

New Hampshire Electric Cooperative, Inc.

**Minutes of the Meeting of the
Audit Committee**

April 18, 2025 10:00 a.m.

Present: Committee Members: Alana Albee (Chair), Bill Darcy, Pat Barbour, Carolyn Kedersha, Peter Laufenberg, Tom Mongeon, and Harry Viens
Other Board Members: John Goodrich and Jerry Stringham
NHEC Employees: Michael Jennings, Kristen Taylor, Sonja Gonzalez, Chris Axten, and Edee Murphy (Recording)

Meeting Called to Order

Chair Albee called the meeting to order at 10:00 a.m.

Agenda Review

There were no suggested changes to the agenda.

Form 990 Review

Ms. Axten stated the Form 990 was prepared by our auditors who presented the financials a few weeks ago. She commented the process went smoothly and there were not a lot of changes from 2023 to 2024, summarized as follows:

- Schedule J, line 4a: Receive a severance payment or change-of-control payment – In 2024 NHEC did not have anything that would apply to that box.
- Schedule R, Page 3, Part V, 1b – Gift, grant, or capital contribution to related organization(s) – This one is marked ‘Yes’ which is the NHEC Foundation. In answer to a question from Mr. Mongeon on why this changed from last year, Ms. Axten replied staff is awaiting an answer from the auditor. Ms. Taylor commented there has not been a process change and our relationship with the Foundation has stayed the same. She added we are recognizing that some of our staff time has been gifted to the Foundation, i.e., Sara Thielbar’s time and finance staff time to reconcile the Foundation accounting. Ms. Axten will follow up with the auditors for an answer.
- Section B. Policies, 15a and 15b: Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision? 15a: The organization’s CEO, Executive Director, or top management official; 15b: Other officers or key employees of the organization.
 - One of the notes on 15a (Schedule O) has a reference to non-union employees which we can remove. We are still confirming the process with People and Culture related to 15b and if there is a change to what we have listed currently, we will make sure that is changed by the auditors before submission.

Discussion:

- ❖ Mr. Jennings commented he does not believe the comment related to 15a is correct. Mr. Darcy agreed with Mr. Jennings and requested a modification to the notes to exclude the verbiage: “...to the vice chair of the Board of Directors for review with the Board of Directors.” His reason is the CEO salary was not reviewed by the vice chair of the board or the board. Mr. Jennings commented he thinks it was reviewed by Madeline McElaney, Vice Chair at the time, but does not think she shared that with anybody. He also pointed out it should be clear that the compensation analysis was only done for the CEO and not senior staff.
- ❖ Page 2, Part III, 4b – Mr. Darcy stated he has a problem with the language regarding the broadband division allocation of patronage capital to the members for two reasons: 1) the board has never decided that any

excess is going to be in the form of patronage capital; and 2) there is ambiguity of “members” because there is a difference between electric members and broadband customers.

- ❖ Ms. Taylor commented that Mr. Jennings raised the patronage topic with her as well. She stated she went back and looked at previous correspondence between Bill Miller and Drew Dunagin back when the broadband subsidiary was first set up. With the structure we have chosen, the broadband services are to be provided to non-members on a non-patronage for-profit basis. However, as it relates to distribution of cash, the operating agreement controls the distribution of the cash “at some future point in time.” She agrees it has not been decided and is somewhat ambiguous; with the multi-divisional cooperative legal but no tax separation structure, we are to provide non-members on a non-patronage for-profit basis but have not quite decided on what to do regarding members.
- ❖ Mr. Darcy wanted to make clear he is not proposing a change at this point, but it is something the board has not decided; there are various ways to distribute excess cash.
- ❖ At the request of Mr. Mongeon, Ms. Taylor explained the 85/15 test where cooperatives must collect at least 85% of income from members. NHEC is currently at 95%, however, this is something that is important for us to track on our broadband business because as we build to any non-members, we will need to be able to quantify and identify any non-members to incorporate into our 85/15 test. That is something we are hoping to gain with the new GLDS system migration in the next month or so.
- ❖ In response to a question from Mr. Mongeon about Part VII, Section A. – Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees – Chair Albee suggested a notation be made on either the Form 990 or the financials regarding mutual aid payments.
- ❖ In response to a comment by Ms. Kedersha regarding her deferred compensation, Ms. Taylor will check on Ms. Kedersha’s deferred compensation reporting.
- ❖ In answer to a question from Mr. Mongeon, Mr. Darcy replied that general counsel is reviewing the Form 990 and will report to the Board Chair, Board Vice Chair, and the Interim President CEO.
- ❖ Part IX, 11d – Mr. Darcy requested that lobbyist payments be listed under the ‘Lobbying’ category starting next year’s Form 990.

