



AUDIT COMMITTEE MEETING

Committee Members: Director Fernandez and Director Toy

AGENDA

Wednesday, August 31, 2016

11:30 A.M.

Mission Conference Room

5072 Benson Road

Union City, CA 94587

Directors

Manny Fernandez

Tom Handley

Pat Kite

Anjali Lathi

Jennifer Toy

Officers

Paul R. Eldredge

General Manager/

District Engineer

Karen W. Murphy

Attorney

1. Call to Order

2. Roll Call

3. Public Comment

4. Review and Approve Minutes from Audit Committee Meeting of December 10, 2015

5. Receive Comments from Auditor – Vavrinek, Trine, Day & Co., LLP (VTD)

6. Discuss Other Issues

7. Review Policies
 - Policy 2010 – Internal Controls Policy
 - Policy 2020 – Financial Audit Policy
 - Policy 2025 – Fraud in the Workplace

8. Communication to the Board

9. Adjournment

Items reviewed at committee meetings will be included in the agenda packet for the upcoming Board meeting. No action will be taken at committee meetings.

The Public may provide oral comments at regular and special Board meetings; however, whenever possible, written statements are preferred (to be received at the Union Sanitary District at least one working day prior to the meeting).

If the subject relates to an agenda item, the speaker should address the Board at the time the item is considered. If the subject is within the Board's jurisdiction but not on the agenda, the speaker will be heard at the time "Public Comment" is calendared. Oral comments are limited to three minutes per individual, with a maximum of 30 minutes per subject. Speaker's cards will be available and are to be completed prior to discussion of the agenda item.

The facilities at the District Offices are wheelchair accessible. Any attendee requiring special accommodations at the meeting should contact the General Manager's office at (510) 477-7503 at least 24 hours in advance of the meeting.

THE PUBLIC IS INVITED TO ATTEND

Union Sanitary District
Audit Committee
FY 2016 Audit Kickoff Meeting
August 31, 2016
11:30 AM – 12:30 PM – Mission Conference Rm.

Outline

- Review minutes from last Audit Committee Meeting (12/10/15)
- Comments from Auditor (VTD)
- Other issues
- Policy Reviews (Committee and Staff)
 - #2010 – Internal Controls
 - #2020 – Financial Audit
 - #2025 – Fraud in the Workplace
- Communication back to Board
- Next meeting date

Minutes from 12/10/15

11:00 a.m. – 12:00 p.m.

Present: Jennifer Toy, Anjali Lathi (via phone), Paul Eldredge, AJ Major (VTD), Maria Buckley

- Minutes from the June 12, 2015 - FY15 audit kick-off meeting were reviewed.
- AJ Major reviewed the draft basic financial statements, including an explanation of what GASB 68 does, and that agencies had to rely heavily on the actuaries this year. He reminded the committee that the term is now “Unmodified Opinion” instead of “Unqualified”. The Independent Auditor’s report is more in depth this year in order to address new pension reporting standards. All Committee questions were addressed.
- Director Lathi suggested VTD make a minor correction to the wording on page 9 regarding escalating construction costs in order to clarify the context. [Done]
- AJ explained that the upcoming GASB pronouncements will be similar to GASB 68 in terms of importance, impact, and process. They will focus on other post-employment benefits (OPEB).
- The Committee decided to remain with VTD for at least one more year, suggesting that they could change partners for the FY16 audit.
- The next meeting will be in May or June 2016, the FY16 audit kick-off meeting, unless there is a need to meet sooner.

Union Sanitary District
Policy and Procedure Manual

Effective date: June 25, 2013	Internal Controls Policy	Policy Number 2010 Page 1 of 3
---	---------------------------------	-----------------------------------

Formatted: Strikethrough

Policy

It is the policy of Union Sanitary District to adhere to internal controls in order to safeguard the District's assets.

Purpose

To provide employees with the procedures for internal controls at Union Sanitary District.

Procedure

Union Sanitary District has an obligation to safeguard the District's assets, both financial and physical (infrastructure and other property). In order to protect these assets, a series of checks and balances have been put into place. These checks and balances serve to mitigate fraud, loss, and other misuse of the District's resources. Listed below are procedures currently in place:

- Signing authority – Only certain individuals are permitted to sign on certain invoices and/or accounts in accordance with the Purchasing Policy. Signing authority is updated at least annually, or when there is a change.
- An annual financial audit is performed by an independent external auditing firm.
- Employees with procurement cards are given dollar limits which they cannot exceed and restrictions on types of goods they may purchase.
- Security access to financial system – employees have access to the District's financial system, based on their authority/security level, to view specific information. They may inquire on accounts and run reports. Employees responsible for processing transactions have limited access, in that no one person (without collusion) could produce checks or commit theft of funds without the awareness of other staff. There are audit trails for any entries made to the general ledger.
- Review and release of Accounts Payable batches by other than batch preparer prior to checks being issued.
- Finance staff documents their review of the payroll check register each pay period.
- Positive Pay – This is a system set up with the bank whereby checks not issued by the District will not be paid by the bank without the District's approval.
- Use of multiple security features on accounts payable and payroll check stock.

