

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
AUDIT COMMITTEE
MAY 2, 2013

The meeting of the Audit Committee of the Northeast Ohio Regional Sewer District began at 11:02 a.m.

I. Roll Call

PRESENT: G. Starr, Chair, Audit Committee
K. Koncilja, Audit Committee
M. Oleska, Audit Committee

ALSO

PRESENT: M. Bucci, Deputy Executive Director
K. Duplay, Manager of Finance and Budget
M. Sundheimer, Director of Law
J. Wasko, Manager of Risk and Internal Audit
D. Ziats, Internal Audit Supervisor
A. Ciaravino, Legal Administrative Assistant

OTHER

PARTICIPANTS:

R. Hall, Ciuni & Panichi
T. Shiveley, Manager of Process Controls
J. Bunsey, Deputy Director of Engineering
S. Young, Court Reporter

Mayor Starr advised that a quorum was present.

II. Approval of Minutes

Approval of the minutes of the February 7, 2013 meeting was deferred to the next meeting.

III. Internal Audit Update

Four Internal Audit reports had been issued since the last Committee meeting.

The first is the Cleveland Water Department (hereinafter "CWD") customer adjustment review contained two areas of recommendation:1) Does CWD have the proper

AUDIT COMMITTEE

May 2, 2013

Page 2 of 6

authorization to make adjustments and 2) Documentation when making them- in 65% of the cases, the adjustments were not documented.

Deputy Executive Director Bucci advised that efforts continue to achieve a process whereby CWD will send the District a weekly list for approval before adjustment. CWD currently has the authority to make adjustments usually related to consumption. Discussions would be held before the next Committee meeting. A presentation will be made that provides certain positions within the organization the authority to make adjustments within certain dollar amounts.

The second audit was a cash and remittance audit encompassing petty cash. Three of the six funds were out of balance, making it the third audit in a row with the same findings.

Mr. Duplay advised that staff is attempting to put controls in place over petty cash and they are located in remote locations that require travel. Some locations must have petty cash on hand. A policy was developed to require a sign-off for people to understand their role in the process and their responsibility in keeping their account in balance. Petty cash snap audits will take place going forward.

The third audit was in regards to the Renewable Energy Facility. The recommendations included making sure the contractor was providing audited indirect labor rates. Inconsistencies were found. There was an issue with contract spare parts identification and security violations when staff visited the facility. The most important comment was insurance costs, which needed to be documented and verified versus what is in the contracts and should be reviewed and determined at pre contract negotiations

Mr. Oleska inquired where the audit stands now in terms of getting money back and preventing overspending. Deputy Executive Director Bucci advised that the issue with this particular job was insurance.

Mr. Bunsey stated that there is approximately \$414,000 in contention. Staff is not seeking recovery because the bid sheets for the project state it is a "lowest and best" bid. The dollars associated with it comes from a lump-sum bid item. The contractor charged 1.99%, which is below the 2% specified. There is unclear language in the overall bid that one could construe is payment of actual. The contractor is going to receive the full amount of that pay item regardless if it went towards insurance or mobilization.

* The Committee questioned the other credit over \$800,000, which was a change order and had no documentation deeming it reasonable.

Mr. Shively explained that item was processed before the current rigor was in place in terms of backup documentation. Higher required standards were subsequently implemented including the independent engineer's estimate and recommendation letters from the engineers. At the time it was processed the design consultant had done an

Memo 9-5-13 made part of minutes (3-0 see memo, from J. Ciaccia

** additional comments to be placed in minutes*



TO: John Wasko
Manager, Risk and Internal Audit

DATE: September 5, 2013

FROM: Julius Ciaccia
Executive Director

RE: Executive Director Response to
Internal Audit Report
Euclid Creek Tunnel
March 2013

I have reviewed Internal Audit findings and recommendations and Management's Responses for the audit of the Euclid Creek Tunnel (ECT) design contract dated March 2013. Based upon my analysis of the facts presented, I concur with District Management's Responses for this audit. The ECT design consultant contract is based upon legacy contract terms and conditions that are no longer being utilized by the District. Engineering and Construction staff has implemented new policies and indirect rates are no longer utilized as part of compensation provisions in these consulting contracts. Salary multipliers are now negotiated at the beginning of the contract and used throughout the contract period. On balance, I find that District Management has effectively addressed the risks identified in this audit and no further action is required.

cc: ✓ F. Michael Bucci
Kellie C. Rotunno
Mayor Gary W. Starr
Kenneth A. Koncilja
Michael J. Oleksa

AUDIT COMMITTEE

May 2, 2013

Page 3 of 6

independent estimate and made a recommendation but did not have the full suite of documentation. Upon review the engineer indicated it was an acceptable price.

Mr. Oleska stated that this was a change order with undocumented support. He inquired if there is no potential recovery. Mr. Bunsey stated that this was a credit to the District. There was no basis for asking for an additional credit.