Chair Albee summarized as follows:

- Two points Mr. Darcy raised: 1) Allocation of patronage from the broadband entity to members; and 2) lobbyist payments being separated out under “Lobbying” category starting 2025 Form 990.
- Adjustments to Form 990 before the April board meeting are the open questions to the auditors: 2) Regarding compensation analysis, Section B, 15a – exclude the verbiage: ...”to the vice chair of the Board of Directors for review with the Board of Directors” and 2) Adjustment of board director Kedersha’s deferred compensation.

Upon motion by Mr. Mongeon, seconded by Mr. Laufenberg, it was

VOTED: That the committee recommends the Board of Directors accept NHEC’s 2024 IRS Form 990 as presented with the above-listed adjustments.

Vote was unanimous.

Policies Review

- B-2, Attachment D – Audit Committee. Paragraph I.1. – Revised to include the Board Treasurer.

Upon motion by Mr. Darcy, seconded by Ms. Barbour, it was

VOTED: That the committee recommends the Board of Directors accept Board Policy B-2 Attachment D – Audit Committee – with revisions as presented.

Vote was unanimous.

- B-12 Audit Policy

Discussion on B-12:

- ❖ Mr. Mongeon suggested there be future discussion as to whether or not NHEC should bring in a third party to review the internal financial controls process but has no changes at this time.

Upon motion by Mr. Laufenberg, seconded by Mr. Mongeon, it was

VOTED: That the committee recommends the Board of Directors reaffirm Board Policy B-12 Audit Policy as presented.

Vote was unanimous.

- B-16 Record Retention and Destruction Policy
- B-18 Safeguarding Member Information

Discussion on B-16 and B-18:

- ❖ B-16 Record Retention and Destruction Policy. Chair Albee stated there have been changes in allocations and responsibilities; she suggested pausing discussion on this policy for a special August or September Audit Committee meeting. She requested the Controller and the VP/CIO give a presentation at that meeting on the procedures used and updated records retention and destruction to date, and then the policy can be revised accordingly. Ms. Gonzalez commented that Ms. Axten (Controller) and Brittany L'Heureux have been working on the record retention and destruction policy with a goal of completion by June 2025.
- ❖ B-18 Safeguarding Member Information. Mr. Jennings commented we may want to change the wording in this policy at the next meeting; the policy currently states the President/CEO or designee handles all requests for information and implies the President/CEO sees all requests which he feels is not necessary due to the volume. He recommended the new internal audit executive look at this policy and review for compliance and where we may need revisions.

Upon motion by Ms. Kedersha, seconded by Mr. Laufenberg, it was

VOTED: That the committee recommends the Board of Directors reaffirm Board Policies B-16 Record Retention and Destruction Policy and B-18 Safeguarding Member Information as presented.

Vote was unanimous.

Chair Albee reiterated that at the August/September special Audit Committee meeting Board Policy B-16 will be looked at in more detail and a presentation made by staff, and the internal auditor will look at Board Policy B-18 with the President/CEO and amend language.

External Auditor Review

Chair Albee stated this is year three of the three-year contract with external financial auditor McNair, McLemore, Middlebrooks & Co., and turned the discussion over to Ms. Taylor.

Ms. Taylor stated the selection of the financial auditor is the decision of the Audit Committee and that Chair Albee asked her for her recommendation. Commonly, auditors or audit firms should be rotated every three to five years. A more practical practice for audit rotation is rotating an audit partner or the staff. Per our financial auditor, they have rotated lead staff already during the three years, but for consistency the partner has stayed the same to learn the cooperative functions and lead the engagement. Ms. Taylor's recommendation is to request a two-year extension with McNair et al and continue with staff rotation. She welcomed committee member input.