- Rapid (daily) deposit of checks received by the District, and deposit of cash at least once per month, or when amount reaches \$500.00.
- Dual signatures for wires and transfers – Wire transfers for investments and other transactions require two staff members to successfully complete the transaction.
- Board review of monthly investment transactions and check register.
- Securities purchased from any bank or dealer are placed with an independent third party for custodial safekeeping.
- All telephone transactions for banking and securities are supported by written confirmations.
- All investment trades, where applicable, will be executed by delivery vs. payment (DVP). This ensures that securities are deposited in the eligible financial institution before the release of District funds.
- Timely reconciliation of general ledger accounts and bank statements to ensure proper handling of all transactions.
- Passwords – Staff is required to periodically change system passwords.
- Remote access of online banking is accomplished through a dedicated virtual machine.
- There is segregation of duties, to the extent possible, throughout the accounting and related functions including Accounts Payable, Payroll, Human Resources, and General Ledger, Investments and cash handling. These controls are reviewed annually by our independent Financial Auditors.
- Accounting staff is encouraged to take periodic normal vacation periods, ensuring that no one person guards a particular function for an extended period of time without some oversight.
- The same individual that makes deposits does not reconcile the bank accounts.
- Review of non-standard journal entries by Senior Accountant or Principal Financial Analyst.
- ~~Journal entries greater than \$10,000 are reviewed and approved by a second member of the finance staff. The approval is verified and documented monthly by the BS Workgroup Manager.~~
The Business Services Manager/CFO reviews and approves all journal entries prepared by Accounting staff.
- Gift card transactions (purchase, expense, distribution, and payroll) for employee recognition are reconciled monthly.

Formatted: Strikethrough

Formatted: Font: Not Bold

- The CIP group documents its review of bidders on the debarment list maintained by the California Department of Industrial Relations.
- The District's Audit Committee provides an independent forum for internal control oversight and reporting of fraud. In accordance with Fraud in the Workplace Policy No. 2025 a third-party hotline has been instituted for anonymous reporting.

~~The District balances internal controls with the value they provide.~~

- Continue to identify and implement new controls to address changes in technology or District practices.

The District balances internal controls with the value they provide.

Business Services Responsibility

Business Services is responsible for following the internal controls identified in the Policy.

Management Responsibility

Management is responsible for ensuring adherence to the District's Internal Controls policy.

This revision supersedes the versions listed below, which are no longer effective.

Title	Policy #	Effective Date
Internal Controls Policy	2010	January 8, 2007
Internal Controls Policy	2010	March 8, 2010

Approved by: Board of Directors
Author/owner: Business Services Manager
Reviewers: Executive Team, Audit Committee
Notify Person: Business Services Manager
Revision frequency: Every 3 years
Next Revision: June 2016⁹

Formatted: Strikethrough

Union Sanitary District
Policy and Procedure Manual

Effective: 8/22/2011	Financial Audit Policy	Policy Number 2020 Page 1 of 3
------------------------------------	-----------------------------------	-----------------------------------

Formatted: Strikethrough

Policy

It is the policy of the District to obtain the most qualified accounting firm to audit the District's annual financial statements at the most competitive price. The District's financial books, records, internal control, and annual financial statements are to be maintained accurately and prepared in accordance with generally accepted accounting principles so that the accounting firm is able to express an "~~unqualified~~ unmodified opinion" in its Independent Auditor's Report.

Formatted: Strikethrough

Purpose

The purpose is to establish District guidelines for the selection of the accounting firm, and for the conduct of the annual financial audit.

Definitions

<i>Comprehensive Annual Financial Statements/Report</i>	The District's Comprehensive Annual Financial Report (CAFR) statements are based on the financial activities of its fiscal year, which commences July 1 and ends on June 30 of the succeeding year. The financial statements are presented on a comparable basis—current year vs. last year—consisting of a Statement of Net Position Assets , Statement of Revenues, Expenses & Changes in Net Position Assets , and Statement of Cash Flows, <u>Management and Discussion Analysis, Transmittal Letter and Statistical Section</u> . It is supported by the financial books and records of the District.
<i>Audit Committee</i>	The Audit Committee represents the Board of the Directors with the auditor and forwards to the Board of Directors recommendations related to: <ul style="list-style-type: none"> • Selection of, termination of, an accounting firm. • Establishing or amending the audit scope. • Receiving and reviewing the final CAFR audit report and audit findings.

