

BPCA Audit Committee January 29, 2019

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Anthony Kendall: Welcome to everyone. For those of you I haven't spoken to, Happy New Year. I know the month is almost already over but for some of you I have not spoken to in the new year, so Happy New Year. So let's call the meeting to order. The first thing are the Minutes from the December, does it, I'm sorry?

Pamela Frederick: I just gave them [indiscernible 00:23].

Martha Gallo: I read them. I move to approve the Minutes.

Anthony Kendall: Well, I guess there isn't any question because it's only you and I, so if there is no questions, all those in favor?

Martha Gallo: Aye.

Anthony Kendall: All right. Annual audit presentation. We'll turn it over to you.

Pamela Frederick: So we have Marks Paneth here, our independent auditor and Warren Ruppel who is the lead manager and then we have Dan McElway. And it's Warren.

Warren Ruppel: Okay. Thanks. The purpose is to go through the results of the audit that we're just about to conclude, so I'm going to go through the tab of the various handouts that were distributed, go through some required communications, a couple of management letter comments and respond to any questions that you might have. So first I have is just some contact information for myself, Dan, and others on the team.

Martha Gallo: Propaganda.

Warren Ruppel: Propaganda as I should call it. The required communications are in the second tab, so you can turn to that, the third page in and I'll briefly go through some of these just to recap what was substantially completed with the audit. The end of item number 1 there's some open items that we need to resolve before the financial statements are issued. These are the typical items, getting representation letter approved by this committee, finishing up the review by our professional standards group, etc. So we don't expect that to cause us any delay or any issues to come out of that. And subject to those open items being cleared we'll be issuing a modified opinion on the financial statements.

Anthony Kendall: You said A, A is subject to approval by this committee, so this committee normally approved a rep letter in the past?

Warren Ruppel: They kind of accept the issuance of the --

Anthony Kendall: Oh, so approving that. I thought you said the rep letter. I'm sorry.

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Warren Ruppel: No, sorry about that. We have a recap of the timing for both the review and for the audit. Your financial statement is due the end of this month so we'll be issuing them by Thursday at the latest. Item 3, we always point out that the financial statements are management's responsibility. And our responsibility is to perform an audit in accordance with the auditing standards.

There's one new Gatsby statement that was implemented this year, Gatsby 75 which is an update on the requirements for recording OPEB liabilities and retiree health benefits essentially. And that was implemented but it really didn't have a material impact on the liability that was recorded so there was no need to go and restate the prior statements, so the year statements are as is.

The significant estimates that are in the financial statements are in Item number 5, first is the fair value of the interest rate swap agreements. So that actually swung to a slight positive this year as opposed to a negative in prior years, so we take a look at the methodologies and then how those fair values were arrived at and we determined that they're reasonable.

We also take a look at that OPEB liability and expense and inherit in that calculation there are a number of assumptions so but we don't do the actuarial calculation we just take a look at the assumptions and make sure that we're comfortable with that and we are. And the recovery period for project assets, which is basically using estimated devise to calculate the depreciation expense, so we look at those and we found those to be reasonable as well.

Some sort of adjustments we track adjustments from the time that we get a trial balance up through these draft financial statements, so during that time there were two adjustments that were recorded. One was to increase [indiscernible 04:19] expense on certain bonds, and the other was to record a PILOT abatement payable. So relative to the size of the Authority those aren't very significant adjustments but they were recorded by management.

And there were no adjustments that were not recorded because they were deemed to be immaterial.

Anthony Kendall: None at all?

Warren Ruppel: No. Over the years it's been a very well controlled, well accounted for organization. We haven't had accounting issues at all. We had no significant issues to discuss with management or disagreements or difficulty in performing the audit. We didn't detect any fraud or illegal activities to call to your attention. We did, as I mentioned at the pre-audit, we did implement some data analytics procedures, so there's one management letter comment that arose from that which we'll take a look at in a couple of minutes.

Martha Gallo: That was the vendor?

Warren Ruppel: That was the vendor, yeah, to look at vendors. All the other items there was really nothing that arose from that to call to your attention.

Martha Gallo: Very good.

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Anthony Kendall: Related to your, I know you have tests to detect for it, but what do you do other than some inquiry. I know with the Board what do we see that you guys perform?

