



**MINUTES OF THE MEETING
AUDIT AND RISK COMMITTEE
OCTOBER 24, 2024
(via Microsoft Teams)**

COMMITTEE MEMBERS PRESENT

1. Floyd Holt, Principal, Chairperson, Prince George's County
2. Jed Ross, Alternate, Vice Chairperson, District of Columbia
3. Howard Gibbs, Principal, District of Columbia
4. Richard Jackson, Principal, District of Columbia
5. Anthony Giancola, Principal, District of Columbia

OTHER BOARD MEMBER

1. Jonathan Butler, Alternate, Prince George's County

DC WATER STAFF

1. David L. Gadis, Chief Executive Officer & General Manager
2. Marc K. Battle, Chief Legal Officer and EVP, Government and Legal Affairs
3. Matthew T. Brown, CFO and EVP, Finance, Procurement and Compliance
4. Wayne Griffith, Chief Administration Officer and EVP
5. Michelle Rhodd, Secretary to the Board

The Audit and Risk Committee meeting was called to order by Floyd Holt, Chairperson, at 11:01 AM. The meeting was held via Microsoft Teams. Board Secretary Michelle Rhodd called the roll.

I. INTRODUCTION OF NEW INTERNAL AUDITORS (CHERRY BEKAERT)

Wayne Griffith, Chief Administration Officer introduced Francis Cooper, Director of the Enterprise Program Management Office (EPMO), to discuss the transition to the Authority's new internal auditor, Cherry Bekaert after many years of stellar service from RSM.

Christian Fuellgraf of Cherry Bekaert introduced his team which includes himself in the role of relationship partner, Denise Lippuner, operations and financial audit partner, Neal Beggan, IT audit partner, Yani Diaz, senior manager, Paul Folkers, subject matter expert, and Tiffany McCoy, project manager.

Mr. Fuellgraf provided an overview of Cherry Bekaert, which he highlighted as a top 20 accounting and advisory firm with a focus on CFO solutions. Cherry Bekaert also provides technology support and tax and audit work.

Ms. Lippuner described the core services offered by Cherry Bekaert including digital advisory, risk advisory, and cybersecurity advisory services.

Ms. McCoy noted that her team had been onboarding into the organization and becoming familiar with the people, processes, and technologies at the Authority. This has included meetings with the RSM and DC Water leadership groups. RSM has provided a history of the work they have completed for the Authority over the last decade. Cherry Bekaert is prepared to execute the 2025 audit plan with the help of staff, executive leadership, and the Board. The aim is to provide a seamless transition with minimal impact to operations. She advised that the Authority could expect a similar look, feel, and cadence to reporting as they experienced with RSM and noted that any updates and changes would be implemented slowly.

II. INTERNAL AUDIT UPDATE

A. FY 2024 INTERNAL AUDIT PLAN STATUS UPDATE

Dan Whelan, RSM presented an audit update noting that all audits are completed. He stated that the transition process with Cherry Bekaert is going well, and Cherry Bekaert will have full responsibility for internal audit activities after this meeting.

Sophie Tomeo, RSM noted appreciation for the engagement with DC Water over the last 10 years. She noted that the Audit & Risk Committee has helped to hold RSM and Management accountable for improving the risk posture at DC Water.

Ms. Tomeo reviewed the Open High Risk Findings Dashboard which included four items: the DWO Work Order Management Audit, the Fleet Management Audit, the Genesys ITGC Review, and Internal and External Penetration Testing.

With respect to the Fleet Management Audit, she noted that the finding was due to a lack of current policies and procedures. To address this, Fleet has drafted a RACI chart and 15 Authority-wide Fleet SOPs and 10 Fleet policies. While fleet has done all it can to address the finding, during legal review issues items in the policies were identified which will require further time to consult with union representatives. No new target date has been set for this item.

After a full review of the Work Order Management Audit, Management plans to accept the risk related to the remaining gap between current data capture rates

which increased from 1.27 percent of labor hours and 46.56 percent of materials costs where required on work orders, to 87.72 percent of labor hours and 61.03 percent of materials cost data capture.

Challenges to achieving 100 percent capture, which contributed to Management's decision to accept the current capture rate, include the following:

- Material costs are not incurred for all work orders.
- Resource-intensive manual review is required to confirm accuracy of material cost capture.
- Reconfiguration of Maximo to allow for quick monitoring of material cost capture accuracy has halted due to the planned move to Cityworks software.

B. STATUS UPDATE ON PRIOR AUDIT FINDINGS

Emily Lowien provided a status update on prior audit findings, noting that none remain open from prior to FY23. There are four prior to FY23 findings in "pending testing" status but these are expected to close with follow up from Cherry Bekaert.

There are four open audit findings from FY23 audits, including those discussed in the Internal Audit Update, and two additional items, one which will move to testing this month and one for which a new target date is being determined with management.

In total 94 percent of all prior audit findings from FY17 to FY23 are closed.

C. TRAINING AND RECRUITING AUDIT

Stephanie McKee, RSM presented the training and recruiting audit update, which was conducted for the audit period July 1, 2023, to June 30, 2024.

For the training audit, the following four sub-processes were reviewed:

- Required training curriculum.
- Training assignment by role and tracking methods.
- Training completion and escalation processes.
- Maintenance of training records.

For the recruiting audit, the following six sub-processes were reviewed:

- Vacancy justification and requisition creation.
- Approval of job descriptions.
- Sourcing and screening requirements.
- Candidate interviewing.
- Evaluation and selection criteria.

- Compliance with EEO and applicable collective bargaining agreements.

