

WAYNE COUNTY WATER AND SEWER AUTHORITY
AUDIT COMMITTEE CHARTER
(Adopted November 23, 2010)

Purposes

The purposes of the Audit Committee (the “Committee”) of the Board of Directors (“Board”) of the Wayne County Water And Sewer Authority (the “Authority”) are to assist the Board in fulfilling its oversight responsibilities as set forth in the Public Authorities Accountability Act of 2005 and the Public Authorities Reform Act of 2009, as the same may be amended from time to time, (together the “Act”) with respect to (i) the quality and integrity of the Authority’s financial statements and related disclosures, (ii) the Authority’s compliance with legal and regulatory requirements, including the Authority’s internal control structure and procedures and the Authority’s disclosure control structure and procedures, and (iii) the independent auditors’ qualifications, independence and performance.

Composition and Procedure

1. Membership and Appointment. The Committee shall be composed of not less than three independent directors as defined in Section 2 below who shall be appointed by the Board in accordance with the bylaws (“Bylaws”) of the Authority and shall constitute a majority on the Committee; provided, however, that in the event that the Board has less than three independent members, the Board may appoint non-independent members, provided that the independent members must constitute a majority of the members of the Committee. The members of the Committee shall serve at the pleasure of the Board for such term or terms as the Board may determine. The Board shall designate one of the members as Chairperson of the Committee.

2. Independence and other Qualifications. At least a majority of the Committee member must meet the definition of an “independent member” as defined in § 2825 of the Public Authorities Law, as amended. Members of the Committee shall possess the necessary skills to understand the duties and functions of the Committee and shall be familiar with corporate

financial and accounting practices needed to understand and evaluate the Authority's financial statements, the external audit and the Authority's audit activities.

3. Committee Meetings. The Committee shall meet at least three (3) times per year or more frequently as necessary to carry out its responsibilities under this Charter, and no notice to members of the Committee shall be required for any regular meeting. Special meetings may be called with notice provided as required under the Bylaws. Meetings of the Committee shall be open to the general public, except for executive sessions, in accordance with applicable law and the Bylaws. The Committee Chairperson will, in consultation with the other members of the Committee, the Authority's independent auditors and the appropriate officers of the Authority, call, establish the agenda for, and supervise the conduct of each Committee meeting. A majority of the number of Committee members selected by the Board will constitute a quorum for conducting business at a Committee meeting. The act of the majority of Committee members present at a Committee meeting at which a quorum is in attendance will be the act of the Committee, unless a greater number is required by law or the Authority's enabling legislation or Bylaws. A proposed schedule of meetings is attached hereto as Exhibit "A".

4. Minutes Required. The Committee shall keep accurate minutes of its meetings and shall present such minutes to the Board. Minutes shall consist of a record or summary of all motions, proposals, resolutions and any other matter formally voted upon and the vote thereon, and shall include, as appropriate, copies of the agenda and other materials discussed or presented at the Committee meeting. Such minutes shall be available to the public in accordance with the provisions of the Freedom of Information Law and the Bylaws.

5. Report to the Board. The Committee shall report to the Board on its activities; any significant findings brought to the attention of the Committee; any significant internal control findings; any indications of suspected waste, fraud or abuse; and, activities of the internal audit function.

6. Authorization. The Committee is empowered by the Board to take all appropriate action within the scope of its responsibilities as set forth in this Charter and the Bylaws. The Committee shall have full and unrestricted access to all personnel, records, operations, properties and other informational sources of the Authority as required to properly discharge its

responsibilities. Further, the Committee is granted the authority to investigate any activity of the Authority, and all employees are directed to cooperate as requested by members of the Committee.

7. Meetings with Management and Advisors. The Committee may request any officer or employee of the Authority, or any representative of the Authority's outside legal counsel or independent auditors, to attend a meeting or to meet with any members of, or advisors to, the Committee. The Committee shall meet with the Authority's management and the independent auditors periodically in separate, private sessions to discuss any matter that the Committee, management, the independent auditors or such other persons believe should be discussed privately.

Duties and Responsibilities

The following shall be the common recurring duties and responsibilities of the Committee in carrying out its oversight responsibilities. These duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may recommend to the Board that they be altered or supplemented as appropriate under the circumstances to the extent permitted by the Act or other applicable law.

8. Oversight of Relationship with Independent Auditors.

(a) *Appointment and Oversight.* The Committee shall recommend to the Board the appointment, retention and termination of the independent auditors and shall be directly responsible for determining the compensation and overseeing the work of such auditors employed by the Authority (including resolution of any disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or other services for the Authority. The independent auditors shall report directly to the Committee.

