members developed the response and brought it to senior management before Internal Audit to ensure all were in agreement.

Mr. Koncilja inquired regarding the duration of the strategic plan. Deputy Executive Director Bucci explained that the plan is being finalized but is likely to cover the next four years.

Mr. Oleska asked if there were issues in the 2012 audits that may affect financial statements. Mr. Wasko advised that there were no items that would cause adjustments or restatements but there were some small recommendations for adjustments on invoicing. The other items are focused on the general process, such as an objective that is not being met or inefficiencies in the process.

Mr. Koncilja asked whether the external auditors request to see the audit reports. Ms. Demmerle advised that usually there are conversations but she did not know if they ask for all of the reports. Mr. Koncilja asked if they will converse with staff regarding significant issues. Mr. Wasko explained that they must for the SAX 99 interview and they are compelled to speak with him with regards to those in a position to understand control structure and fraud.

Mr. Koncilja inquired whether the audits will be completed by the next Committee meeting, which Mr. Wasko affirmed.

Mr. Koncilja questioned whether the Committee receives each report, an executive summary or some type of guidance with respect to big and small issues of a risk nature. Mr. Wasko explained that staff worked very hard to develop a single, cohesive report that goes from the audit client to management and the Committee. The report is in bullet point format, which should negate the need for an executive summary.

Executive Director Ciaccia was interested in the Committee members' thoughts on the subject based on their experience. He stated that he worked at the City of Cleveland for 31 years and the audit reports were lengthy. The District's reports are more like bullet points. There is also a company auditing the auditors that provide input. Mr. Oleska stated that if they are actionable they are good audit reports.

Deputy Executive Director Bucci stated that the issue is whether the reports contain too much or too little information or if the Committee would like it in another format. Executive Director Ciaccia stated that his issue was making sure it has enough information. Mayor Starr stated that as reports and feedback are received the issue will be resolved.

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Executive Director Ciaccia advised that initially the reports will be provided to get a feel for the process and input will determine if adjustments are made. Mr., Koncilja stated that was a good suggestion and the Committee could work with Mr. Wasko to develop the proper format.

Mr. Wasko explained that the other issue is the ongoing Internal Audit follow-ups and follow-ups on recommendations. It is more important to prioritize them than the audit findings. Executive Director Ciaccia stated that as 2012 is completed they are submitted and critiqued.

Mr. Wasko advised that the practice has been to release them when completed and he would like to continue that practice. Mayor Starr inquired how they are released. Mr. Wasko explained that traditionally they are included in the Board packets but they could be submitted via e-mail.

Deputy Executive Director Bucci questioned if they are released to the Board. Mr. Wasko clarified that they are released to the Committee members -- the only difference is they are kept as a draft for the seven days senior management reviews them. The draft mark is then removed and distributed to the Audit team.

Mr. Koncilja stated that the Committee would develop a format structure so members know which reports they should have seen before the next meeting and have ample time to review them. They should talk about the key issues and not all of them. Deputy Executive Director Bucci advised that when the Audit Committee was formed each report was discussed and it was tedious; much of the risk was minimal. The Committee should focus on critical issues. Executive Director Ciaccia stated that he received the tuition reimbursement, but it is not high risk.

Mr. Koncilja advised that he recently met with an outside accounting firm and explained to them how to pare a 225-page report down to 1. It is important to be streamlined.

Mr. Oleska asked if staff would present a summary of outstanding corrective actions. Not the entire list, but significant control deficiencies that need to be resolved and where they are in terms of being corrected. Mr. Wasko indicated he would provide a summary along with recommended corrective actions. Staff will highlight the most impactful.

Mr. Oleska stated that is the most important aspect; extensive reports are nice, but if one does not see they are being utilized there is an issue. Executive Director Ciaccia stated that repeats are also an issue. Mr. Wasko clarified that it depends on the review; sometimes in the audit database there is a repeat finding but in a different area.

Mr. Koncilja inquired whether the audit plan is based on the calendar year or fiscal year. He noted that some projects carry over to this year. Mr. Wasko advised that staff abides by the calendar year.

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Moving to the next issue, Mr. Koncilja stated that there are over 5,000 hours for 2013 and some projects are to be determined. He preferred something realistic and practical versus playing catch-up. The Committee has not talked about risk assessment and how the plan was developed, between the risk model, audit plan and budget. He stated that could be worked on before the next meeting to have some type of framework everybody agrees with.

