

**MINUTES of the AUDIT COMMITTEE MEETING of the ERIE COUNTY
WATER AUTHORITY held in the office, 3030 Union Road, Cheektowaga, New York, on the
4th day of October, 2012.**

PRESENT: Francis G. Warthling, Chairman
Earl L. Jann, Jr., Vice Chairman
John F. O'Donnell, Treasurer (via teleconference)
Robert A. Mendez, Executive Director
Matthew J. Baudo, Secretary to the Authority/Personnel Director
Robert J. Lichtenthal, Jr., Deputy Director
Wesley C. Dust, Executive Engineer
Edward A. Betz, Associate Attorney
Ronald P. Bennett, Associate Attorney
Paul H. Riester, Director of Administration
Daniel J. NeMoyer, Director of Human Resources
Karen A. Prendergast, Comptroller
Steven V. D'Amico, Budget and Financial Analyst

ATTENDEES: Brian Gould

CALL TO ORDER

PLEDGE TO THE FLAG

I. - ROLL CALL

II. - READING OF MINUTES

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to waive the reading of the Minutes of the Audit Committee Meeting held on Thursday, July 12, 2012.

III. - APPROVAL OF MINUTES

Motion by Mr. O'Donnell seconded by Mr. Jann and carried to approve the Minutes of the Audit Committee Meeting held on Thursday, July 12, 2012.

IV. - REPORTS (See "Report" Minutes for Details)

**A) AUDIT SERVICES CONTRACT EXTENSION
OPERATIONS**


Motion by Mr. Jann seconded by Mr. Warthling and carried that the Audit Committee recommend the extension of contract between Erie County Water Authority and Lumsden & McCormick for a period of two years.

V. - COMMUNICATIONS AND BILLS

VI. - UNFINISHED BUSINESS (NONE)

VII. - ADJOURNMENT

Motion by Mr. O'Donnell, second by Mr. Jann and carried that the meeting adjourn.



Matthew J. Baudo
Secretary to the Authority

SLZ

August 28, 2012

Mr. Francis G. Warthling, Chairman
Erie County Water Authority
295 Main Street, Room 350
Buffalo, New York 14203-2494

Dear Mr. Warthling and Members of the Board:

We are pleased to confirm our understanding of the services we are to provide Erie County Water Authority (the Authority) for the years ending December 31, 2012 and 2013. We will audit the statement of net assets of the Authority as of December 31, 2012 and 2013 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Authority's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Authority's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Funding Progress – Other Postemployment Benefit Plan

As part of our audits, we will also separately report or provide assistance with the following reports:

1. Comprehensive Annual Financial Report
2. Statement of Investments and Statement of Income from Investments
3. Schedule of Overhead Percentage

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68 Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the Authority and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the Authority is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will review drafts of your financial statements and related notes, and offer suggestions as to classification and disclosure. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the written representation letter that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the Authority and the respective changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the Authority from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. ⁶⁹

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Authority involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Authority received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Authority complies with applicable laws, regulations, contracts, agreements, and grants for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Authority or to acts by management or employees acting on behalf of the Authority. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

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Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. Most of the area's financial institutions contract with a third party entity (confirmation.com) to facilitate the bank confirmation process. The entity charges a fee for responding to such requests which must be paid at the time the confirmation is requested. To expedite this process, we will pay the fee on your behalf and include such amounts in our monthly progress billings to you. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the Authority and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Authority's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Engagement Administration, Fees, and Other

Our tentative audit timeline for the 2012 audit is as follows:

Provide client assistance schedules to management	December 2012
Perform interim audit procedures	January 9-11, 2013
Final field work procedures	February 25-March 8, 2013
Draft reports available	March 19, 2013
Formal report to the Audit Committee of the Board of Commissioners	To be determined based on Audit Committee schedule
Final reports available	March 29, 2013

We understand that we are required to maintain the minimal insurance requirements as outlined in your proposal throughout the period of our agreement. We will provide annual certificates as required by you. Our understanding of the insurance requirements is as follows:

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1. Commercial General Liability Insurance in an amount not less than \$1,000,000 combined ⁷¹ single limit, per occurrence, per project and \$2,000,000 in aggregate, per project;
2. Comprehensive Business Automobile Insurance in an amount not less than \$1,000,000 each accident and shall cover liability arising out of any automobile owned, leased, hired, borrowed and non-owned automobiles;
3. Workers' Compensation and Employers' Liability and New York State Disability Benefits Insurance as required by New York State statute;
4. Professional Liability Insurance in an amount not less than \$5,000,000 per each occurrence and in the aggregate. Continuous coverage shall be maintained, or on an extended discovery period ("tail coverage"), for a period of not less than two years from the time the engagement has been completed.

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the Authority; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Lumsden & McCormick, LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a federal or state agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under my supervision. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the regulatory bodies. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$36,000 and \$37,000 in each of the years ending December 31, 2012 and 2013, respectively. We also understand that this agreement can be extended for an additional two years under mutually agreed upon terms. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. Interest will be charged on any past due invoice at the rate of 1½% per month. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

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72 As stated in our proposal, it is not our normal practice to charge separately for telephone or personal consultations relating to matters which arise during the year. We believe continuing communication to be an important aspect of our service approach. If we are engaged on matters requiring substantive research or specific consulting skills, including services relative to the issuance and/or refinancing of debt sought during the period of engagement, we will provide an estimate of the anticipated cost in advance. The cost of additional services depends on the needs of the Authority and the skill level of the professional needed to meet those needs. Our standard hourly rates in effect at this time are as follows:

Partner	\$	200
Principal		164
Manager		120
Senior		92
Staff		70

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any subsequent peer review reports received during the period of the contract. Our 2009 peer review report accompanies this letter.

We appreciate the opportunity to be of continued service to the Authority and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let me know. I, Sara M. Dayton, will continue to serve as the engagement partner and am responsible for supervising your engagement and signing the respective reports resulting from our audit. Please acknowledge your concurrence with the terms of this engagement by signing and returning this letter.

Sincerely,

Lumsden & McCormick, LLP

SARA M. DAYTON

Sara M. Dayton, CPA
Partner

RESPONSE:

The above correctly sets forth the understanding of the Erie County Water Authority:

Mr. Francis G. Warthling, Chairman

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