

MINUTES
NORTHEAST OHIO REGIONAL SEWER DISTRICT
AUDIT COMMITTEE
SEPTEMBER 1, 2011

The meeting of the Audit Committee of the Northeast Ohio Regional Sewer District began at 11:10 a.m.

I. Roll Call

PRESENT: G. Starr
D. DePiero (arrived at 11:20 a.m.)
W. O'Malley

Mayor Starr advised that a quorum was present.

II. Approval of Minutes

MOTION – Mr. O'Malley moved and Mayor Starr seconded that the minutes of the May 19, 2011, Audit Committee (hereinafter "Committee") meeting be approved. Without objection, the motion carried unanimously.

III. External Audit Update

Mayor Starr advised that the administration requested an Executive Session to discuss the External Audit update.

MOTION – Mr. O'Malley moved and Mayor Starr seconded to go into Executive Session to meet with the external auditors. Without objection, the motion carried unanimously.

The Committee met in Executive Session from 11:11 a.m. to 11:35 a.m.

Mayor Starr advised that Mayor DePiero arrived for the Executive Session and is now present. At that time he turned the meeting over to the administration for discussion of the Audit Plan update.

IV. Audit Plan Update

Mr. Wasco stated that the Committee received the update to the Audit Plan. The highlighted items reflect changes to the plan distributed in May. The update reflects reports the Committee received over the past three months and changes to audits that

have commenced since May. At that time, Mr. Wasko welcomed questions the Committee may have with regards to the plan, changes to it or the reports that have been issued.

Mayor Starr inquired if audits were planned through 2012. Mr. Wasko affirmed and advised that an interim schedule has been developed for 2013.

Mayor Starr questioned how audits are selected. Mr. Wasko explained that a process is utilized to assess the District's objectives and the risks associated with achieving those objectives as well as the controls the organization has in place. Audit resources are focused on the areas that have the greatest impact on the District.

Mayor Starr inquired to whom noncompliance issues are initially reported. Mr. Wasko advised that the initial report goes to the audit client given that the noncompliance does not raise a legal issue. A basic noncompliance of controls would be reflected in the audit report the Committee receives and those issues are discussed with the client.

Mayor Starr asked who the "audit client" is. Mr. Wasko explained that the audit client is a term used to identify the target of an audit.

Deputy Executive Director, F. Michael Bucci, explained that during the audit process Mr. Wasko works with audit client and issues a draft report; at that point the department manager, Executive Director Ciaccia and Deputy Executive Director Bucci meet with the parties, the report is issued, and the department's management has a time frame during which to submit their response. When management's response is received and the report is finalized it is then forwarded to the Committee.

Mayor Starr sought to clarify that Mr. Wasko is conducting fact-finding through noncompliance improvements, which he affirmed.

Mr. Wasko stated that an Information Item on the agenda was in regards to policies and procedures to be forwarded for review. He explained that staff was not prepared with revised policies and procedures for this meeting but the steps Deputy Executive Director Bucci outlined would be presented to the Committee to be cognizant of the steps staff goes through with each audit.

Mayor Starr stated that the Committee is intended as an oversight committee. He questioned how the Committee would know when problems are unresolved or whether problems are resolved by the time the Committee receives the reports. Mr. Wasko stated that it is "an age-old question" to try and identify risk or things that may be going on one is not aware of.

Deputy Executive Director Bucci advised that the District's audit function has been in existence for a few years and repeat audits have been performed. A payroll audit was

recently conducted for the third time. He explained that when a recommendation is made and a report is issued it will show the recommendation and whether it is a repeat of a prior finding. The Committee would receive information regarding items that are not being corrected. Mayor Starr indicated the response answered his question.

Mr. Wasko stated that he was taking a “global view” of the District. Each Audit recommendation carries an implementation tracking and during the last Committee meeting staff distributed a summary of issues regarding the tracking. All of the details had not been given, but it was in effect a summary of every Audit recommendation over the past two years and the Audit Department is in the process of following up with management regarding the status of implementation of those recommendations. Staff will be in a position to report specifically on implementation of those recommendations during the next Committee meeting.

