

**CMEEC Audit Committee  
Meeting December 5, 2016**

The Audit Committee met at the CMEEC offices on December 5, 2016. The meeting began at 12:00 p.m.

Attendance: Committee Members - David Collard - Chairman  
Kevin Barber

Others: Jessica Aniskoff – Blum Shapiro  
Jonathan Fink – Blum Shapiro  
Michael Lane – CMEEC  
Joanne Menard – CMEEC  
Edward Pryor – CMEEC

Edward Pryor asked everyone in attendance to introduce themselves. He noted that committee members Steve Sinko and James Smith were unable to attend today's meeting. He introduced both Michael Lane as CMEEC's new controller and Joanne Menard. He noted that Mr. Lane will be the chief CMEEC contact and together with Ms. Menard, will be primarily responsible for working with the auditors on the current audit.

**Agenda Item I – Team Members**

Jonathan Fink explained that today's meeting is a planning meeting. He noted that today's agenda contained standard items. He further explained the purpose of the meeting is to share preliminary thoughts. He stated that the Blum Shapiro (Blum) audit team is currently onsite working on internal financials and conducting fraud interviews. The onsite team members are Matthew Coit, Audit Supervisor and Vanessa Rossitto, Concurring Partner, Vanessa is the Concurring partner but not onsite, Jessica Aniskoff is the Audit Manager and she was onsite. He added that there will be another meeting of this committee to discuss the audit in March.

**Agenda Item II – Scope of Services**

Mr. Fink discussed the Scope of Services. He noted that the last item under this Scope of Services is new and was requested by Mr. Pryor. He noted that it was not a performance review, rather a consultation on the CEO's performance metrics.

**Agenda Item III – Financial Statement Audit Objectives and Responsibilities**

Mr. Fink explained the financial statement audit objectives. He noted that the objectives simply speak to what will be covered under the audit. He noted that remaining bullets under this Agenda Item III are the same as prior year's audit.

#### **Agenda Item IV – GASB Considerations**

Ms. Aniskoff explained that CMEEC switched to GASB last year. She explained that CMEEC will be audited using the GASB 72 which focuses on fair value standards and GASB 78 which focuses on Multi-Employer defined benefit plans versus single employer plans. She noted that fair value standards were reviewed in previous years under FASB. She explained the difference between GASB and FASB being that GASB is the Government Accounting Standards Board under which CMEEC will be audited.

Chairman Collard inquired about the difference between multi-employer and single employer plans as applied to CMEEC. Mr. Pryor explained that CMEEC is a member of NRECA which administers the CMEEC defined benefit plans. Because of that membership and because NRECA is a national energy membership cooperative, CMEEC is part of a multi-employer group under NRECA.

Ms. Aniskoff added that a required supplemental schedule will be added to the audit which identifies what contributions CMEEC is contributing versus what CMEEC is required to contribute.

#### **Agenda Item V – Audit Approach**

Mr. Fink noted that he has discussed with Mr. Pryor that a Management Discussion Analysis (MDA) could be conducted in this year's audit. Mr. Pryor added that an MDA was not included last year due to timing, but it is intended to be included this year. Mr. Fink explained that if an MDA is not included, Blum Shapiro would include a notation at the end of the audit stating that CMEEC chose not to conduct one. Discussion followed in connection with the pros and cons of adding an MDA. Mr. Barber added that an MDA should be meaningful. Mr. Pryor stated that CMEEC's biggest driver in costs is changes in the energy market. He stated that information should be reviewed and included in an MDA. He thought including an MDA would be an opportunity for CMEEC to put its expenses in a real context.

Chairman Collard included that the MDA could talk about competitiveness versus actual costs of power. He added that the focus should be on energy and what CMEEC is doing for the community which results in savings the community could realize.

Ms. Aniskoff discussed this year's audit approach by stating that the field team will review CMEEC goals and processes and discuss any changes needed. She added that the field team will review process memos and update with changes as applicable. The field team will review current controls in place and recommend any changes needed. She stated that all of these criteria will be used to generate the risk assessment.

