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Audit committee
ACAA-APPROVED
11/28/07

**Minutes of the Audit Committee Meeting
 of the Albany County Airport Authority**

July 31, 2007

Pursuant to notice duly given and posted, the Audit Committee meeting of the Albany County Airport Authority was called to order on Tuesday, July 31, 2007 @ 8:20 am in the 2nd Floor Conference Room of the Authority Administration Building, located at the Albany International Airport by Audit Committee Chair Elliott Shaw with the following present:

MEMBERS PRESENT

Elliott A. Shaw, Chair Audit Committee
 Richard J. Sherwood

MEMBERS ABSENT

None

STAFF

John A. O'Donnell
 J. Dwight Hadley
 Ginger Olthoff

ATTENDEES

None

Chair Shaw stated that Committee member Charla Everette had resigned from the ACAA Board effective June 30, 2006. He stated that he would request that ACAA Chair David Langdon appoint a new member to the Committee. Mr. O'Donnell stated that he has discussed this with Chair Langdon.

1. Professional Services Contract No. 547FA: Professional Auditing Services

Chair Shaw stated that the 5-year contract with UHY LLP for Professional Auditing Services has expired. He noted that the ACAA Board had adopted a policy to rotate auditing contracts every five years; therefore, a Request for Proposals was issued for Professional Auditing Services.

Chair Shaw inquired as to whether there were known reasons why a number of accounting firms did not choose to submit a proposal. Mr. Hadley stated that he believed there was a timing issue. The Public Authorities Act of 2005 requires the ACAA's audit be filed 90-days after the end of the fiscal year. He stated that most of the larger firms do not have the resources to do this type of audit within this required time frame due to their commitments with PCAOB (Public Companies Accounting Oversight Board)/SEC (Securities and Exchange Commission) requirements for year-end clients.

Mr. O'Donnell stated that the larger firms may have declined to submit a proposal due to the fact that this is a relatively small audit.

Mr. Hadley stated that of the three firms who did submit a proposal, UHY, LLP would be considered a 2nd tier, small international firm and Marvin and Company, P.C. and Lumsden & McCormick would be considered 3rd tier regional firms.

Chair Shaw inquired as to whether a firm that was considered a 3rd tier firm would be large enough to complete the audit. Mr. Hadley stated that they would.

Chair Shaw stated that it appeared to him that all three proposals were strong and the proposers were very experienced in doing Public Authority work.

Mr. Hadley stated that all three of the proposers were qualified to perform the audit. UHY has done the audit for the last 5 years, is a larger firm with more expertise and they have chosen a new partner-in-charge of the audit, Bill Kahn, who is very well known throughout the state. Lumsden is a firm out of Buffalo, NY who is well experienced with a large number of governmental accounts. Marvin had performed the audit for the Airport Authority for a number of years beginning in 1994 with the transition of the Airport from Albany County to the Airport Authority, as Marvin was the contracted auditing firm for Albany County at the time. Marvin continued with the Airport auditing work until the Board adopted a rotation policy and UHY, LLP was awarded the contract 5 years ago. Marvin has a little less governmental experience than UHY and Lumsden. Marvin also has lost several senior staff members over the past few years whose focus had been on governmental work; however, they still have qualified staff who have completed governmental audits led by Managing Director, Kevin McCoy, who led the Airport audits in previous years.

Chair Shaw stated that since UHY had held the contract for the past five years, it appeared to be time to rotate the contract. Mr. Hadley stated that UHY has proposed changing the managing partner of the audit; thereby, allowing them to be selected, as per Public Authorities Act.

Chair Shaw stated that UHY's proposed fee of \$18,500 for a Report on Financial Controls appeared to be high. Mr. Hadley stated that preparation of this report was optional and not included in the audit. The internal controls policies are currently reviewed by the auditors but an audit is not conducted. This option was included in the RFP as a result of an inquiry from the Board as to how much it would cost to perform the audit and issue an opinion.

Chair Shaw inquired if an audit of internal controls had been done in the past. Mr. Hadley stated that it had not.

Mr. Sherwood noted that the fee proposed by Marvin was somewhat lower than the other two proposers. He inquired as to whether they would be held to that number or would requests come in the future for contract amendments to increase the fees. Mr. Hadley stated that the amounts proposed would be held unless there was some type of special circumstance. He noted that there has never been a request for a contract amendment requesting additional funds.

