

Clean Water Services Audit Committee Meeting

Wednesday, July 23, 2025 | 5:30 pm

Recorded virtual meeting via Zoom

AGENDA

Introductions

Elections – nominate a Chair and Vice Chair

Audit Coordination

- Baker Tilly Component Auditors reporting on CWS
- Schedules/Timing of work (see dates below under Audit Approach)

Audit Deliverables

- Opinions on Basic Financial Statements
- Independent Auditor’s Report Required by Oregon State Regulations
- Summaries of Revenues and Expenses as required by Minimum Standards
- Management Letter
- Communications to Those Charged with Governance
- Uniform Grant Guidance Reporting (not required this year)

Audit Approach

- Interim – Completed (June 23 – 26)
 - Audit Planning
 - System documentation and internal controls testing
 - Fraud and risk assessment
 - Develop audit programs and procedures
- Final field work (October 6 – 10)
 - Perform all remaining audit areas not performed during interim
 - Evaluate audit results
 - Conduct an exit conference with Clean Water Services management
- Concluding Audit
 - Release draft financial statements to the County – November 3, 2025
 - Review financial statements; targeted issuance date – November 30, 2025
 - Complete all audit deliverables
 - Presentation to the Audit Committee – TBD
 - Presentation to the Board of Directors - TBD

Significant Audit Areas

- Capital assets-work order accounting, depreciable lives
- Revenue and accounts receivable
- Disbursements/Payroll
- Oregon Minimum Standards

Concept of Materiality

- Quantitative and qualitative factors
- Used in determining significant risk areas, nature, timing and extent/scope of work and conclusions on findings, if any

Fraud Discussion (AU-C240)

Discussion with Committee – in lieu of a meeting, Baker Tilly will perform inquiries with Audit Committee members as planned audit procedures to discuss the following:

- View on risks for fraud
- Any knowledge of actual or alleged fraud
- Committee's oversight of fraud risks, assessment controls
- Nature and extent of communications the Committee members desire with regards to fraud
- Areas of concern or interest for Committee

Current Year Considerations

- Acting Chief Executive Officer
- Forensic audit travel, training and meals expenditures
- Implementation of GASB 101 and 102

Audit Team

Julie Desimone, Engagement Partner
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Cam Troike, Audit Manager
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Kathleen Leader, Chief Financial Officer
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MINUTES

COMMITTEE MEMBERS PRESENT

- Kathleen Leader, Chief Financial Officer, Clean Water Services
- Bruce Cordon, Regulatory Compliance & Audit Manager, Clean Water Services
- Julie Desimone, Engagement Partner, Baker Tilly
- Jerry Willey, Clean Water Services Board of Directors
- Michelle Wareing
- Peter Parmenter
- Scott Winkels

COMMITTEE MEMBERS ABSENT

- None

MEETING CONVENED: 5:30 pm

Summary

Committee Leadership and Membership

- Chair: Michelle Waring was unanimously nominated and approved.
- Vice Chair: Peter Parmenter was unanimously nominated and approved.
- Voting Members: Jerry, Scott, Michelle, and Pete.
- Non-Voting Members: Kathy and Bruce.
- Public Meeting: The meeting is public, was noticed on the website 72 hours in advance, and minutes will be made available.

Audit Overview and Timeline

Audit Process and Approach

- The audit of CWS's financial statements uses a risk-based approach, focusing on high-risk areas. The plan is iterative and will be adjusted if new risks are identified.
- There were no significant changes to internal controls, debt influences, or software systems in the current year.

Timeline

- Interim Phase (Completed): Initial planning, risk assessment, and internal controls review were completed in mid-June.

- Final Field Work (Upcoming): The main portion of the audit is scheduled for the week of October 6th.
- Draft Financial Statement Delivery: The goal is to deliver the draft to the county by November 30th, possibly earlier.
- Presentations: Following the draft, results will be presented first to the audit committee and then to the full board.

Key Deliverables

- Opinion on Basic Financial Statements: An opinion on the financial statements, whose format is prescribed by the Governmental Accounting Standards Board (GASB).
- Oregon Minimum Standards Report: A required compliance report for Oregon agencies, included at the back of the financial statements.
- “Those Charged with Governance” Letter: A letter with required communications for the committee, to be discussed in a meeting before formal issuance.
- Summary of Revenue & Expenditures: To be provided to the state by CWS management within 30 days of the audit opinion.
- Uniform Grant Guidance (Federal Audit): Not required this year as federal fund expenditures did not exceed the \$1 million threshold.

Prior Year Audit Finding (FY 23-24)

- There was one finding related to the mis-valuation of a donated park bridge. The value was subsequently corrected and reclassified from donated infrastructure to construction costs.