Chairman Collard noted that James Smith, who was unable to attend today's meeting, had submitted a few questions to be addressed by the Committee. The first question is related to the last bullet on page 2 under this agenda item which addresses FERC Ruling. Mr. Smith requested more information on the FERC Ruling noted in that bullet. Mr. Fink explained that this was not

a new issue. He added that FERC rulings may include amounts to be paid back. Because of that, CMEEC has set aside a certain amount of money to cover that. Mr. Pryor asked if this was related to Wallingford Arbitration. Mr. Fink noted it was not related to Wallingford Arbitration, rather it was related to the issue in Massachusetts. He stated that as a result of conversations with Mr. Pryor, it was thought to be prudent to set aside money, even though CMEEC has not been named in the investigation.

Mr. Smith's second question was if the auditors would be commenting on the administrative expenses associated with the strategic retreat. Mr. Fink stated that he has had several conversations with Mr. Pryor regarding the publicity garnered from that retreat. He stated that from an accounting perspective there are no issues with that retreat, however he also noted that it is not Blum's position as CMEEC's auditors to recommend how it spends its money. He mentioned that the amount spent was accounted for in the books. He added that if any of the members of this Committee had any further questions he would be happy to answer them. He also added that it would not be disclosed in the audit because there doesn't appear to be anything that would be required to be disclosed in the report. He stated that if the Committee thought there was value in reporting any other items in this year's audit, he would be happy to discuss that.

Discussion followed regarding the reserve that has been set aside as an accrual on the books for the Wallingford Arbitration. Mr. Pryor stated that a reserve had been set aside in anticipation of potential arbitration exposure related to Wallingford and believes that the reserve is adequate but it will be reassessed for year end.

The committee discussed the outline found on pages 3 and 4 of the agenda which provides an overview of the business risk and audit focus areas.

#### **Agenda Item VI – Upcoming Schedule**

Mr. Fink discussed the schedule for this audit. He stated that the preliminary fieldwork has begun today and will continue through Tuesday, December 6, 2016. Final fieldwork is scheduled for the weeks of February 6, 2017 and February 13, 2017. The auditors will meet again with this Committee in early March to discuss any outstanding questions. Financials should be finalized on or about March 15, 2017 since they will need to be filed with the Trustees by April 30.

#### **Agenda Item VII – Other Communications**

Mr. Fink explained that when the audit is complete, the auditors will provide a written communication related to the audit. He stated that the list under this agenda item was simply a description of the items that the written communication will include in its explanation of potential items encountered during the audit process.

### **Agenda Item VIII – Fees**

Mr. Fink noted that Blum's fees were increased by approximately 3% over last year's fees.

### **Agenda Item IX – Committee areas of concern and/or knowledge of fraud**

Ms. Aniskoff discussed the audit process stating Blum inserts certain surprise procedures while conducting their audit. She explained that they may dig a little deeper in some areas. She stated that this Committee may request Blum to review something not in the audit procedure and may look at supplemental information as well.

Mr. Pryor inquired as to whether the risk management policy would be audited. He added that the risk management policy states that this Committee is charged with overseeing compliance of that policy. Mr. Fink asked if this Committee is considering a brief review of the policy. Mr. Pryor stated that was this Committee's intention in order to test compliance with the risk management policy to ensure the basic language of the policy is being complied with.

Mr. Pryor then asked about an IT audit. Mr. Fink stated that if any significant changes in IT systems are found, the Blum IT auditors would come to CMEEC to review. He stated that cybersecurity processes should be reviewed. He noted there are two critical things to consider regarding hacking, malware, etc.: 1) have a good disaster recovery plan and make sure it is tested regularly; and 2) provide good employee education on what to do and what not to do while on the internet. Mr. Pryor added that CMEEC provides annual cybersecurity training.

There being no further discussion, the meeting adjourned at 12:50 p.m.