Mr. Oleska expected to see that in an audit report. Mr. Koncilja stated that there was a disconnect between the issue and the position and it does not address the issue. Controls need to be tighter on change orders.

Mr. Shively advised that there were no audit findings relative to change orders regarding the REF contract.

Mr. Koncilja requested an employee from Engineering attend a future Committee meeting to briefly explain the contracting process.

Deputy Executive Director Bucci advised that the administration changed in 2007 and as a result the engineering process changed, too. Some of the projects were during and prior to 2007. The documentation required was not as extensive.

Mr. Koncilja stated that there is a noticeable disconnect in the audit reports between management responses and the audit issues. There is room for improvement in terms of identifying what the auditors looked at, what they did, what the risk is and how management is addressing it, with names and target dates accountable for implementing the recommendations. That is not acceptable.

If audit clients agree to audit issues that management agrees to fix and put a date and somebody's name that's accountable, you've got to make those dates. There are way too many past due audit comments that are out there. And some of them are high risk.

Mr. Koncilja requested an update during the next meeting on past due audit comments that are not closed and the reason why not. There are target dates they agreed to have completed by June 2012.

Mr. Koncilja stated that it looks like management is choosing reasonable dates but some are high-risk that could affect financials or fraud.

IV. External Audit Update

Ms. Hall advised that the audit begins with interim work in December, begins in earnest in April and is due June 30. She stated that there is usually a meeting with the Committee members at the end of the audit to explain what was found and if there any concerns.

AUDIT COMMITTEE

May 2, 2013

Page 4 of 6

The Committee targeted the date of June 14 to approve a Committee charter, after which it would be presented to the Board in July.

The Committee requested Ms. Hall review the charter to make sure it is in an alignment and not above and beyond what the State requires. The Committee will rely on the Law Department to determine whether it works with the bylaws of the District.

V. Finance Update

Mr. Duplay indicated the Committee received a small monthly report with full quarterly financials that is also provided to the Board. The first quarter financials should be available shortly.

Deputy Executive Director Bucci indicated that in the future the report should include the monthly Engineering & Construction report to the Board that includes all capital expenditures.

Mr. Duplay explained that raw data received from CWD is not being reconciled with the other data. The audit issue was making sure CWD is providing true data.

VI. Legal Update

Ms. Sundheimer advised that the only current significant case on which outside counsel is retained was a complaint the District filed against Traveler's Casualty and Surety of American on the crimes policy in February 2013. The District is seeking \$7.2 million for criminal acts committed by the former general counsel. It is in the discovery phase and there will not be another pretrial until November. She advised that the case is likely to settle but it is in the beginning stage.

VII. Insurance Coverage Update

Mr. Wasko indicated that he asked the District's broker to advise the insurance company, Traveler's, to examine including language that covers committees of the Board or other members of the public working on the organization's behalf. There would be explicit language covering all Committee members. There is language included in the charter that explicitly states the Committee members act as agents on the District's behalf and expect to be covered under this type of insurance.

The timetable to go to the Board with insurance renewal is June 6.

VIII. Audit Committee Charter

The Audit Committee charter was discussed earlier in the meeting and will be postponed until feedback from the administration is received.

IX. Other Matters

The Committee scheduled its next meeting for 9 a.m. on Friday, June 14, 2013.

Topics for the meeting would be:

1. Have a working session with Mr. Wasko on his risk assessment/audit plan for the remainder of this year and look to next year.
2. Finalize the audit committee charter so it can be submitted to the Board of Trustees.
3. Cuini & Panichi would report on how the audit is progressing and any issues prior to filing on June 30.

Ken Duplay provided an update and summary concerning the District as a political subdivision of the State of Ohio. He advised that the District is an independent enterprise fund and utilizes Generally Accepted Accounting Principles. Its accounting is very similar to private accounting, although there are differences in financial reporting -- specifically the equity section.

X. Private Executive Sessions

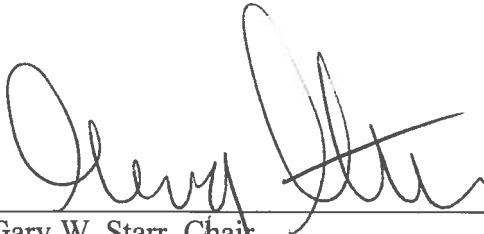
The Committee wished to exercise this action to speak with Ms. Hall and then Mr. Wasko.

MOTION – Mr. Koncilja motioned and Mayor Starr seconded to go into Executive Session to discuss personnel issues with management. Without objection, the motion passed.

XII. Adjournment

MOTION – There being no further business to come before the Committee, Mayor Starr adjourned the meeting at 12:01 p.m. Without objection, the motion carried unanimously.

AUDIT COMMITTEE
May 2, 2013
Page 6 of 6

A handwritten signature in black ink, appearing to read "Gary W. Starr", written over a horizontal line.

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