Warren Ruppel: In terms of fraud?

Anthony Kendall: Yes.

Warren Ruppel: We take a look at journal entries, we look for amounts that are recorded on weekends, or not approved or for even amounts, those kind of things, and we also get an understanding of the internal control processes over disbursements and we don't rely on those controls because for this size organization with the types of transactions you have that's not an official order process but we do test disbursements and we find all of those to be reasonable. We also look at controls over cash receipts, payroll, etc.

Anthony Kendall: Do you interview anyone and ask them whether or not they have any idea, other than Authority committee?

Warren Ruppel: Yeah. We actually have a questionnaire that's completed by certain members of finance as well as outside of the organization. There's one in process by the internal audit function to inquire of them. So we do make those inquiries.

Anthony Kendall: Okay.

Warren Ruppel: Okay. So in terms of internal controls we certainly have nothing that rises to the level of being a material weakness in internal control or a significant deficiency. We do have a couple of best practice suggestions that we will take a look at in a second. Item 11, we're not aware of any consultation with other accountants. We confirmed that we're independent. Future deliverables is really, and we have the future deliverables and then 990 for the conservancy. And there's been no new accounting matters to call to your attention from the date of our pre-order presentation.

And then since we're also required to share significant correspondence that we have with management we've provided a draft of the management representation letter for the Committee members. Those are basically the standard representations, there's no specific representations added this year.

Tab 3, since the audit is performed in accordance with Government Auditing Standards, there's an additional report on internal controls over financial reporting and compliance in other matters. That's at the materiality level, is at the financial statement letter and we have no internal control matters or compliance or other matters to report here. So that report's basically a clean report.

Tab number 4 is the non-technology best practice recommendation regarding the vendor listing. When we did those data analytic procedures we did see that there were multiple instances of vendors and different addresses, etc., so our recommendation was for management to review those and see if there were any duplicates. I know that the software is being changed and there's

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some issues with current software in terms of completely eliminating vendors, but as part of that process to kind of review the vendor file and make sure there's no duplicates and picks up that if they multiple addresses to make sure that it makes sense to have multiple addresses.

Anthony Kendall: Right, because I discussed this management I guess about a month ago, and they were saying that even though you find duplicate vendors and addresses it was because they have a vendor who maybe in the system multiple times because I think that's a requirement of how we pay, right? Some of them require that we pay to a different address and even though it may have the same name.

Warren Ruppel: Right.

Pamela Frederick: And also the contract versus a PO, in which case they'd have to separate vendors, so there were, yeah, [indiscernible 09:33] and they could have multiple tax IDs and those are in the management as well.

Warren Ruppel: So we didn't conclude this earlier that any of these were wrong we just thought it was good to have a process in place to review it.

Martha Gallo: No, it's a good healthy cleanup.

Anthony Kendall: So you review management response, you were comfortable with their response.

Warren Ruppel: Yes, I was.

Martha Gallo: I think it's a good annual check anyway, right? I've been involved in some significant frauds here, can certainly set up you know alternative addresses and they were routing significant amounts of money to themselves, right.

Pamela Frederick: And historically it's been done annually. This summer we actually went through a big recordkeeping process where we flushed out old records, sent some to storage and that took up for summer resources that we would normally allocate to that but we've since gone through the vendor list and of those identified by Marks Paneth they were less than 10, with duplicate I think there was four but it's been a little while now, but there were less than 10.

Martha Gallo: Yeah. It doesn't matter how many there are because I've seen people route lots of money in one duplicate. Yeah.

Pamela Frederick: In one, yeah.

Martha Gallo: So it's a good exercise.

Pamela Frederick: Yeah.

Martha Gallo: Thanks for that.

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Warren Ruppel: You're welcome. Tab 5 is our one technology comment. I will note as I think I said during the pre-audit, our technology people tend to write a lot of comments. We prefer you not to have that many comments with all your prior comments, the cleanup, you know, they're not doing a full blown technology audit or a cybersecurity audit, but for what they're seeing at the level of detail that were best and to look at it they're not requiring very much here. Their one comment is that 75 Battery Place there's an outdated firewall, so they've pointed that out and --

Martha Gallo: Just one? Big companies have lots of these, so that's good we're that current. It's on the schedule to be updated though, right?

