

**MINUTES OF THE
JOINT AUDIT COMMITTEE MEETING OF THE
BOARDS OF DIRECTORS OF
CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOPERATIVE and
CONNECTICUT TRANSMISSION MUNICIPAL ELECTRIC ENERGY COOPERATIVE**

May 13, 2019

The Joint Audit Committee of the Boards of Directors of Connecticut Municipal Electric Energy Cooperative (“CMEEC”) and Connecticut Transmission Municipal Electric Energy Cooperative (“CTMEEC”) met at the CMEEC offices on Monday, May 13, 2019.

Chair, Kevin Barber, called the meeting to order at 10:00 a.m.

The following Committee Members participated:

Groton Utilities – Mark Oefinger
Norwich Public Utilities – Stewart Peil
East Norwalk – Kevin Barber
Jewett City Department of Public Utilities – Kenneth Sullivan
South Norwalk – Dawn DelGreco (via telephone)

The following individuals from CMEEC Management participated:

Michael Lane, CMEEC CFO / Interim Chief Executive Officer
Robin Kipnis, CMEEC General Counsel
Joanne Menard, CMEEC Controller
Linda Timman, CMEEC Principal Accountant
Margaret Job, CMEEC Executive Assistant/Paralegal

Ms. Job recorded.

Specific Action Items

(A) Approval of Minutes of the March 15, 2019 Joint Audit Committee Meeting

A motion was made by Committee Member Mark Oefinger, seconded by Committee Member Kenneth Sullivan to approve the Minutes of the March 15, 2019 Joint Audit Committee Meeting.

Motion passed unanimously.

(B) Review Charter Revisions and Possible Recommendation for Board Approval

Robin Kipnis, CMEEC General Counsel walked the Committee through the red-line of the Audit Committee Charter and explained that the clarifying definition of “audit committee financial expert” as a “person who has experience in either preparing or auditing financial statements or experience analyzing or evaluating financial statements.” is as defined in Sarbanes Oxley.

All other revisions reviewed at the March 15, 2019 meeting remain unchanged.

A motion was made by Committee Member Oefinger, seconded by Committee Member Sullivan to recommend the Charter for approval to the Board of Directors, as amended above.

Motion passed unanimously.

(C) Discussion of Special Committee Recommendations Listed Below:

- In conjunction with Management: Re-examine the policy for approval of expenses by Officers, including appropriate visibility for the full Board of Directors.

Discussion commenced with respect to the current policy related to business expenses and reimbursement. Mr. Lane stated that based on the Forensic Examination results Ms. Menard, Ms. Timman and he have already instituted some changes to expense reporting that reflect best practices seen in public companies. He explained that Ms. Menard has conducted training on travel expense reimbursement and P-card reconciliation to employees and that Board education will be conducted in the future. Ms. Menard took the Committee through a power point of what is now required for approval of travel related expenses.

Upon Committee Member Sullivan’s inquiry if P-card and travel expenses were being reviewed, Mr. Lane explained that a monthly dashboard is completed of all expenses but that a carve out of travel and business-related expenses could be done and provided to this Committee for review. He added that a management review of Capital and Operating expenses is completed each month however that level is not reported to the Board but that the Finance and Accounting department can provide this Committee with several different views for reporting expense information.

Upon Committee Member Dawn DelGreco's inquiry of whether there are industry related associations and conferences that CMEEEC is required to attend or be a member of, Mr. Lane stated that APPA and NEPPA are CMEEEC's main memberships and added that a CMEEEC director sits on the NEPPA board. He stated that utilities also belong to associations. He added that there are numerous opportunities for educational conferences and networking and that CMEEEC strongly supports staff development.

- Continue to follow-up on the recommendations in Section V of the Forensic Examination report for Fiscal Years ended December 31, 2013 through December 31, 2017:
 - Section V, Recommendation 1 – Expenditures:
 - “We recommend that all organizational expenses incurred and paid must be aligned with CMEEEC's purpose as stated in CMEEEC's By-Laws. In addition, we recommend CMEEEC abide by the parameters for strategic retreats, gifts and entertainment included in Public Act No. 17-73, as amended by Public Act No. 18-50, and CMEEEC's By-Laws”

Mr. Lane explained that the ensuring that expenses are aligned with CMEEEC's purposes is a key component of what is reviewed by Finance and Accounting staff. He pointed to the contents of Ms. Menard's Power Point that reinforces this.

- Examine policy around travel and expense reimbursements for non-employees/non-Board Members

Chair Barber inquired as to who 'falls' into this definition and whether this item is related to friends, etc., that were invited to the Kentucky Derby. Ms. Kipnis confirmed that this was most likely the intent.