(b) *Pre-approval of Services.* In accordance with the requirements of the Act and any other applicable legal and regulatory requirements, the Committee shall pre-

approve all auditing services and permitted non-audit services to be provided by the independent auditors and the related fees, and shall establish policies and procedures for the pre-approval of such engagements. In general, the independent auditor shall be prohibited from performing any non-audit services to the Authority contemporaneously with the audit, unless receiving previous written approval of the Committee, including (i) bookkeeping or other services related to the accounting records or financial statements of the Authority; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human services; (vii) broker or dealer, investment advisor, or investment banking services; and (viii) legal services and expert services unrelated to the audit. The Committee shall consider whether the provision of any such non-audit services is compatible with the independence of the independent auditors. The Committee may consult with management regarding these matters, but may not delegate this authority to management. The Committee shall review with the lead audit partner whether any of the senior audit team members receive any discretionary compensation from the audit firm with respect to non-audit services performed by the independent auditors.

- (c) *Auditor Independence.* In connection with the retention by the Board of the Authority's independent auditors and the evaluation by the Committee of the qualifications, performance and independence of the independent auditors, the Committee shall, at least annually, review and discuss the information provided by management and the auditors relating to the independence of the firm, including, among other things, information related to the non-audit services provided and expected to be provided by the firm to the Authority. The Committee shall (i) ensure that the independent auditors submit at least annually to the Committee a formal written statement delineating all relationships between the firm and the Authority consistent with Independence Standards Board Standard No. 1, as applicable, (ii) actively engage in a dialogue with the auditors regarding any disclosed relationship or services that may impact the objectivity and independence of the auditors, and (iii) take appropriate action in response to

the auditors' report to satisfy itself of the firm's independence. In connection with its evaluation of the auditors' independence, the Committee shall also review and confirm that neither the lead audit partner, coordinating audit partner having primary responsibility for the audit, nor the audit partner responsible for reviewing the audit has performed audit services for the Authority in each of the five previous fiscal years of the Authority as required by the Act and applicable law.

(d) *Quality Control of Auditors.* The Committee shall obtain and review with the lead audit partner and, if the Committee deems it appropriate, a more senior representative of the independent auditors, annually or more frequently as the Committee considers appropriate, a report by the independent auditors describing: the independent auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, or by any inquiry, review or investigation by governmental or professional or other regulatory authorities, within the preceding five years, respecting independent audits carried out by the independent auditors, and any steps taken to deal with these issues; and (to assess the independent auditors' independence) all relationships between the independent auditors and the Authority.

(e) *Hiring Employees of Auditors.* Pursuant to the Act, it shall be prohibited for any certified independent public accounting firm to perform for the Authority any audit service if the chief executive officer, comptroller, chief financial officer, chief accounting officer, or any other person serving in an equivalent position for the Authority, was employed by that certified independent public accounting firm and participated in any capacity in the audit of the Authority during the one year preceding the date of the initiation of the audit.

9. Oversight of Financial Statements and Related Disclosures

(a) *Audit Plan.* The Committee shall meet with management and the independent auditors prior to the commencement of each annual audit to discuss the scope

of the audit, the schedule, the procedures to be followed and the staffing of the audit.

(b) *Audited Financial Statements.* The Committee shall review and discuss with management and the independent auditors the annual audited financial statements, including related footnotes, the Authority's certifications and disclosures regarding internal controls and other matters required to be reported by the Authority to the New York State Authority Budget Office ("ABO") pursuant to § 2800 of the Public Authorities Law, as amended.

(c) *Communications with Auditors.* Prior to recommending that the Authority file a copy of the annual independent audit report with the ABO, the Committee shall also review and discuss with the independent auditors and management the reports from the independent auditors' covering:

- (i) all critical accounting policies and practices to be used;
- (ii) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management officials of the Authority, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the certified independent auditors;
- (iii) all other material written communications between the independent auditors and the management of the Authority, such as any engagement letter, independence letter, "management" or "internal control" letter issued or proposed to be issued, along with management's response or plan of corrective action, material corrections identified, or schedule of unadjusted audit differences and a listing of adjustments and reclassifications not recorded, if any;
- (iv) all matters required to be discussed with the Committee by the independent auditors pursuant to Statement on Auditing Standards ("SAS") No. 61 relating to the conduct of the audit, including any difficulties with management encountered in performing the audit

(such as restrictions on the scope of the independent auditors' activities or on its access to requested information) and any significant disagreements with management over the application of accounting principles, the basis for management's accounting estimates and the disclosures in the financial statements;

- (v) all matters to be communicated to the Committee under generally accepted auditing standards, including the judgments of the independent auditors with respect to the quality, not just the acceptability, of the Authority's accounting principles and underlying estimates in the financial statements;
- (vi) the significant financial reporting issues and judgments made in connection with the preparation of the Authority's financial statements, including any significant changes in the Authority's selection or application of accounting principles, any major issues as to the adequacy of the Authority's internal controls, and any special steps adopted in light of material internal control deficiencies or weaknesses;
- (vii) the effect of regulatory and accounting initiatives on the financial statements of the Authority; and
- (viii) such other matters as the Committee deems appropriate.

