



**MINUTES OF THE MEETING
AUDIT AND RISK COMMITTEE
JANUARY 25, 2024
(via Microsoft Teams)**

COMMITTEE MEMBERS

1. Floyd Holt, Chairperson
2. Jed Ross, Vice Chairperson
3. Howard Gibbs, District of Columbia

DC WATER STAFF

1. David L. Gadis, CEO and General Manager
2. Marc Battle, Chief Legal Officer and EVP, Government and Legal Affairs
3. Matt Brown, Chief Financial Officer and EVP, Finance and Procurement
4. Wayne Griffin, Chief Administration Officer and EVP, Strategy and Performance
5. Jeffrey Thompson, Chief Operating Officer and EVP
6. Joy Dorsey, Chief People Officer and Executive Vice President
7. Michelle Rhodd, Board Secretary

EXTERNAL AUDIT STAFF

1. Grega Brian, KPMG
2. Richard Mclean, KPMG

INTERNAL AUDIT STAFF

3. Sophie Tomeo, RSM US LLP
4. Stephanie McKee, RSM US LLP
5. Emily Lowien, RSM US LLP

The Audit and Risk Committee meeting was called to order by Floyd Holt, Chairperson, at 9:30 AM. The meeting was held via Microsoft Teams and streamed live at dcwater.com. Board Secretary Michelle Rhodd called the roll.

I. FY 2023 FINANCIAL STATEMENT BRIEFING

Genes Malasy, Controller, presented the FY 2023 financial statement performance. DC Water received an unmodified audit opinion from KPMG. DC Water was awarded the Government Finance Officers Association Certificate of Achievement for Excellence in

Financial Reporting for the 26th consecutive year and with the Popular Annual Financial Reporting Award for the first time for the FY 2022 Annual Financial Report.

For FY 2023, DC Water implemented GASB No. 96, which increased capital assets by \$52.9 million in FY 2023 and \$51.2 million in FY 2022 through asset reallocation. The implementation also increased accumulated depreciation and decreased expenditures for both of the years.

DC Water's net position increased from \$266.2 million, or 9.3 percent, in 2023 to \$3.1 billion. This was driven by a \$142 million increase in net investments as well as capital additions. The operating revenues increased \$66.5 million, or 8 percent, in 2023 to \$898.8 million. The revenue increase primarily came from rate increases and increased consumption, though the revenues remain diversified across DC Water. Operating expenses, including depreciation, increased \$36 million, or 7.2 percent, in 2023 to \$536.6 million. Expenses with the largest increase were personnel, chemicals, and utilities.

Net position can be broken down into four categories: net investments in capital assets, restricted funds for capital projects, restricted funds for debt services, and unrestricted. For 2023, net investments in capital projects were \$2.6 million, restricted funds for capital projects were almost \$8,000, restricted funds for debt services were \$76,260, and unrestricted funds were about \$426,000. Unrestricted funds are primarily comprised of funds that were not allocated to the other three categories.

At the end of 2023, DC Water had about \$4 billion in long-term debt outstanding, which decreased by \$23.9 million, or 0.6 percent, compared to 2022. Over the next ten years, DC Water is expected to take \$3.3 billion in new debt for capital programs.

Total restricted and unrestricted cash, as of September, was \$467,700. Unrestricted cash investments increased to \$345.9 million in FY 2023 from \$315.2 million in FY 2022. Unrestricted funds are comprised of cash reserves, the Rate Stability Fund, and funds to expand customer assistance programs. Restricted cash and investments decreased to \$549 million in FY 2023 from \$661.5 million in FY 2022 due to bond issues in FY 2022 and bond drawdowns in FY 2023.

Net capital assets increased by \$224.5 million, or 2.9 percent, to \$8.2 billion in FY 2023. The largest investment was \$3.4 billion into Blue Plains. There was \$2.4 billion in assets allocated to construction.

DC Water received a clean audit for the 26th year in a row and the third audit under the new Oracle financial system. The net position of DC Water continues to grow, and they

continue to invest in infrastructure. Mr. Malasy thanked his team for their work and dedication to getting work done correctly the first time and tracking diligently.

Floyd Holt, Committee Chairperson asked what changes were made with the update to GASB 96. Mr. Malasy stated the update from GASB 87 was making GASB an asset rather than an expense and was applied for the future as well as retroactively.