Pamela Frederick: Yes. I think the contracting process has started last Fall and they're still in that process.

Martha Gallo: Well, and one of the questions that I have been stewing over myself as a Board member is when you look at the technology, the cybersecurity topic for this Authority and what you should really be worried about given the fact that our financial statements, our FTs, blah, blah, blah, are complete republic. Then I revert to the employee information, right. And I have a hard time worrying about securing to the level that you know a normal corporation would, the financial, you see what I'm saying?

Warren Ruppel: Yeah. I mean we have, you know with the nonprofit clients that have HIPAA requirements, etc. where the data that they have is much more --

Martha Gallo: No, no, no, if you have information on health scare or whatever, I worked at a great big bank and a great big insurance company so of course you know anything that has to do with that sort of information, but you know, our internal auditors issued a report that had a lot of complexity to it and it's very costly to implement those kind of recommendations and my own experience would tell me that the data that we really want to protect is everything about our employees. And that's a question to you. Is that right? That then everything else is sort of in the public domain anyway. Maybe not the vendor, you know, the analysis we do but definitely the RFPs, the responses to the RFPs, you know all this stuff people can get through whatever that FOIA, you know? Do you have a point of view on that?

Warren Ruppel: I'm not a technology expert of the recovery of that, but the employee data is probably the primary area that you would think of. I can't really think off the top of my head of other areas that would be sensitive data. You know if your system's --

Martha Gallo: I think we have to keep that in mind, you know, when we think about how much we're going to spend on what, you know.

Warren Ruppel: I mean you can have a cyber attack where it's the ransomware and they can lock up your ability to make payments, etc., for a period of time.

Martha Gallo: Yeah, but you know, how likely is that and is that worth the amount of money, etc.

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Warren Ruppel: Right.

Martha Gallo: And those incidents have not been significant really, so.

Warren Ruppel: Well, I mean the internal audit function should be able to kind of categorize it right, which of the real risky ones on their own.

Martha Gallo: Well, we haven't though taken that approach. So I just wondered if you had a point of view, so it sounds like --

Warren Ruppel: No, I think it's a transaction volume processing --

Martha Gallo: It's the analysis of [indiscernible 14:43]. Yeah.

Warren Ruppel: The volume of transactions as well as the types of transactions doesn't really give rise to any [indiscernible 14:50].

Anthony Kendall: So Martha, are you suggesting that because of a lot of our financial information is made public that our focus shouldn't be on that it should be more on the personal data, the employees?

Martha Gallo: Yes. Because that's where their Social Security, their healthcare benefits, their pension benefits, you know, their, that's I guess if that was hacked that would be an inconvenience to those people, whereas I can't think of anything about RFPs or our financial information or whatever that we --

Pamela Frederick: Our financial information just probably bank account, banking would be of most concern.

Martha Gallo: I don't want to take up all of our time I just wondered if you had a point of view.

Anthony Kendall: It's a good topic, but I think if you go one step further, once they're into your system you can't determine what system within your system they would get into, right?

Martha Gallo: You can if you lock up that employee data.

Anthony: Depending on, right, depending on what controls you have.

Martha Gallo: Yes. And so that's why I'm saying I would block off the really sensitive information and make it unreachable once people are in, but I wouldn't worry about so much of the other stuff.

Warren Ruppel: You don't have like credit card transactions that you're taking payments over the web or anything like that either.

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Anthony Kendall: Well, we talked about this briefly about once they're into our system making sure we can determine what is protected. I think that's your point is that even if they can get through this firewall they have to go through another safe before they can get to --

Martha Gallo: Yeah. Anybody who really wants to can get through anything. So you know it's just a question of our priorities and what we think about, you know, what we think about protecting. So anyway.

Anthony Kendall: Absolutely. I think we absolutely have to protect the employees' data because I always say if that was me I wouldn't want someone to have access to my personal information, so we need to do the same to make sure they're always being protected. Okay.

Martha Gallo: And I don't know that it is. I was talking to the IT guy and I think that's a separate conversation which is if that's what we believe then that's what we should do. Right?

Pamela Frederick: I actually passed that on to him as well as a follow up to our conversation.

Martha Gallo: Thanks.

Warren Ruppel: You're welcome.