Mr. Wasko stated that three of the audits were partly delayed because they were all service providers. One was the replacement of a project manager. The District had three external service provider audits ongoing simultaneously in December, which was not optimal. Deputy Executive Director Bucci stated that it will be adjusted to reflect those changes.

Mr. Koncilja wanted resources allocated to the appropriate areas and avoid over-committing and under-delivering. It is very important to right-size this based on the budget, internal staff and how much is approved to spend on the outside.

Mayor Starr noted that the District is averaging close to 6,000 hours. Mr. Wasko explained that hour allocation is overhead within the department. The number of hours per year for a full-time equivalent is 2,000; when considering vacation time, training time, general administration and overhead, from a practical basis a 10,000-hour bank ends up with about 7,000 available.

Mr. Wasko further explained that for 2013 allocation of 5,300 hours can be tightened, but some are placeholders to leave room to accommodate unforeseen issues. Most of the budget is salaries.

Executive Director Ciaccia returned to the subject of review of revenue and internal billing functions. He stated that most of the customer billing is done by the Cleveland Water Department (hereinafter "CWD"), but some is by Cleveland Heights and Berea and the District does some direct billing. He asked Mr. Wasko if this effort was relative to direct billing or a broader effort. Mr. Wasko advised that would be a review of direct billing, which has not been audited in terms of the rotation since 2009.

Deputy Executive Director Bucci advised that Finance will perform more billing. Mr. Wasko advised that this did not contemplate the increase Finance would have; it was based upon its current activities. Additional billing would be scoped to include it.

Executive Director Ciaccia stated that staff just went through risk assessment. Revenues and collections are the most important. A plan is needed this year to reemphasize that.

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Executive Director Ciaccia advised that staff has a certain level of dissatisfaction with the billing agent that needs to be addressed. The District recently helped them perform better on its behalf. He questioned if the priorities were right.

Deputy Executive Director Bucci inquired whether the audit will cover the internal process or external as well. Mr. Wasko advised that is one of the placeholders with regards to financial support and there are 800 hours that would accommodate that. The anticipation of the second phase of ERM was going to be operational, which shifted when the results were received.

Deputy Executive Director Bucci stated that they were looking at it from a management standpoint with collection and numbers. Staff thinks they are inflated for different reasons, but they could do a better job.

Executive Director Ciaccia stated that there are rolling numbers. A couple years ago the District audited Cleveland Heights and they were very accommodating. CWD has not been as accommodating, which creates different challenges. On the other hand, an external audit cited that the District did not have enough control over the billing agent. He was trying to tell CWD there is a finding and they have to work with the District to put controls in place to deal with the arrangement. This is an area of focus in 2013.

Deputy Executive Director Bucci advised that CWD has SAS 70 and SOC-1 reports and that they have a review of their processes. They provide more data to the District than a couple years ago and there is more access and an opportunity to review. However, District staff is asking them to look at revenue, not only internally but the billing agent. Mr. Wasko expects at least two or three audits with the next phase. Executive Director Ciaccia stated that he has an ERM, a past audit finding and the reviews are troubling.

Mr. Koncilja stated that some of these products are broadly-brushed, but can be segmented into focused reviews that result in separate audit reports with actionable items.

Mr. Oleska stated that the District is required to perform end-user control testing to validate the numbers, and if that cannot be done, there is an issue. Executive Director Ciaccia agreed and stated that is why there is an issue.

Mr. Oleska stated that the finding will not be eliminated without comfortable controls. Mr. Wasko advised that there have been conversations with various CAEs on the issue and with public entities they are getting more heat on the auditors. Staff would conduct its own independent testing. How it affects the District, what the controls are and how to test the controls.

Mr. Koncilja stated that once you reassess conversation today the 2013 audit plan may change. Executive Director Ciaccia stated that it would have to change based on the direction with the ERM.

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Mr. Koncilja stated that he also had questions regarding the construction audits, which is another broad topic that could be broken into specific audits. He stated that the Committee may want to discuss having separate audit reports. The 15 audits per year could increase to 50 because of the breakdown.

Executive Director Ciaccia stated that the greatest risks are between construction and billing. Mr. Wasko advised that process audits were conducted on construction, particularly bidding and elements of engineer bidding for a project base and a mix. A mix results in not just looking at projects or contracts. Deputy Executive Director Bucci stated that there is a comfort level if the processes are working as designed.

