

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
AUDIT COMMITTEE
NOVEMBER 7, 2014

The meeting of the Audit Committee of the Northeast Ohio Regional Sewer District was called to order at 2:30 p.m.

I. Roll Call

PRESENT: R. Sulik
K. Koncilja
M. Oleksa

ALSO

PRESENT: J. Ciaccia, Chief Executive Officer
J. Demmerle, Chief Financial Officer
K. Duplay, Controller
H. Sanchez, Director of Information Technology
M. Sundheimer, Chief Legal Officer & General Counsel
J. Wasko, Manager of Risk & Internal Audit

Mr. Sulik advised that a quorum was present.

II. Approval of Minutes

MOTION – Mr. Koncilja moved and Mr. Oleksa seconded to approve the minutes of the August 22, 2014, Audit Committee Meeting. Without objection, the motion carried unanimously.

Mr. Koncilja requested that staff follow up on the items he highlighted.

III. Audit Department Update

Mr. Wasko advised that the department was starting to feel the effects of being short-staffed by one; some audits may slide to next year. The 2015 plan was established at the beginning of 2014 and contemplated looking ahead to the process of revision with regards to the audit universe and risk scoring that goes into that audit universe. In light of discussion during the previous Committee meeting, the internal audit days metric has been condensed from the entire audit to the recording periods.

Mr. Koncilja asked for comments regarding the two audit comments and the remediation plan. Mr. Wasko stated that the first recommendation is to overhaul the remittance process. In some areas processes have changed and documentation was not applicable anymore.

Mr. Koncilja stated that the narratives being prepared by the external auditor and the walk-throughs are not accurate. Mr. Duplay advised that will be cleaned up.

Mr. Oleksa referenced the statement that mitigating controls are not communicated to Internal Audit until after the closing meeting. That indicates there are still communication problems.

Mr. Sanchez advised that the IT Department has been working with a consultant since the end of last year on three areas: District review, infrastructure review and IT risk assessment in terms of data identifications. The main tasks were to identify a framework, get a consensus and move into the implementation phase. The project is identified and staff needs to determine how to put it into the budget, which is going to incorporate resource evaluation and identifying portfolio metrics.

Mr. Sanchez noted that per comments during the previous Committee meeting, they are working to include Internal Audit in the IT governance committee.

Mr. Koncilja questioned whether the dates should be changed with these open issues. CEO Ciaccia affirmed and explained that staff should look at the project on a task-by-task basis rather than globally. The definition of completion is when it is fully implemented, accepted and being used.

Mr. Sanchez advised that staff has defined a charter policy to provide the guidelines for official policies. The guidelines will be reviewed by the Committee. Mr. Koncilja recommended selecting milestones because this will be an ongoing project. Mr. Wasko agreed to rework the milestones.

Mr. Oleksa questioned that the District has no assurance or proper controls to make sure the City of Cleveland is billing correctly. Mr. Wasko stated that staff cannot have assurance that the District has controls the City of Cleveland would require; it has been an ongoing problem.

CEO Ciaccia advised that a new opportunity to engage the City of Cleveland on the issue since their Finance Director, Sharon Dumas, is on the District's Board. She is also the interim Director of Public Utilities.

IV. Departmental Report -- Law

After brief discussion, the Committee agreed to receive the reports Marlene Sundheimer, Chief Legal Officer & General Counsel provides to the Board on litigation matters, what is pending and outside counsel.

V. Financial Update as of 9/30/14

Ms. Demmerle advised that revenues have increased 11% over the same time last year due to the City of Cleveland's automatic meter reading system implementation and consumption is flat.

WQIS and GIS staff found over 800 accounts that had not been billed which has generated over \$400,000 in annual revenue. Septic tank users tie into the system without the District's knowledge. The communities and counties are supposed to notify the District of it but have not over the years.

Staff is looking to go to the bond market next month to fund two to three years' worth of the Capital program by issuing more debt. The Board has been asked for a not-to-exceed amount of \$450 million, but it will likely not be that high. Interest rates are so low on a 30-year long-term debt issue that it might be beneficial to accelerate a year of cash flow instead of waiting for the next issue when interest rates may rise.

Mr. Koncilja questioned whether different scenarios were considered because of recent economic performance. Ms. Demmerle explained that staff is considering a 35-year term with a 5- or 10-year call provision to maintain flexibility. CEO Ciaccia explained that as a public body they spread out the debt service in an effort to mitigate rate increases.

VI. Presentation - COSO

Mr. Wasko explained that COSO looks at five areas of the organization: control environment, risk assessment, control activities, information, communication and monitoring. There are 17 underlying principles and staff has been assessing them.

The Committee recommended choosing what to put through the process and focus on high-risk areas while not trying to cover the entire organization. IT should be among the first through the process.

VII. Other Business

There were no items.

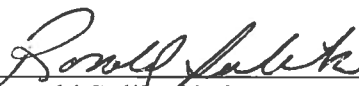
VII. Executive Session

MOTION – Mr. Koncilja motioned and Mr. Oleksa seconded to go into Executive Session to discuss personnel matters. Without objection, the motion passed.

The Committee met in Executive Session from 3:23 p.m. to 3:45 p.m.

VIII. Adjournment

There being no further business to come before the Committee, Mr. Sulik adjourned the meeting at 3:45 p.m.



Ronald Sulik, Chairman
Audit Committee
Northeast Ohio Regional Sewer District