Formatted: Strikethrough

Formatted: Strikethrough

<p><i>Audit or Examination</i></p>	<p>The auditor conducts the audit in accordance with generally accepted auditing standards (GAAS), performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Those standards include:</p> <ul style="list-style-type: none"> • Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. • Assessing the accounting principles used. • Assessing the significant estimates made by management. • Evaluating the overall financial statement presentation. <p>The audit is to provide a reasonable basis for the auditor to express an opinion on the financial statements.</p>
<p><i>Audit Scope</i></p>	<p>The scope of the audit defines the books, records, and financial activities covered by the audit. Generally, the audit scope for the District covers its <u>comprehensive</u> annual financial statements and their supporting activities.</p>
<p><i>Auditor</i></p>	<p>A public accounting firm that is certified by the State of California to audit and who is able to provide an independent opinion on the <u>comprehensive</u> annual financial statements of the District.</p>
<p><i>Engagement Letter</i></p>	<p>A letter of understanding submitted by the auditor covering the audit scope, parties' responsibilities, and fees.</p>
<p><i>Independent Auditor's Report</i></p>	<p>A report by the auditor stating what financial statements are being audited, that they were audited in accordance with GAAS, that they present fairly—in the opinion of the auditor—the financial position of the District, and that they were in conformity with generally accepted accounting principles (GAAP). The auditor may express several opinions, depending on the compliance's with GAAS and GAAP:</p> <p>Unmodified qualified: Auditor was able to conduct the audit in accordance with GAAS, and the financial statements were in compliance with GAAP.</p> <p>Modified Qualified: Certain financial activities could not be audited in accordance with GAAS, or they were not in compliance with GAAP. The auditor identified those activities in the body of the report and, if measurable, indicates the effect on the financial statements.</p>

Formatted: Strikethrough

Formatted: Strikethrough

	Adverse: The financial statements could not be audited in accordance with GAAS, or were substantially out of compliance with GAAP, or both. In this situation, the auditor is unable to form a basis for an opinion.
<i>Single Audit</i>	A rigorous audit of an entity that expends \$ 750,000 500,000 or more of Federal assistance (e.g. certain State Revolving Fund loan proceeds or other Federal Awards) received for its operations.

Formatted: Strikethrough

Procedure

In the event the District desires, or finds it necessary, to change accounting firms, selection is to be made by requesting proposals from qualified firms. A sufficient number of requests for proposals should be distributed in order to provide a qualified pool for selection. The District reserves the right to reject any or all proposals. Staff will follow a selection process defined in the request for proposals and make a recommendation to the Audit Committee. If the Audit Committee concurs, the recommendation will go to the full Board for approval.

The initial proposal will be for three years. Providing services are satisfactory, the firm may be retained on an annual basis thereafter, subject to the District's approval of the auditor's engagement letter.

Formatted: Font: 8 pt

Management Responsibility

It is management's responsibility to understand the scope of the audit and ensure that the financial records are complete, accurate, and available. It is the responsibility of the Business Services Workgroup Manager to coordinate the audit with the auditor's audit Manager, ensuring that the financial records are available and that the audit is completed, with the reports submitted to the Audit Committee and the Board of Directors on a timely basis.

Staff Responsibility

It is staff's responsibility to be prepared for the annual audit and to follow up on outstanding audit items in a timely manner. Staff is responsible for submitting annual Single Audit exemption letters to the State Controller's Office, when applicable.

Approved by: Budget and Finance Committee
Author/owner: Principal Financial Analyst
Reviewers: Executive Team and Audit Committee
Notify Person: Principal Financial Analyst
Revision frequency: Every 5 years
Next revision: August, 20~~16~~²¹

Formatted: Strikethrough

Union Sanitary District Policy

Effective date: February 12, 2013	Fraud in the Workplace	Policy Number 2025 Page 1 of 4
---	-------------------------------	-----------------------------------

Formatted: Strikethrough

Policy

It is the policy of Union Sanitary District that all District employees must, at all times, comply with all applicable laws and regulations. It is the policy of the District to identify and promptly investigate any possibility of fraudulent activity against the District and take appropriate action, including the pursuit of legal remedies ~~under the law.~~ [redundant]

Formatted: Strikethrough

Purpose

The purpose of this policy is to ensure employees are aware of the following: 1) the types of acts considered to be fraudulent, 2) procedures for reporting suspected fraudulent acts, 3) steps to be taken when fraud or other related dishonest activities are suspected, and 4) consequences to expect when a dishonest act is reported. Further, this policy (along with Internal Controls Policy No. 2010) delineates management's responsibility for instituting and maintaining a system of internal controls to prevent and detect fraud, misappropriations and other irregularities, and to be alert for any indications of such misconduct.