Committee Member Stewart Peil offered that the policy could be simply stated as CMEEEC will not pay for non-employee travel and expenses.

Mr. Lane stated that the current CMEEEC Ethics and Conflict of Interest policy states that no spouses or significant others' travel and expenses will be paid for by CMEEEC.

- Establish policy by which Officers of CMEEEC document/get approval for travel and expense exceptions to the policy

Mr. Lane stated that a review of best practices of both public and private companies will be conducted and a recommendation will be brought to this Committee for review.

Question arose as to which CMEEEC committee this policy should be vetted through to which Ms. Kipnis answered that this policy was a recommendation of the Special Committee which the Governance Committee assigned to this Audit Committee.

(D) **Review of BlumShapiro advisory memorandum dated March 20, 2019**

The Committee reviewed the Blum Shapiro Advisory Memorandum that was issued at the Committee's request. Mr. Lane addressed the first paragraph relating to "Employee Expense Reimbursements" and the recommendation that the CEO expenses should be reviewed by someone who does not report to the CEO. He added that research will be conducted on best practices with respect to tier and level of approval of CEO expenses.

Discussion followed with respect to CEO expense approval. The Committee discussed that CEO expenses could be approved by the Chair of the Board of Directors or the Chair of the Audit Committee. Committee Member Stewart Peil suggested that if CEO expense approval is the responsibility of the Board Chair, then the Audit Committee could perform quarterly reviews of those approvals. Committee Member Sullivan further offered that a casual random audit could be conducted to review expenses approved by the Chair.

Committee Member Sullivan asked what procedures were in place internally to review expenses by employees. Mr. Lane stated that there are certain controls within the Finance and Accounting Department including review of several different types of statements, i.e., actual to monthly dashboard review is conducted by the CFO, Controller and finance staff every month.

Upon inquiry of how staff expenses are approved, Ms. Menard explained that the department director reviews the expenses then those same expenses are reviewed by the Controller, a step that was not previously conducted.

Mr. Lane explained that the BlumShapiro Advisory Memorandum was drafted at the request of William Kowalski. He stated that having such a memo does not follow regular financial audit procedure. He pointed out the second sentence in the first section titled **Employee Expense Reimbursements** stating that sentence was an incorrect statement. A formal procedure does in fact exist. Jonathan Fink, Partner, BlumShapiro will revise this portion of the Advisory Memo and provide the corrected version to CMEEC.

With respect to the section titled **Corporate Contributions**, Mr. Lane explained that the CMEEC Governance Committee has completed its work on the Charitable Contribution policy and will be working to draft a Strategic Sponsorship and a Membership policy.

Ms. Menard explained the section titled **Journal Entry Approval**. She stated that in 2018 there were 115 Journal Entries. She stated that BlumShapiro recommended that additional approval be required for journal entries over a certain dollar threshold. In response to an inquiry as to what dollar threshold should be set for an additional level of review, Ms. Menard explained that Mr. Fink recommended second level of review for expenses over \$100,000. Mr. Lane provided an example for second level review would be the Equity Distribution which is higher than \$100,000. Mr. Lane also stated that he agreed that the second level of review should be for expenses over \$100,000, unless this Committee feels that threshold should be lower.

Upon inquiry of what other expenses would be higher than \$100,000, Ms. Menard stated re-classifies could meet that threshold (i.e., moving one account to another, mis-labeled accounts).

Committee Member Oefinger stated that \$100,000 might be a high threshold and asked how difficult it would be to provide the Committee with a list identifying each of the 115 journal entries from last year. Ms. Menard stated that such a list is provided to the financial auditors each year and is easily retrievable for this Committee. Committee Member Oefinger stated this would help facilitate and document that this Committee conducted a look back. Mr. Lane added that Ms. Menard can provide this Committee with compensated controls that Finance and Accounting conducts each month as part of the closing process. This process helps to identify anything missed in a journal entry.

Inquiry into when the next Audit Committee meeting is scheduled revealed a December 9, 2019 meeting date. Mr. Lane stated that timing on completion of the 'To Do's' identified in today's meeting will be conducted and a recommendation for scheduling a meeting prior to December 9, 2019 will be provided to this Committee for approval.

There being no further business to come before this Committee, Chair Barber entertained a motion to adjourn.

A motion was made by Committee Member Oefinger, seconded by Committee Member Peil to adjourn this meeting.

Motion passed unanimously.

This meeting was adjourned at 11:25 a.m.