II. EXTERNAL AUDIT RESULTS

Grega Brian, KPMG, presented a summary of the results of the Financial Statement Audit results and a status update on the Single Audit. He thanked the team at DC Water for their assistance and their implementation of GASB 96.

The Financial Statement Audit FY 2022 to FY 2023 was conducted in accordance with the auditing standards generally accepted in the United States, and an unmodified opinion was issued as of December 21, 2023. An internal opinion was not given, though some items were reviewed, and no material weaknesses or deficiencies were identified.

Richard Mclean, KPMG, presented the significant accounting policies and practices. DC Water adopted GASB Statement No. 96, which reflects recorded balances for SBITA assets, liabilities, amortization expenses, and interest expenses moving forward and retroactively in all cases. It was noted that no significant accounting estimates or finance statement disclosures were identified in the audit. New accounting standards that went into effect in FY 2023 were GASB No. 91, No. 94, and No. 96. In FY 2024, the new accounting standards to add included GASB No. 99 and No. 100, neither of which are expected to have a significant impact as compared to GASB No. 96.

There were no uncorrected audit misstatements in FY 2023. There were three corrected misstatements about net position reclassifications, beginning balance retroactive adjustments in relation to SBITA assets, and security reclassifications. None of these items had an income statement impact.

Government Auditing Standards require KPMG to report significant deficiencies and material weaknesses in internal controls despite not running an audit on internal controls. No material weaknesses or significant deficiencies were found in the internal controls.

Mr. Brian presented the required communications to the Audit Committee. There were no significant changes to the planned risk assessment and audit strategy. There were also no significant findings or issues in connection with the Authority's related parties. For consistency, additional information and documents containing audit information were reviewed to ensure it was consistent. The audit did not find instances of non-compliance

with laws or regulations. There were also no significant unusual transactions or ongoing concerns found. The net position of DC Water was strong. There were no instances of non-GAAP accounting policies and practices. There were no instances of subsequent events or significant matters to report. There were no difficulties during the audit or disagreements with management. KPMG was not aware of management consulting with other accountants. Material written communications were provided to DC Water and all requested documents were given to KPMG. KPMG confirmed they were independent of DC Water during the audit and to date.

Mr. Mclean stated the Uniform Guidance Compliance Audit (Single Audit) reviewed the compliance for each of DC Water's major federal programs based on requirements within the OMB Compliance Supplement. There were three major programs: the Water Infrastructure Finance and Innovation Act, the Coronavirus State and Local Fiscal Recovery Funds, and the Combined Sewer Overflow. The Single Audit was in progress, so today's update would be verbal, followed by a finalized written audit around March. Thus far, no issues have been identified. The appendix was included in the packet.

III. ENTERPRISE RISK MANAGEMENT BRIEFING

Francis Cooper, Director of the Enterprise Program Management Office, presented the Enterprise Risk Management (ERM) briefing. Mr. Cooper provided the committee with a context about the overall ERM program. He spoke about the building of the core components of the ERM function - the policy, governance structure, and the four-step risk process for identifying and assessing, prioritizing, treating, and monitoring. Mr. Cooper continued to convey the activities undertaken. Specifically, the top-down enterprise risk assessment was advanced, and subsequently the prioritization of our enterprise risks. Stakeholder buy-in is critical to the success of the ERM program, as such authority-wide training was rolled out along with supplemental pieces of training for senior leadership. The Origami Risk and Policy modules were implemented. The Risk module provides timely identification of risks and visibility into risk response activities. The Policy module supports the management of policies and serves as a repository for Board Resolutions. Risk deep dives were performed to better understand the risks, their underlying root causes, and drivers to enable more effective risk-informed decisions.

Helen Hagos, RIMS-CRMP Manager, reported that the risk deep dives were advanced at the end of FY 2023 to get a better understanding of the risks, raise awareness, and support the development of risk responses. Risk deep dives were conducted for two enterprise risks – Revenue Erosion & Expenditure Growth and New and Changing Regulations. Seven risk drivers were elevated to high priority, including non-revenue water loss, asset prioritization, O&M spending and capital costs, resources and competencies, third-party management, stakeholder relationships, and imposed

regulations. From these drivers, a focus was placed on non-revenue water loss mitigation and stakeholder relationship management. Details on the risk deep dive efforts were included in the appendix.