Ms. McKee provided an overview of the training areas considered, which included those using DC Water's Oracle Human Capital Management (HCM) module, Talent Management, and the Cyber Security Services team. The Training Escalation Protocol was produced two years ago to ensure training compliance and since its introduction, the team has seen marked improvements in training compliance.

Ms. McKee provided an overview of the recruiting department at DC Water to give Board members an idea of the size and scope of the department. As of June 2024, the average time to hire for a position was 58.7 days, there were 78 total active vacancies, and the total active headcount was 1,219 employees.

Committee member Anthony Giancola noted that the vacancy rate is reported as both a total vacancy rate and an active vacancy rate and inquired about the progress of the review of long-term vacancies to determine which positions could be eliminated. Mr. Griffith noted that the Human Resources team was being very thorough in understanding opportunities to either eliminate vacant positions or repurpose them to meet new staffing needs.

Mr. Giancola stated that there are vacancies in Operations which may require staff reallocation to fill. He asked if there is a deadline to complete the vacant positions review. Matthew Brown, Chief Financial Officer stated that the goal is to complete the review before the budget presentation in January.

Mr. Giancola stated he looks forward to when reporting looks at all vacancies not just active vacancies and suggested it may be that there are not enough people working at People and Talent to address the vacancy issue.

Ms. McKee reported that there were two moderate risk findings as a result of the audit.

D. HOTLINE UPDATE

Samantha Bement presented the Fraud, Waste, and Abuse Hotline Update.

The call volume was low at just three calls in Q4. All previous calls for the year had been closed out. Of the three new calls, two were related to policy issues and one was a workplace violence issue. None of the new calls were related to fraud, waste, or abuse.

She noted an overall significant increase in calls over 2024 compared to recent years but stated that the majority of the calls were not related to fraud, waste, or abuse.

Four calls were related to fraud, waste, or abuse and were forwarded to the appropriate departments and addressed accordingly.

Ms. Bement confirmed that RSM was working with Cherry Bekaert to transition the Hotline role.

E. RISK ASSESSMENT RESULTS & PROPOSED FY25 AUDIT PLAN

Ms. Bement reviewed the risk assessment survey results.

The risk assessment involves meetings with Management and interviews with Management and members of the Board to understand changes within the Authority that might impact risk areas.

Two surveys were administered. There were six responses to the survey sent to Board members and 34 out of 50 members of Management responded to the Management survey. Based on the interview and survey information RSM updated the full risk register which was reconciled with ERM risks.

Ms. Tomeo reviewed the nine risk themes identified during the risk assessment and noted some themes were interdependent.

Asset Management and Aging Infrastructure must be balanced with *Spend Management and Affordability* and *Capital Program Funding and Execution* to address infrastructure needs with budgetary considerations. *Climate Change and Safeguarding of Assets* is of increasing importance with the increase in extreme weather events.

Cyber security risks are increasingly arising due to external threat actors. Related themes for DC Water are *Internal and External Threat Detection* and *Endpoint Security*. *Data Strategy and Management* relates to the identified data capture issues and is improving as the open audit findings are addressed.

Work Order Management escalated this year due to the upcoming transition to a new work order system.

Third Party Risk Management has been highlighted due to service provider issues such as the recent CrowdStrike event, which highlighted how a single vendor can impact organizations worldwide.

Ms. Tomeo reviewed the results of the Board and DC Leadership survey. There was alignment on the following top three enterprise-wide risks identified by both survey groups:

- Operational: Reliability (e.g., single source of water, asset failure, aging infrastructure).
- Financial: Revenue erosion and expenditure increase.
- Technological Cybersecurity.

The Board identified *Regulatory: New and changing regulations (e.g., federal, state, local)* as the fourth most important enterprise-level risk, while DC Water Leadership selected *Talent management (e.g., development, succession planning, skills)* as the fourth most important risk.

Mr. Giancola inquired if the six Board members that completed the survey were included in the list of those who completed interviews. Ms. Tomeo stated that it is not possible to know because Board survey was anonymous. She noted that the survey included an option to request an interview but no Board members who were not already on the interview list requested this option.

Mr. Giancola inquired about the fifth priority chosen by the Board. Ms. Tomeo stated that all but the top four priorities received one vote each so there was no clear selection for fifth place.

Ms. Tomeo reviewed the internal audit approach including the project types, which include cycle audits, ad hoc audits, and management assessments. The audit approach evaluates the design and operating effectiveness of the internal control environment. For management assessments, the internal audit will review and analyze existing processes and data to identify strategic improvement opportunities for management.

F. PROPOSED FY25 INTERNAL AUDIT PLAN

Ms. Tomeo reviewed the FY25 audit plan, beginning with those items that are completed as cycle audits. The planned cycle audits include Contract Compliance, Work Order Management Audit – Facilities, Strategic Plan Monitoring, and SCADA Penetration Testing.

Ad hoc audits will include a Budget Monitoring Audit, a Third-Party Vendor Management Audit, a Safety Audit, and a Cloud Security Audit.

Management assessments will include a Data Governance and Reporting Assessment and an AI Policy Governance Assessment.

Mr. Giancola stated that he has been on the Board for seven years and on the Audit Committee as chair or a Committee member for most of that time. For the duration, RSM was the Authority's internal auditor. He thanked and congratulated the RSM

team for their excellent work and service to DC Water. He noted his hope for a continuation of excellence with Cherry Bekaert. Howard Gibbs echoed this appreciation and wished everyone success in the future.

III. EXECUTIVE SESSION

The Committee met in executive session to discuss security matters under D.C. Official Code § 2-575(b)(8).

IV. ADJOURNMENT

The meeting adjourned at 12:31 PM.