

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
AUDIT COMMITTEE
DECEMBER 5, 2013

The meeting of the Audit Committee of the Northeast Ohio Regional Sewer District began at 11:00 a.m.

I. Roll Call

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

ALSO

PRESENT: J. Ciaccia, Executive Director
M. Bucci, Deputy Executive Director
J. Demmerle, Director of Finance
K. Duplay, Manager of Finance & Budget
M. Johnson, Manager of Accounting & Recording
K. Rotunno, Director of Engineering & Construction
M. Sundheimer, Director of Law
J. Wasko, Manager of Risk & Internal Audit
D. Ziats, Internal Audit Supervisor

Mayor Starr advised that a quorum was present.

II. Approval of Minutes

The Committee made several revisions to the minutes of the previous meeting of September 5, 2013. Staff will make the requested changes and provide to the audit committee for confirmation before the next meeting.

MOTION – Mr. Koncilja moved and Mr. Oleksa seconded to approve the minutes of the September 5, 2013, Audit Committee Meeting. Without objection, the motion carried unanimously.

III. Engineering Department Report

Kellie Rotunno, Director of Engineering and Construction (E&C), presented the committee with an overview of the District's five-year capital improvement program (CIP) that is updated annually and made available to the public and to potential bidders.

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Mr. Koncilja asked about the process used to control project changes that impact the contract price between the issuance of the RFP and the bid date. Ms. Rotunno explained there were two opportunities to make sure the District is getting best in class value at the time of service. First is with the designer during the design phase at the 30, 60, and 90 percent design phases. The deliverables get evaluated and compared to the standards at that time. The second opportunity is during construction with the contractor when they submit the technical submittals for each component of the project for the engineer to review. If an opportunity to take additional cost savings is found, changes are made at that time.

Ms. Rotunno presented the Committee with the organizational chart for E&C and pointed out the Process Controls Group that reports to the Director. All the money and the paperwork processing components of the capital program report directly to Ms. Rotunno. They do the QA/QC on design and construction protocols and review paperwork and invoicing to make sure the backup is there for auditing purposes or inquiry by the Audit Committee. Ms. Rotunno further explained that this group gets involved at pre-design/RFP stage all the way through construction and close-out. Ms. Rotunno presented materials on the resolution and authorization workflows, document and records management, and signatory workflows.

Mr. Oleska asked which of the processes was the riskiest to which Ms. Rotunno replied the construction change process. Ms. Rotunno walked the Committee through the change authorization processes for construction projects. Ms. Rotunno also discussed the staffing of the process controls group and the hiring process to recruit the needed talent. Mr. Oleska asked if Ms. Rotunno was relying on the controls or relying on the trust of the individuals to execute the process controls to which Ms. Rotunno replied it was all about the controls.

The Committee discussed ethics training for District employees and setting the tone at the top of the organization and how the District's policies are communicated to employees and contractors. Ms. Rotunno explained that the District changed its contract forms for both professional services and construction contracts and included contractors in the process. The District also changed its compensation structure for consultants and made them accountable to key performance indicators just as E & C is accountable to the Board for key performance indicators. The District has moved to an earned value method of compensation for professional service providers so that they are expected to provide milestones based upon value earned. Mr. Koncilja asked if there was a scorecard on vendor performance to which Ms. Rotunno affirmed that it is found in the design manual SOPs.

On the topic of ethics, Mr. Bucci added that the District annually sends letters to all vendors regarding the prohibition of gifts and other items from vendors to District staff.

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Mayor Starr asked about ethics training and added that he invites the Ohio Ethics Commission to provide a one-day seminar for his city's employees. It was agreed that the District would look into similar ethics training for its staff.

Discussion moved to how E&C keeps the executive team informed of the CIP. Ms. Rotunno advised that monthly executive meetings are held and a summary report is posted on SharePoint that is accessible to the executive team that summarizes the schedule, financial data, and major issues.

Mr. Oleska added that the District's audit plan included some audit schedules to look at a number the E&C processes that were discussed and asked for support of the audit.

IV. Finance Department Report

Monica Johnson, Manager of Accounting and Reporting, discussed the major financial metrics, including the senior debt service coverage for bond issues and the total debt service coverage which includes all bond debt and the loans program. Ms. Johnson also reported on the comparison of operating revenue and expenses with previous year's numbers. Discussions turned to accounts receivables and issues with the aging report from Cleveland Water and the number of delinquent accounts.

Discussion moved to the status of account reconciliations. Ms. Demmerle reported that all accounts were reconciled through November 30, 2013, and assured the Committee that resource and staff issues are being addressed.

V. Audit Plan & Request for Services

John Wasko presented the Committee with the 2014 Audit Plan. Discussion followed regarding the number of hours budgeted for the plan. Mr. Oleksa requested a quarterly update of audits in a simple one-page Excel spreadsheet summary report that indicates whether the audit is progressing as planned, any obstacles, and any major issues. Mr. Koncilja challenged staff on the proposed overhead hours and asked staff to find ways to streamline auditing processes to give more time to focus on actual audit work.

The Committee asked staff to create a matrix scorecard on what the Audit Committee is supposed to do in accordance with the Charter broken down on a quarterly schedule.

MOTION – Mr. Koncilja moved and Mr. Oleksa seconded to approve the 2014 Audit Plan and the Request for Services. Without objection, the motion carried unanimously.

VI. Internal Audit Reports & Follow-Up

Don Ziats reported on outstanding audit reports and a catch-up schedule. Mr. Koncilja commented that if one has an audit comment and management agrees that there's an issue

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that needs to be remediated, and one writes it the right way and the response is correctly written, there is no reason for anything to be past due. He concluded by saying that by the next meeting, audit staff should not have anything past due to report. The Committee agreed that any reports past due were unacceptable. Executive Director Ciaccia agreed that appropriate direction would come from him on this matter.

VII. Executive Session

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

The Committee met in Executive Session from 12:00 p.m. to 12:25 p.m.

VIII. Adjournment

There being no further business to come before the Committee, Mayor Starr adjourned the meeting at 12:26 p.m.



Gary W. Starr, Chair

Audit Committee

Northeast Ohio Regional Sewer District