In Phase I, a top-down approach was taken to gather risk information from the perspective of senior leadership and specific board members. Now, a bottom-up risk assessment process is in motion to identify nuanced risks at the department and operational levels. With this method, it is expected to have a granular understanding of risks that may have been overlooked and to encourage individuals and teams to report risks. As this information comes from the operation itself, early detection and proactive mitigation are expected to emerge along with ownership and accountability among staff in areas of potential risk. With the risks being identified on a more granular level, DC Water can allocate resources to targeted areas of concern.

ERM is inextricably tied to ESG goals. The ERM team works closely with the ESG group to build the content for the annual ESG report. In the upcoming report, the plan is to feature the results from the risk deep dives, mitigation plans, and the bottom-up approach to inform stakeholders of DC Water's risk management capabilities. The FY23 ESG will be published in March.

Additional information can be found in the appendix, including the 2022 Enterprise Risk Assessment Results, details on the top enterprise risks and the findings from the deep-dive activities. Mr. Cooper noted that ERM was a dynamic and ongoing process to identify new or emerging risks over time. Currently, we have a list of 13 strategic risks but we continue to evaluate and monitor to keep our risk register updated and relevant.

Wayne Griffith, Chief Administrative Officer, noted that Deloitte had been integral in guiding the Authority through the process but was not included on the call today as the ultimate goal of ERM was to transfer the knowledge from Deloitte to DC Water so the process could be institutionalized. The DC Water team was very intentional in leveraging internal resources and consultant support to successfully build the ERM program. The intent is to continue to further advance and mature the program through the capabilities built in-house.

IV. INTERNAL AUDIT RESULTS

A. FY 2024 INTERNAL AUDIT PLAN STATUS UPDATE

RSM presented the audits approved by the Committee for FY 2024. One would be presented today, one had begun fieldwork, and three others were in the planning stage.

B. STATUS UPDATE ON PRIOR AUDIT FINDINGS

Emily Lowien, RSM, presented the two open high-risk prior audit findings, both of which were not yet due and were on track to be completed by the due date. The first item was a failure to capture work order labor and materials in the Department of Water Operations, which DC Water responded to by establishing a process to capture labor hours and material data that is monitored biweekly. Updates on the monitoring will be shared with RSM until the finding is closed. The second item was a lack of current policies and procedures in Fleet Management, which DC Water addressed by reviewing best practices and establishing a scope for policy development. This item will be tracked through September.

Sophie Tomeo, RSM, presented audit findings prior to the FY 2023 audit. Many prior audit reports had been closed. The only open item was in contract compliance, in which DC Water will re-establish a vendor scorecard and performance review for contractors, as it was removed with the implementation of Oracle. The plan was built and tested in Oracle, and the final step was to provide training on the new process.

This was the first meeting where the FY 2023 audit findings would be presented. Nine findings had already been closed out, and one that needs confirmation of controls. There were ten remaining open findings, but the work order management and fleet management findings were not yet due. There were two items in the payroll and timekeeping audit, one of which was on schedule for completion and the other was extended, but substantial progress had been made on timely payout for terminated employees. As DC Water is regularly meeting and exceeding the 90% closure rate, management has set a new target goal of 95%. In total, 92% of all prior audit findings were closed.

C. P-CARD AND EXPENSE REIMBURSEMENT AUDIT

Stephanie McKee, RSM, stated the P-Card and Expense Reimbursement Audit was conducted from January 1, 2023, to October 15, 2023, and the scope involved updating flowcharts, testing transaction samples from P-Card and expense reimbursements, and conducting analysis over total expenditures. This was the first review of the P-Card and expense reimbursement processes since the implementation of Oracle and the combination of the P-Card and Travel Card into a single card. \$1.2 million was spent on Authority issued P-Cards during the period of the audit, exclusive of permit fees. There were no high-risk findings and three low-risk findings as a result of this audit. The process appears to be functioning well, and the DC Water team was very helpful during this process.

D. HOTLINE UPDATE

Ms. Tomeo presented the hotline update. There were 5 FY 2024 calls received, and all of these items were closed. One allegation of time theft was substantiated, and DC Water took action in response to those results. An additional two calls were received since the data in the presentation was shared, but neither of them was under investigation for fraud, waste, or abuse.

V. ADJOURNMENT

There being no other matters to come before the Committee, the meeting was adjourned at 10:43 AM.