Mayor Starr inquired whether CWD is prepared for stormwater billing. Mr. Wasko explained that staff wanted to let the tide of customer calls pass as the program begins. Subsequently staff would work with Customer Service to assess how the systems worked, what the processes are, what revisions were made, if they were effective and how to manage it. Deputy Executive Director Bucci stated this pertains to internal customer service as opposed to how the CWD handles billing, and noted that the program has not yet begun.

Deputy Executive Director Bucci stated that there are a few areas: GIS, Customer Service and Finance. Stormwater is a new program and making sure it works as intended is important as well as being proactive if process improvements are necessary. Mr. Koncilja inquired whether this is an incremental new business. Mayor Starr stated that it would commence at the end of the year.

Mr. Koncilja stated that some billing reviews by default pick up some of this information. Mr. Wasko stated that he expects audits to come from the next phase looking at revenue with wastewater and stormwater. Wastewater is a relatively mature business, but stormwater is new, but both are included in revenue.

Deputy Executive Director Bucci explained that in addition to billing there will be a new hearing examiner and procedures for stormwater. The same procedures will be utilized for wastewater, sewer and stormwater. Staff wants to look while they are fresh to make adjustments early. Mayor Starr asked how many customers are billed, to which Deputy Executive Director Bucci advised that there are 333,000 accounts.

Deputy Executive Director Bucci explained that the consultant being utilized has implemented 30 stormwater programs throughout the country and the District's is the smallest. Much is attributable to the work of Constance Haqq, Director of Administration & External Affairs, and her group. They perform outreach in the communities and sent letters to each customer six months ago. The proactive outreach is showing dividends in the lower numbers of calls than expected. Mayor Starr indicated he received very few and they have been explainable. Deputy Executive Director Bucci

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explained that staff wants to make sure the procedures are working as designed, and if not, correct them early instead of letting them compound.

Mr. Wasko stated that in terms of stormwater, staff will look at the compliance with fairly intricate revenue or kickback provisions with a number of communities. That is scheduled for perhaps the first quarter of 2014. Executive Director Ciaccia indicated it would likely be later.

Mr. Wasko further explained that the third-party audit provider will be utilized because each member community will get a percentage of their rates back in local projects. There is a formula staff will work with on various projects. That would be an example of an audit that must wait until the process is mature because it is new.

Mr. Oleska questioned how the Committee could correctly gauge overall risk and be comfortable that staff is focusing on the proper areas. Mr. Wasko advised to “follow the money” of financial and fraud risk. There may have a lot of money in an area, but it may be very well controlled. Another is the impact on the construction program.

Deputy Executive Director Bucci stated that the formation of internal audits is new to the District. The first iteration was a couple years ago. The second is being finalized. The first form was not used to develop the audit. The intention is to get to how the ERM analysis gets to the audit plan.

Mr. Wasko advised that staff input some of the previous ERM scores and that was the first time revenue and ERM rose to the top. Executive Director Ciaccia stated that there are two plans that will be reworked during in the next couple of months with the Committee’s help. Then the ERM effort will be shared. He stated that the Committee will contribute significantly to getting the District to a higher level of audit.

Mr. Oleska stated that if the risks are understood they can overlay to the audit program. Executive Director Ciaccia advised the risks are essentially money and fraud. A small amount of fraud is very important because this is the public sector. Deputy Executive Director Bucci explained that is why there is a “purchasing cart.” Travel audits are conducted frequently despite being minimal in the overall budget.

Mr. Wasko advised that after the audit plans is something put together regarding the where the audit and resources are going. Included in the department budget are insurance premiums and professional services with regard to risk transfer. Most of the work in 2013 will be an independent risk manager that is tasked with looking at what is purchased, identifying risk pools and transferring risk within the pools. Work will be done with Legal and the end user to determine the usable outputs for the provisions wanted for insurance. In instances from previous efforts there were legal language and requirements on vendors that were clearly difficult for them to reach, and then did not

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reach. Audit then says they are not meeting contract terms. Realistically it was not a proper provision in the first place, often seen in older contracts.

Deputy Executive Director Bucci stated that it would be helpful if the details of the budget were available to the Committee. Mr. Wasko indicated staff would provide the breakdown of accounts and applications within the accounts.

Mayor Starr inquired if Internal Audit intended to hire anybody in the future. Mr. Wasko advised that a student co-op had recently been promoted to a full-time position and he hoped to replace the student position. The department always has a student working within the internal audit function that are generally business majors, but may be anyone with acumen for data and an eye for detail and process. Deputy Executive Director Bucci advised that there are currently six full-time staff members.