The Committee shall discuss with the independent auditors any disagreements between the independent auditors and management on financial reporting and shall decide all such unresolved disagreements.

- (d) *Recommendation to Accept Annual Audit Report.* The Committee shall, based on the review and discussions in paragraphs (b) and (c) above, and based on the disclosures received from the independent auditors regarding its independence and discussions with the auditors regarding such independence, determine whether to recommend to the Board that the audited financial statements be accepted by the Authority, and following certification by its Chief Executive Officer and Chief Financial Officer, as required by the Act, be submitted to the ABO.

10. Oversight of Controls and Procedures

(a) *Internal Controls and Procedures.* The Committee shall have responsibility for overseeing that management has implemented an effective system of internal controls and procedures that provide reasonable assurance regarding the reliability of the Authority's financial reporting, the preparation of financial statements for external purposes in accordance with generally accepted government auditing standards and the Authority's compliance with applicable laws, regulations and Authority policies.

- (i) The Committee shall review with management its evaluation of the Authority's internal control structure and procedures for financial reporting and review periodically, but in no event less frequently than annually, management's conclusions about the effectiveness of such internal controls and procedures, including any significant deficiencies in, or material non-compliance with, such controls and procedures.
- (ii) The Committee shall review and may take appropriate action with respect to any disclosures made to the Committee by the Chief Executive Officer and the Chief Financial Officer during their certification process for the audit report with respect to (x) any significant deficiencies in the design or operation of internal controls or material weaknesses therein, (y) any fraud, whether or not material, involving management or other employees who have a significant role in the Authority's internal controls, and (z) whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls.
- (iii) The Committee shall discuss with the independent auditors the adequacy and effectiveness of the Authority's internal controls and consider any recommendations for the improvement of such controls.

(iv) The Committee shall review and assess the content and timeliness of management's responses to the independent auditors' management letter recommendations for improving internal controls.

(b) *Disclosure Controls and Procedures.* The Committee shall have responsibility for overseeing that management has implemented an effective system of disclosure controls and procedures that ensure that material information regarding the Authority is made known to the Chief Executive Officer and the Chief Financial Officer by others.

(i) On an annual basis, the Committee shall discuss with management the Authority's disclosure controls and procedures.

(ii) The Committee shall review and may take appropriate action with respect to any disclosures made to the Committee by the Chief Executive Officer and the Chief Financial Officer during their certification process for the audit report regarding their conclusions about the effectiveness of the Authority's disclosure controls and procedures.

(iii) The Committee shall review with the independent auditors, and any other outside professionals as the Committee considers appropriate, the effectiveness of the Authority's disclosure controls and procedures and consider any recommendations for the improvements of such controls.

(iv) The Committee shall review and assess the content and timeliness of management's responses to the independent auditors' management letter recommendations for improving disclosure controls.

11. Other Powers and Responsibilities

(a) *Risk Assessment and Management.* The Committee shall periodically review and discuss with management and the independent auditors the Authority's major financial risk exposures and the steps that management has taken to

monitor and control such exposures, including the Authority's risk assessment and risk management policies and guidelines.

(b) *Correspondence with Regulators.* The Committee shall discuss with management and the independent auditors any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Authority's financial statements, financial reporting process, accounting policies or internal audit function.

(c) *Legal Matters.* The Committee shall review with the Authority's outside counsel legal matters that may have a material impact on the Authority's financial statements or the Authority's compliance policies or that may otherwise warrant the Committee's attention.

(d) *Complaints.* The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Authority regarding accounting, internal accounting controls or auditing matters. The Committee shall, in accordance with § 2824(e) of the Public Authorities Law, also establish procedures for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters as well as suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by Directors, officers, or employees of the Authority or any persons having business with the Authority or breaches of internal controls.

(e) *Special Investigations.* The Committee shall be authorized to request and oversee special investigations, as needed, and to refer specific issues to the appropriate body for further investigation including the Inspector General or other investigatory body. In addition, the Committee shall review all reports delivered to it by the Inspector General and shall serve as a point of contact with the Inspector General.