Anthony Kendall: I have that as a follow up.

Warren Ruppel: The next tab are the draft financial statement.

Anthony Kendall: Tab 6.

Warren Ruppel: Tab 6. We have a draft of our audit report. There's a modified opinion subject to those open items being resolved, not resolved but completed. There's other matters, the second page, it's just a reference on the required supplemental information basically saying for the management's discussion analysis we are required to do not too much. This will provide much assurance on that. And also the other supplemental information that's in the financial statements we report on that in relation to the basic financial statements. And then since your audit is performed in accordance with government auditing standards, there's also a reference to that separate report that we looked at a couple of minutes ago on internal control and compliance.

Martha Gallo: Good.

Warren Ruppel: Now we typically go through the financial statements in any detail.

Anthony Kendall: So we're not going through them.

Pamela Frederick: So are there any specific questions?

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Anthony Kendall: Not going through them, is there anything in particular that you think we should be aware of and pay particular attention to?

Warren Ruppel: No, there is some additions to Note 18 on the OPEB benefits that something that's a little bit new this year. Otherwise, the financial statements are consistent from year to year and even consistent from the six-month review that we just completed.

Anthony Kendall: So I do have a question. And maybe one of you can answer this. So in the past, you know, you always like to have a session with orders about management. How do we do that when our Committee meetings are open to the public? You know what I mean?

Pamela Frederick: If we can do it as just a follow up to confirm, but Nicole probably would direct that question later to you if they want to have a, if the members want to have a discussion about like was it management?

Anthony Kendall: Right. Just with the auditors about management.

Pamela Frederick: Just with the auditors about management, can they do that not in a public session, make it like an executive session for the Audit Committee? Can you do that?

Nicole: I don't think being that [indiscernible 19:36] just have a meeting as long as it's not a quorum [indiscernible 19:42].

Pamela Frederick: So it would have to be one on one.

Nicole: Right.

Anthony Kendall: So we couldn't do that today?

Pamela Frederick: Yeah.

Anthony Kendall: Okay.

Martha Gallo: I think Anthony is the Chair of the Board so can you do that?

Anthony Kendall: [Indiscernible 19:52]. I just wanted to make sure because I didn't intend to do it in here in public, so actually to make sure.

Warren Ruppel: Yeah. I've had clients in the past do it as part of an executive session, but then they've kind of gotten away from that as well and don't feel that that's appropriate too.

Anthony Kendall: [Indiscernible 20:12].

Martha Gallo: I think if we ever had any concerns there'd be no question that we would get to you, or you would get to us.

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Warren Ruppel: Well, that's kind of why, that's why we put the contact information in all of these documents.

Martha Gallo: Yep, right up front. Very good.

Warren Ruppel: So it's right there.

Anthony Kendall: Anyone has any questions regarding presentation or the draft financial statements?

Martha Gallo: No, it looks like a nice clean audit and looks like our team has done a good job and it looks like your team has been thorough, so.

Warren Ruppel: One last thing is that this report, the last tab on investment compliance. Tab 7. Again, it's kind of a negative assurance report where we report that nothing came to our attention from what we tested of anything that's outside of your Investment Guidelines, so there's nothing to report there so that's a clean report as well.

Martha Gallo: Okay.

Anthony Kendall: Now what would happen if you did find something? What would be your first step?

Warren Ruppel: Well, first step I'd talk to Pam and kind of see how that, you know, see how that occurred and you know then we'd wind up having to report it in the report. If Pam or if I didn't feel like Pam or ultimately BJ or we're not addressing it, then you know, I'd come to the Audit Committee.

Anthony Kendall: If you didn't get an adequate resolution you would then elevate it.

Warren Ruppel: Correct.

Anthony Kendall: And I'm done if there are no questions we could adjourn the meeting.

Pamela Frederick: We would need only to have a vote if you will to recommend --

Anthony Kendall: To approve it.

Pamela Frederick: Yeah, to the Board.

Martha Gallo: Okay. So I move to recommend that we approve the audit as presented by Marks Paneth to the Board.

Anthony Kendall: I second it. I guess any opposition?

Martha Gallo: No. And I move we adjourn the Audit Committee meeting.

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Anthony Kendall: Second that too. Meeting is adjourned.