Mr. Koncilja asked if the position was still open. Mr. Wasko advised that the position is open on the organizational chart but unfunded. Removal of the position would result in going through job description development and before placing it back on the chart.

Mayor Starr inquired how to judge what the size of the organization and budget should be. Mr. Koncilja advised that he is often asked how to have enough support to do the job. Organizations are challenged with respect to budgets like any department within an organization. It starts with good documentation on where risk is, the activities it wants to do and showing management what will not be done. He tends to look four years into the future and the District has done that with its plan.

Deputy Executive Director Bucci advised that as the department was being built, a person with construction auditing background was hired and supplemented with an outside firm.

Mr. Koncilja asked for details regarding the open but unfunded position. Deputy Executive Director Bucci advised that in the budget process, the budget centers submit their requests for the year. This year funding from the rate studies showed a \$107 million budget in operating expenses could be supported. Submittals were well over \$120 million.

That figure was decreased to a reasonable number. Half of the budget is salaries and benefits, which was the area that had to be minimized. The plants must be operated, and 20% of the budget is utilities. Executive Director Ciaccia advised that is why the position is approved and not funded.

Mr. Koncilja questioned if 5,000 is too much or too little in terms of staffing. Ms. Demmerle explained that is why such positions are not typically taken off the organizational chart. Deputy Executive Director Bucci stated that the position is filled if there is a need. Executive Director Ciaccia agreed that such positions should not be shown on the chart; they do not exist until there is funding. If the budget center manager

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makes a good case, the unfunded position will be kept and funded if money becomes available during the year.

Mr. Koncilja inquired when approval would be granted for expenditure on the outside internal audit assistance. Mr. Wasko advised that the contract will go out for bids this year and staff budgeted the balances of the existing contracts. There are three contracts outstanding that expire June 30. He anticipates not spending everything under the contracts because there were scoped projects and retainers.

The scoped projects will be completed but not necessarily all the retainer money will be spent. That is used as the budget number for 2013 because there will be new contracts and service providers likely in the third quarter. Any work in 2013 can use the money not did spent.

Mr. Koncilja questioned if there is framework for spending but no commitment to spend those monies with outside firms. Executive Director Ciaccia clarified that the contracts contain "not to exceed" amounts.

Mr. Koncilja questioned if during its next meeting the Committee will be presented with staff's recommendation. Mr. Wasko stated that they would present the RFP depending on the timing of Committee meetings. Executive Director Ciaccia added that the Board must approve contracts over \$50,000. Some contracts may be under \$50,000, but because they are aggregating a number of projects they are put together as a package and taken to the Board for approval. Mr. Wasko advised that the Committee would be in a position to review the preferred candidate before Board presentation.

Mr. Wasko stated that the process is long compared to private-sector colleagues. He likes it because it reduces misunderstanding with service providers down the road. There are prebids, proposals, interviews and an internally-appointed selection team. He enjoys the rigor behind the process because he has had very few issues with regards to performance with service providers. Mr. Koncilja stated that the process outlined would be acceptable. There is a fine line between governance and management.

V. Information Items

Mr. Oleska stated that now that the Committee has two external members it would be helpful if the Committee charter was recrafted to make it very clear what its responsibilities are since it is distinct from the Board. Deputy Executive Director Bucci questioned how they would like the charter developed, to which Mr. Koncilja replied it would be a collaborative effort.

Mr. Koncilja stated that the current charter is three pages of substance. Mr. Oleska opined that it probably does not need to be more than two and a half pages.

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Mayor Starr asked what the importance of the charter was from a layman's standpoint. Mr. Koncilja stated that it holds the Committee responsible to some degree for its involvement with the organization.

Mr. Oleska requested more structure with regards to reporting annually to the Board. Specifically its timing and what should be included so its obligation may be fulfilled.

Deputy Executive Director Bucci stated that it will be a collaborative effort and input will be needed from Legal to make sure discussions are public and what part, if any, should be in executive session.

Mr. Koncilja stated that the Committee would need guidance on that subject from Marlene Sundheimer, Director of Law. Typically audit committees have a private session with management to talk about their concerns, risks to the company and what they think of their auditor. Conversely, they would have a private session with the auditor to see whether he is getting pushed back or if there is a lack of cooperation from management preventing him from doing his job. They would also want to meet with the external auditor.

Executive Director Ciaccia advised that those topics would fall under personnel matters and would allow for executive session. Other sensitive issues apply, such as potential litigation. Ms. Sundheimer advised that the public meeting statute contains specific exceptions from public disclosure dealing with auditing. The State auditor is exempt.