- (f) *Board Reports.* The Committee, through its Chairperson, shall report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of the Authority's financial statements, the Authority's compliance with legal or regulatory requirements, the performance and independence of the Authority's independent auditor, the performance of the Authority's internal audit function, how the Committee has discharged its duties and met its responsibilities under this Charter or any other matter the Committee determines is necessary or advisable to report to the Board.
- (g) *Code of Ethics.* The Committee shall, in conjunction with the Authority's Governance Committee and Ethics Officer, assist with the administration and oversight of the Authority's Code of Ethics and similar compliance programs to the extent requested by the Board.
- (h) *Training.* The Committee shall obtain any information and training needed to enhance the Committee members' understanding of the role of internal audits and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting standards and processes. The Committee shall also review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and analyze their impact on the Authority's financial statements.
- (i) *Other Activities.* The Committee shall conduct an annual self-evaluation of its performance, including its effectiveness and compliance with this Charter and perform such other activities consistent with this Charter, the Bylaws and the Act as the Board deems necessary or appropriate.
- (j) *Future Amendments to Charter.* The Committee shall review and reassess this Charter annually, reassess its adequacy and submit any recommended changes to the Board for its consideration. This Charter and any provision contained herein may be amended or repealed by the Board, as necessary to reflect changes in applicable laws, regulations, accounting and auditing standards.

Limitation of Audit Committee's Role

While the Committee has the authority, responsibilities and powers set forth in the Act and this Charter, its function is one of oversight and review. It is not the duty of the Committee to plan or conduct audits or to determine that the financial statements and disclosures are complete and accurate and are in accordance with generally accepted government auditing standards and applicable legal, accounting and other requirements. These are the responsibilities of management and the independent auditors. In adopting this Charter, the Board acknowledges that the Committee members are not employees of the Authority and are not providing any expert or special assurance as to the Authority's financial statements or any professional certification as to the independent auditors' work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of those persons and organizations within and outside the Authority that provide information to the Committee and the accuracy and completeness of the financial and other information provided to the Committee by such person or persons absent actual knowledge to the contrary.

EXHIBIT "A"

PROPOSED SCHEDULE OF MEETINGS

AUDIT CYCLE

- | <u>Task</u> | <u>Date</u> |
|--|-------------|
| • Organizational meeting; provide recommendations to Board on selection of external auditor. | |
| • Preliminary meeting with external auditor (prior to commencement of audit) to review engagement letter. | |
| • Receive and review the draft annual audit report and management letter including the auditor's assessment of the Authority's system of internal controls/adopt recommendation to the Board on accepting the audit. | |
| • Review any corrective action plan developed by the Authority in response to the audit; review and recommend changes, as appropriate to Audit Committee Charter. | |

REPORTING CYCLE

- | | | |
|---------------------------------|-------------------------------------|-----------------------|
| • Personnel Report | file by 1/15 | (commencing 3/1/10) |
| • Property Disposal Guidelines | file by 3/31 | (commencing 3/31/06) |
| • Budget Report | file by 11/1 | (commencing 11/1/06) |
| • Investment Guidelines | approve annually | (commencing 12/31/06) |
| • Annual Report/Property Report | file by 3/31 | (commencing 3/31/07) |
| • Audit Report | file 30 days after receipt of audit | (commencing Q-1 2008) |

- Mission Statement/ Measurement Report file by 3/31 (commencing 3/31/11)

EXHIBIT "B"

SUMMARY OF ANNUAL REPORTS DUE

❖ **Annual Report**

(PAL § 2800(2))

- Operations and accomplishments
- Revenues and expenses
- Assets and liabilities
- Schedule of bonds and notes
- Compensation schedule if salary exceeds \$100k
- Projects undertaken during past year
- Listing of all real property over \$15,000 acquired or disposed of
- Code of Ethics
- Assessment of effectiveness of internal controls/procedures
- Mission statement and annual measurement report
- Audited financial statements
- Grant and subsidy programs
- Operating and financial risks
- Current ratings for bonds
- Long-term liabilities, leases and employee benefit plans
- Price and name of seller of property bought by Authority
- Enabling legislation
- Number of employees
- Bylaws
- Material operation and program changes
- 4 year financial plan
- Current and projected capital budget
- Operating budget report
- Analysis/measurement of financial and operating performance
- Board structure, committees and committee members
- Board meetings and attendance
- Board performance evaluations
- Description of assets/services purchased without competitive bidding
- Material pending litigation

❖ **Budget Report**

(PAL § 2801(2))

- Budget information on operations
- Budget information on capital construction
- Estimated receipts and expenditures for the next fiscal year
- Estimated receipts and expenditures for the current fiscal year

- Actual receipts and expenditures for the last completed fiscal year

❖ **Audit Report**

(PAL § 2802(2))

- Copy of independent audit report
- Approved by Board
- Certified by CEO/CFO

❖ **Property Report¹**

(PAL § 2896(3))

- Listing all real property of the Authority regardless of value
- Listing any real property the Authority intends to dispose of
- Listing any real property disposed of, estimated fair market value, purchaser and price received
- Listing all personal property with value of \$5,000 or greater disposed of by the Authority, indicating purchaser and price received

❖ **Personnel Report**

(PAL § 2806)

- Personnel information indicating position, grade, salary and title
- May be incorporated by reference in the Annual Report

¹ May be combined with Annual Report per Authority Budget Office.