There were no further questions regarding the plan and outstanding reports.

V. Internal Audit Governance

Deputy Executive Director Bucci stated that the Committee is currently comprised of three Board members. He advised that staff wanted to analyze what other agencies within Cuyahoga County were doing with regards to their audit functions.

The Cleveland Metroparks have three external audit committee members; Cuyahoga County is in flux but their charter and Cuyahoga County Executive Ed FitzGerald’s recommendations both utilize external members; and the cities of Cleveland and Lakewood also have audit functions.

Deputy Executive Director Bucci advised that the Regional Transit Authority (hereinafter “RTA”) considers their Board their audit committee. He explained that while no action is expected today staff wanted to provide the Committee with the information because at some point this issue would be considered by the Board or the Governance Committee. In a continuing effort to foster transparency, staff examined what other public agencies were doing regarding their audit functions. A method some have employed is the addition of external members to their committees.

Mayor Starr inquired if Cleveland and Lakewood were the only municipalities in Cuyahoga County with an audit function. Mr. Wasko stated that the information was collected in a reasonable and verifiable time frame.

Deputy Executive Director Bucci advised that he attended a luncheon with municipal finance officers over a year ago hosted by then-Auditor of State Mary Taylor. She asked how many entities had internal audit departments or audit committees and the District was the only entity that did of those in attendance. He explained that others may have them as well but most do not maintain audit committees or internal audit departments.

Many communities cannot afford to have an internal audit department due to its resource-driven nature.

Mayor Starr questioned “how much duplication is too much.” He noted that the District maintains a Board, an internal audit department and external auditors. Additionally, performance audits are conducted and there are new rules and regulations in terms of transparency and public involvement that did not exist prior to the last three years.

Deputy Executive Director Bucci explained that the information was distributed for informational purposes to show there are “two sides to the spectrum.” He explained that some say the Board provides oversight and staff believes the District is “ahead of the curve” as it already has established an Audit Committee, but other entities are going further.

Mayor Starr stated that the Committee will continue to discuss the issue and he does not have an opinion at this time.

VI. Information Items

Mr. Wasko stated that Internal Audit provides a short policy and procedures document to back up the Committee and Internal Audit charters. He believed it was important for the Committee to be aware of the responsibilities provided in the charters and how Internal Audit executes its responsibilities.

The document is backed up by the internal operations manual that dictates how auditors perform their work. Mr. Wasko explained that during the next Committee meeting staff will provide an update; during the May meeting the Committee and staff agreed on adjustments to both the Committee and Internal Audit charters, which will result in adjustments to the manual in order to align appropriately the Committee's charge, Internal Audit's charge and how the Internal Audit Department will go about its business.

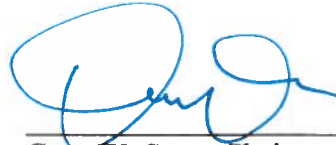
Mr. Wasko advised that a quality assurance review of the audit function will be conducted the middle of next year, which was a part of the contracts that went out for bid. One of the entities with which the District has contracted will examine whether the Audit Department is operating in accordance with the standards of the Internal Audit Association. This is part of an effort to align the processes appropriately. He advised that the Committee will receive an update regarding those policies and procedures during the next meeting.

Mr. Wasko advised that from time to time staff passes along interesting information items to the Committee and senior management. The latest is an article with regards to risk management that discusses how to use risk analysis and an understanding of risk regarding strategic decision making and how to work with management to determine where the greatest risks lie for an organization.

VII. Adjournment

Mayor Starr thanked the administration for its efforts and Ciuni & Panichi for presenting the audit.

MOTION – There being no further business to come before the Committee, Mayor Starr adjourned the meeting at 11:49 a.m. Without objection, the motion carried unanimously.



Gary W. Starr, Chair *DR DRP in*
Audit Committee
Northeast Ohio Regional Sewer District