In terms of an internal audit function, she explained that unless there are sensitive matters discussed that would fall into either personnel matter, litigation or other exceptions, she think they should be an open meeting. The Committee is a committee of the Board and the Board meets in public session with a court reporter. That is part of the District's responsibility as a public agency. It is driven by the subject matter.

Mr. Oleska inquired if questions pertaining to the auditor's opinions on management or comfort level something that would apply, as an example. Executive Director Ciaccia stated that to him that is clearly personnel. Ms. Sundheimer advised that it could be if someone is trying to pressure someone to not disclose certain information. Executive Director Ciaccia stated that it is directly related to his ability to do his job, which is a personnel area. Mr. Oleska stated that his biggest concern is the auditor being comfortable speaking in front of management.

Executive Director Ciaccia stated that has to happen and he cannot see how the Committee could function properly without a direct response from the auditor without management present. The converse would also apply.

Ms. Sundheimer stated that nothing would prevent the Committee from having private, separate conversations. However, if private discussions are requested during a

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Committee meeting, a mechanism is required to go into executive session. The Committee would have to move to go into executive session and cite the exception to the Private Meeting Act.

Mr. Oleska questioned if the trigger could be personnel issues that management would like to address privately with the Board. Ms. Sundheimer indicated that would be put on the agenda for the meeting as an executive session item. Executive Director Ciaccia stated that rather than having one-on-one conversations, he preferred the Committee identify an executive session for a personnel matter to speak with the internal auditor or staff so it is documented.

Mr. Koncilja stated that they will provide feedback regarding the charter. He requested management start looking into it because per the charter the Committee would like to have private time with the chief audit executive, management and with the external auditors when on site. Deputy Executive Director Bucci advised that they are already called out as an exception and they have met with both the Committee and Board in executive session to discuss the external audit.

Mayor Starr inquired if they would meet with the Board and then the Committee. Deputy Executive Director Bucci stated that they have done both.

Executive Director Ciaccia advised that in the past the Committee was the Board, so when they met with the Board they were essentially meeting with the Committee. The question will be whether to meet with the Committee separately or to bring the two external members of the Committee into the Board for a meeting, which would probably make the most sense. He stated that the Board would gain from their experience.

Mayor Starr did not expect specific answers today but there are good questions that can be researched for the next meeting.

Ms. Sundheimer inquired if the Committee would like management to revise the charter or if they have examples of a short charter. Executive Director Ciaccia stated that his impression was they would develop one and submit it for discussion. Mr. Koncilja stated that the Committee would provide feedback within a few weeks and make adjustments as necessary. He stated that there is no shortage of templates for this type of public organization.

After conversation, the Committee agreed to meet in the Legal Conference Room after Board Meetings conclude on the occasions they meet.

Mayor Starr questioned insurance, which was mentioned earlier. Mr. Wasko stated that he spoke with the broker and gave them policy forms for the public officials. Mr. Koncilja inquired if their names need to be incorporated for the rider or anything. Mr. Wasko stated that they did not require that. Ms. Sundheimer stated that this is the first

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time the Committee has had externals. Mr. Wasko indicated he had already spoken to Fidelity but can get something in writing. Mr. Koncilja stated that there should be something in writing.

Mr. Wasko indicated that staff is in discussions with regards to the status of the risk management results.

Concluding his items, Mr. Wasko advised that staff was in the process of reviewing and replying to the report of the audit of the QAR. He wanted to distribute it to the Committee members to foster feedback on the elements within the report. The report was still in draft form but given the work requested on the Audit charter, it would impact that work to the extent the audit of audit has recommended adjustments to the charter.

Mr. Koncilja inquired when the draft becomes final. Mr. Wasko explained that when management and the Committee submit they are comfortable with the responses of Audit, because some of the responses are directed to the Committee as opposed to the internal audit.

Mr. Koncilja questioned if Mr. Wasko wanted feedback from the Committee. Mr. Wasko affirmed.

Mayor Starr stated that the meeting was a superb start. He thinks it will have a positive reflection on the organization and especially when borrowing money. He also stated it may have a positive influence on the bond writing.

rating changed (3-0)

VI. Adjournment

MOTION – There being no further business to come before the Committee, Mayor Starr adjourned the meeting at 2:44 p.m. Without objection, the motion carried unanimously.



Gary W. Starr, Chair
Audit Committee
Northeast Ohio Regional Sewer District