Mr. O'Donnell inquired to Mr. Hadley whether he believed there would be a difference in performance between Marvin and the other two proposers. Mr. Hadley stated that it would be a continuation of service for UHY. Marvin would have to do a little catch-up work from five years ago, but that should not impact the performance of the audit as Marvin was familiar with the Airport and auditing standards.

Mr. Sherwood inquired as to whether the Public Authorities Act deadline for filing of the audit had posed a problem. Mr. Hadley stated that it had not, primarily due to the fact that the timeline for filing was only 1 month earlier than the ACAA's previous deadline for completion.

Chair Shaw stated that the RFP included a ranking system based on a range of factors. He requested that Mr. Hadley review how Marvin and UHY ranked based on the criteria included in the RFP.

Mr. Hadley stated that the scoring criteria included in the RFP allowed for a maximum of 80 points to be awarded on the merits of the technical proposal and 20 points for the fee proposal. He stated that both firms would be given a score of 80 on the technical side. Based on the fee proposal, Marvin would be awarded 20 points, as being the lowest fee and UHY would be awarded 14 points, as being 1/3rd higher in fee. The totals would be Marvin at 100 points and UHY at 94 points.

Mr. Sherwood stated that the cost difference in the proposals was significant. He inquired if there could be a possible mistake in the proposal submitted by Marvin. Mr. Hadley stated that it was not likely, as during the previous RFP process, UHY had come in at \$7,000 higher than Marvin. Mr. Hadley also stated that he believed the price differential could be attributed to the fact that Marvin is a smaller firm, therefore, has a smaller fee structure.

Chair Shaw stated that Marvin had included the Olympic Regional Development Authority as a reference. He inquired if Mr. Hadley contacted them. Mr. Hadley stated that he did not call the specific references but has spoken to several governmental organizations that use both firms and there were no problems reported.

Chair Shaw inquired as to the number of senior staff that had left Marvin over the past few years. Mr. Hadley stated that Marvin had lost two managers which included the manager who had performed

Airport audits in the past. These managers left to start up their own firm.

Chair Shaw stated that he believed Marvin has proven that they have the capacity to perform the audit, as noted by the technical proposal that was submitted and there was a sizable discount in the fee proposed by Marvin as compared to the other two proposers. Chair Shaw also stated that he believed that a full scale rotation to a new firm would meet the spirit of the Public Authorities Act rather than a managerial rotation.

Mr. Sherwood agreed and pointed out that based on the rather large differential in the fees proposed and the fact that Mr. Hadley has stated that Marvin was qualified to perform the work, he believed selection of Marvin should be the Committee's recommendation to the Board.

Mr. O'Donnell and Mr. Hadley stated that they concurred with this recommendation.

Chair Shaw moved to recommend that the ACAA Board award Professional Services Contract No. 547FA: Professional Auditing Services to Marvin and Co., PC. The motion was adopted unanimously.

2. Draft Audit Committee Charter

Mr. Hadley stated that the Committee had been given a draft Audit Committee Charter at its meeting on September 6, 2006 for review. He stated that staff had made some revisions to the draft Charter based upon a recommended charter drafted by the Authority Budget Office (ABO). Mr. Hadley stated that the draft Charter presented today was a combination of the original draft provided on September 6, 2006 and the document recommended by the Authority Budget Office. He stated that he believed the draft Charter presented today is pretty straightforward and meets the spirit of the Public Authorities Law.

Chair Shaw stated that when he took the Authority Board training, he made a note of having a charter adopted for the Audit Committee.

Chair Shaw referred to Page 2, Article V – Composition of Committee and Selection of Members, Paragraph 4 of the draft Charter provided that stated, "The Committee shall have access to the services of at least one financial expert, whose name shall be disclosed in the annual report of the Authority."

Chair Shaw asked for an explanation of this section. Mr. Hadley stated that this was taken straight from the ABO draft charter to provide the Committee members with outside assistance should they need expert opinions on any specific financial areas.

Mr. Sherwood recommended changing "The Committee shall have access to the services of at least one financial expert, whose name shall be disclosed in the annual report of the Authority..." by adding "At its discretion," to the beginning of the sentence.