Key Audit Areas and Risk Assessment

Materiality

- An item is material if its omission or misstatement would influence a reader's decision. The assessment is both quantitative and qualitative.
- Quantitative: A numerical threshold is calculated based on the income statement.
- Qualitative: Items are investigated based on their nature, regardless of dollar value. For example, a small \$500 transaction labeled "fraud" was investigated due to the significance of the term.

Forensic Audit

- The audit team is aware of the ongoing forensic audit related to captive insurance expenses for travel, training, and food for fiscal years 2022-2025.
- The team receives regular updates and will be provided with the final report. This is being monitored as part of the audit's fraud risk assessment.

Captive Insurance (CWIC)

- The captive, Clean Water Insurance Company (CWIC), is managed by Marsh and audited by a separate firm, Accuity.

- CWIC is reported as a "separately stated discrete component unit" in CWS's financial statements, with its financials in a separate column.
- The CWS audit team coordinates with Acuity to ensure numbers match. CWS management conducts quarterly reviews with Marsh and participates in the final audit exit meeting.

Oregon Minimum Standards

- The most significant areas of focus for CWS are budgeting, contracting, and ensuring required insurance is in place.

Financial Planning and Debt

- Capital Program: The organization is in a three-year period of high capital spending and is monitoring its mid-year expenditures.
- Debt Issuance: A \$75 million revenue bond is planned. The issuance will occur after the 2025 financials are completed to provide current statements to the market. The audit will include testing to ensure funds are spent according to bond stipulations.
- Debt Refunding: There is a plan to refund the 2010 Build America Bonds to exit associated federal requirements and mitigate the risk of potential funding loss.

Internal Controls and Process Improvements

Grant Policy and Management

- The organization currently lacks a formal, written grant policy. A new grant coordinator has been hired to create one, provide training, and collaborate with finance.
- The organization aims to actively seek more federal funding, which requires more formalized processes and risk evaluation before applying for grants.

Employee Complaint Hotline

- A temporary, internal-only complaint hotline has been implemented through a third-party contractor.
- Reports go directly to the Board of Directors, with staff not involved in the response.
- The plan is to establish a permanent, public-facing hotline, which will require formal policy development.

Vendor Management

- Following a prior auditor recommendation, a new process was implemented to review and remove vendors from the system that have been inactive for an extended period.

Management and Organizational Changes

- CEO Transition: The organization has an acting CEO, with a search for a permanent replacement planned for the next 6-8 months. The auditor reviewed the transition, confirming prompt system access termination and checking for unusual transactions prior to the departure.

- Staffing and Turnover: The finance department has experienced increased turnover after a long period of stability, increasing the need for training and oversight for new, younger staff.
- Telework Policy: The current policy requires two days in the office. An update to require three days is planned but not yet implemented.

New Accounting Standards (for FY25)

- GASB 101 - Compensated Absences: This will require reporting a value for sick leave based on anticipated use. The team's methodology has been reviewed and approved by the auditor.
- GASB 102 - Risk Disclosure: This requires disclosing significant risks (e.g., dependency on a single customer). The team will meet with internal groups to identify necessary disclosures.

Communication Protocol

- If significant issues arise during the audit, the audit committee chair will be contacted immediately to form a communication plan. If the committee does not hear from the auditors, the audit is proceeding as planned.
- Any questions from the committee for the auditor should first be directed through Kathy.

Next Steps and Action Items

- The audit team will complete final fieldwork during the week of October 6th.
- The audit team will deliver the draft financial statement to the county by the November 30th deadline.
- The audit team will conduct a fraud interview with the audit committee chair (Michelle).
- The audit team is to receive the final forensic report once it is completed.
- Schedule and conduct presentations for the audit committee and the full board to review final audit results.
- The new grant coordinator is to develop a formal, written grant policy and provide training to staff.
- The organization may issue a \$75 million revenue bond after the 2025 financials are complete.
- If new bonds are issued the organization will proceed with the feasibility of refunding the 2010 Build America Bonds.
- The finance team will meet with internal groups to finalize risk disclosures required under GASB 102.
- The organization will evaluate the development of a formal policy for a permanent, public-facing complaint hotline.
- A market search for a new permanent CEO will be conducted in the next 6-8 months.
- The organization will look to update its telework policy to require three days in the office.

- CWS management (Kathy) will provide a summary of revenue and expenditures to the state within 30 days of the final audit opinion.
- The committee should consider obtaining a copy of the separate audit report for the captive insurance company (CWIC).

MEETING ADJOURNED: 6:35 pm