Discussion:

- ❖ Mr. Laufenberg stated he agrees with Ms. Taylor's recommendation for a two-year extension, with discussion of changing it up after that period.
- ❖ Ms. Barbour pointed out that changing auditors any more frequently than five years is an incredible burden to staff and organizational knowledge is lost with the accounting firm but she would prefer they changed the partner. Ms. Taylor commented they do have three partners and NHEC can request a change.
- ❖ Mr. Jennings agreed changing audit firms is a big lift. He added if the board did want to continue past the five years, we would make it mandatory for a partner change.
- ❖ Committee members Mongeon and Viens were in agreement with the two-year extension. Mr. Goodrich and Board Treasurer Stringham were also in agreement.

Upon motion by Mr. Laufenberg, seconded by Mr. Mongeon, it was

VOTED: That the committee approves amendment of the contract with the external auditor for an extension of two years with the advice that we consider rotation of the partner within the audit firm.

Vote was unanimous.

Any Other Business

Internal Audit Executive

Chair Albee drew attention to the new job description for the NHEC internal audit executive included in the meeting materials and turned the discussion over to Mr. Jennings.

Mr. Jennings commented on the evolution of the position and how it has moved around within various departments and roles over the years. This makes it primarily an audit-only role reporting directly to the President/CEO. This will give internal auditor more authority and independence in the areas they are auditing and allow them to be more impartial. The reporting structure is intended for the President/CEO to be more of an administrative reporting from an audit perspective; the functional reporting will be to the Audit Committee.

Discussion:

- ❖ Ms. Kedersha asked how Enterprise Risk Management (ERM) will be handled. Mr. Jennings commented the ERM responsibilities have floated around the co-op as well. As we look at this position it might be a great place for it to fit. In the past few years, Jeremy Clark had taken the lead on it; last year Ms. Gonzalez took the lead on it. There is definitely some synergy there we will want to consider in this role.
- ❖ Ms. Kedersha recommended specifically calling out ERM in the job description; as it reads now, it is focused on financial auditing. Mr. Jennings said that is a great point and he will look at revising the job description.
- ❖ Chair Albee pointed out the position is not just a financial internal audit function; the job description refers to procedures and compliance and in some ways is even broader than what was being done previously. It is a more open landscape than finance and cyber.
- ❖ Ms. Kedersha stressed the importance of putting the words and commentary around ERM to attract applicants skilled and experienced in risk management auditing.
- ❖ Chair Albee stated they will take another look at the job description; it was not the intention to focus only on financial internal auditing.
- ❖ Mr. Goodrich mentioned that our insurance company may also be a good resource for the non-financial side of ERM audits.

Internal Controls - Third-Party Assessment

Mr. Mongeon highly recommended starting to identify a firm to assess NHEC's financial internal controls and make recommendations. He added it behooves the board to make sure we get a third-party assessment and recommendation.

Discussion:

- ❖ Chair Albee said she will discuss this more thoroughly with Mr. Jennings and Ms. Taylor and add the topic to the August/September Audit Committee meeting agenda.
- ❖ Mr. Darcy recommended finding out the cost, decide whether to move forward on it, and decide whether to include in next year's budget.
- ❖ Mr. Jennings recommended letting staff look into it and bring back some options, including cost, and then we can budget for it. Chair Albee added that clearly we have constraints and budgeting is one of them, so maybe it will not take place until next year.
- ❖ Mr. Mongeon said he agrees with most of the comments but would rather we come into the next meeting with information and make the decision; he suspects it will not cost more than \$30K-\$40K. He added financial controls are extremely important and it is a key oversight function of the board; we should come ready to make a decision at the next meeting and handle the budgetary aspects as we need to.
- ❖ Ms. Kedersha pointed out a cost-effective way may be to have our prior auditors, BerryDunn, who have detailed knowledge about our organization, perform the recommendations. Chair Albee replied that is a good suggestion and she will look into it. The topic will be on the next meeting's agenda with a recommendation.

Adjournment

Upon motion by Mr. Laufenberg, seconded by Mr. Mongeon, Chair Albee adjourned the meeting at 10:55 a.m.