

SUFFOLK COUNTY WATER AUTHORITY

POLICIES AND PROCEDURES

SUBJECT: SCWA AUDIT COMMITTEE

FILE UNDER SECTION NO: 9

EFFECTIVE DATE: March 1, 2011

POLICY NO: 902

SUPERSEDES: NOVEMBER 28, 2006

APPROVED:

M. W. Sabo

PURPOSE

The purpose of the Audit Committee shall be to (1) assure that the Authority's Board fulfills its responsibilities for the Authority's internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting; and (2) provide an avenue of communication between management, the independent auditors, the internal auditor(s) and the Board.

Powers of the Audit Committee

It shall be the responsibility of the audit committee to:

- Recommend the appointment and compensation of any public accounting firm employed by the Authority and oversee their work.
- Conduct or authorize investigations into any matters within its scope of responsibility.
- Seek any information it requires from the CEO, CFO, Internal Auditor, or any other SCWA employee.
- Meet with the Authority staff, independent auditors, outside counsel and investment advisors, as necessary.
- Recommend to the Board retention at the Authority's expense of such outside counsel, experts and other advisors as the audit committee may deem appropriate.

Composition of Committee and Selection of Members

The audit committee shall consist of three members of the Board (one of whom shall be the Chairman), who are independent of Authority operations. The Authority's Board will appoint the audit committee members.

Audit committee members shall not engage in any private business transactions with the Authority or receive compensation from any private entity that has material business relationships with the Authority, or be an immediate family member of an individual that engages in private business transactions with the Authority or receives compensation from an entity that has material business relationships with the Authority.

Members on the audit committee shall possess or obtain a basic understanding of government financial reporting and auditing.

The audit committee's internal and external advisors shall have (1) an understanding of generally accepted accounting principles and financial statements; (2) experience in preparing or auditing financial statements of comparable entities; (3) experience in applying such principles in connection with the accounting for estimates, accruals and reserves; (4) experience with internal accounting controls and (5) an understanding of the audit committee functions.

Meetings

The audit committee will meet a minimum of twice per year, with the expectation that additional meetings may be required to adequately fulfill all the obligations and duties outlined in the charter.

Members of the audit committee are expected to attend each committee meeting, in person or by videoconference. The audit committee may invite other individuals, such as members of management, auditors or other technical experts to attend meetings and provide pertinent information, as necessary.

The audit committee will meet with the Authority's independent auditor at least annually to discuss the financial statements of the Authority, including times as needed, without the presence of Management staff.

Meeting agendas will be prepared for every meeting and provided to the audit committee members along with briefing materials prior to the scheduled audit committee meeting. The audit committee will act only by unanimous consent. Minutes of these meetings will be recorded.

Responsibilities

The audit committee shall have responsibilities related to: (a) independent auditor and annual financial statements; (b) the Authority's internal auditor(s); (c) oversight of managements internal audit controls, compliance and risk assessment practices; and (d) miscellaneous issues related to the financial practices of the Authority.

A. Independent Auditors and Financial Statements

- Recommend to the Board the appointment and compensation of independent auditors to be retained by the Authority and pre-approve all audit services provided by the independent auditor.
- Establish procedures for the engagement of the independent auditor to provide permitted audit services. The Authority's independent auditor shall be prohibited from providing non-audit services. Non-audit services include tasks that directly support the Authority's operations, such as bookkeeping or other services related to the accounting records or financial statements of the Authority, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services and other tasks that may involve performing management functions or making management decisions.
- Review and approve the Authority's audited financial statements, associated management letter, report on internal controls and all other auditor communications.
- Review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements and understand their impact on the financial statements.
- Meet with the independent audit firm on a regular basis to discuss any significant issues that may have surfaced during the course of the audit.
- Review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities pertaining to the same.

B. Internal Auditor(s)

The audit committee shall:

- Review with management and the internal audit director, the charter, activities, staffing and organizational structure of the internal audit function.

- Ensure that the internal audit function is organizationally independent from the CFO, Finance Department, and Authority operations.
- Review the reports of the internal auditors and have the authority to review and approve the annual internal audit plan.
- Review the results of internal audits and approve procedures for implementing accepted recommendations of the internal auditor. This shall include a meeting at least once annually, with the internal auditor not in the presence of the CEO or CFO.

C. Internal Controls, Compliance and Risk Assessment

The audit committee shall:

- Review management's assessment of effectiveness of the Authority's internal controls and review the report on internal controls by the independent auditor as part of the financial audit engagement.

D. Special Investigations

The audit committee shall:

- Ensure that the Authority has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the directors, officers, or employees of the Authority or any persons having business dealings with the Authority or breaches of internal control.
- Develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing to the appropriate body.
- Request and oversee special investigations as needed and/or refer specific issues to the appropriate body for further investigation.
- Review all reports delivered to it by the investigative body and serve as a point of contact with the investigative body.

E. Other Responsibilities of the Audit Committee

The audit committee shall:

- Present annually to the Authority's Board a written report of how it has discharged its duties and met its responsibilities as outlined in this charter.
- 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.
- Review the committee's charter annually, reassess its adequacy, and recommend any proposed changes to the board of the Authority. The audit committee charter will be updated as applicable laws, regulations, accounting and auditing standards change.
- Conduct an annual self-evaluation of its performance, including its effectiveness and compliance with this charter and request the Board's approval for proposed changes.