Definitions

Fraud and similar irregularities include but are not limited to:

1. Claim for reimbursement of expenses that are not job-related or authorized by the current Purchasing Policy, Travel Policy, MOU, or other management approved policy or practice.
2. Forgery or unauthorized alteration or misrepresentation of documents (including but not limited to records, checks, credit card numbers, promissory notes, timecards, independent contractor agreements, purchase orders, budgets).
3. Misappropriation of District assets (including but not limited to stealing funds, securities, supplies, furniture, equipment, tools, vehicles, inventory).
4. Accepting and keeping payment from a customer and not recording the transaction.
5. Improprieties in the handling or reporting of money, checks and credit card transactions.
6. Knowingly authorizing or receiving payment for goods not received or services not performed.
7. Computer-related activity involving unauthorized alteration, destruction, forgery, or manipulation of data or misappropriation of District-owned software.
8. Any violation of Federal, State, or local laws related to dishonest activities or fraud.
9. Seeking or accepting anything of material value (please refer to Gratuities Policy No. 5340) from those doing business with the District including vendors, consultants, contractors, lessees, applicants, and grantees in violation of District policy.

Procedures for reporting workplace fraud

Employees can report wrongdoing in a safe and confidential manner, ~~and~~ without fear of retaliation, as follows:

1. If aware of any acts of wrongdoing, employees are required to discuss this information with their Coach.
2. If unable to discuss the complaint with the Coach, contact their Work Group Manager or another manager.
3. If neither of the above alternatives is appropriate, the employee should contact the Business Services Work Group Manager.
4. To make an anonymous report call the District's Fraud Hotline, see Portal home page for contact information.
5. The Fraud hotline representative will be instructed to contact the District's attorney, Board Audit Committee member, Human Resources, or Management, depending on the content of the complaint, when any credible call is received.
6. For safety reasons, do not confront the person who is involved in the complaint.

Note: Employees will be granted whistle-blower protection, per Non-Discrimination Against Whistleblowers Policy No. 6980, when acting in good faith and in accordance with this policy. When informed of a suspected impropriety, the District shall not a) dismiss or threaten to dismiss the employee reporting the impropriety, b) discipline, suspend, or threaten to suspend that employee, c) impose any penalty upon that employee, or d) intimidate or coerce an employee for that employee's role in reporting the suspected impropriety. If reporting employee is found culpable or complicit in suspected impropriety (collusion) as the result of an investigation of the matter, appropriate action will be taken, including discipline.

Investigation and Action

1. The Work Group Manager or Coach informed of any wrongdoing shall inform the BS Work Group Manager or the HR Administrator of suspected activity involving fraud or related dishonest activity.
2. Work Group Manager and BS Work Group Manager will confer with HR and determine how best to investigate the suspected activity.
3. At the conclusion of the investigation, the investigator will report to the Work Group Manager or BS Work Group Manager, and HR Administrator. The BS Work Group Manager will inform the General Manager.
4. If evidence is uncovered showing possible dishonest or fraudulent activities, the Work Group Manager or BS Work Group Manager will proceed as follows:

- a. Inform the Executive Team. If the case involves staff members, meet with the HR Administrator (or his/her designated representative) to determine if disciplinary actions should be taken.
 - b. Coordinate with the District's Risk Manager regarding notification to insurers and filing of insurance claims.
 - c. Take immediate action, in consultation with the General Manager, to prevent the theft, alteration, or destruction of evidentiary records. Such action shall include, but is not limited to:
 - i. Removing the records and placing them in a secure location, or limiting access to the location where the records currently exist.
 - ii. Preventing the individual suspected of committing the fraud from having access to the records
 - d. Consult with the General Manager and District Board for possible referral of the case to the Alameda County District Attorney's Office for prosecution.
5. The BS Work Group Manager, following review of investigation results, will ensure that appropriate action is taken regarding employee misconduct.
 6. The District will pursue every reasonable effort, including court ordered restitution, to obtain recovery of District losses from the offender or other appropriate sources.

Business Services Responsibility

The Business Services Manager is responsible for initiating fraud investigations, notifying Executive Team, and external auditors.

Employee Responsibility

Employees are responsible for refraining from fraudulent behavior, and reporting any fraudulent behavior to management.

Management Responsibility

Management is responsible for being alert to, and reporting fraudulent or related dishonest activities in their areas of responsibility.

This revision supersedes the versions listed below, which are no longer effective.

Title	Policy #	Effective Date

Approved by: Board of Directors
Author/owner: Business Services Manager
Reviewers: Executive Team and Audit Committee
Notify Person: Business Services Manager
Revision frequency: Every 3 years
Next revision: February 201~~8~~⁹

Formatted: Strikethrough