

**MINUTES OF THE FINANCE COMMITTEE MEETING
OF THE WATER WORKS BOARD OF THE CITY OF BIRMINGHAM
August 9, 2023**

A Finance Committee meeting of the directors of The Water Works Board of the City of Birmingham was held on Wednesday, August 9, 2023, at 10:00 a.m., at 3600 First Avenue North, Birmingham, Alabama.

The following Committee members were present: Directors Ward (Committee Chairman), Huffman, and Burbage. Also present were Directors Henderson, and Munchus who are not Committee members.

Others present were: Michael Johnson, General Manager; Iris Fisher and Derrick Murphy, Assistant General Managers; Cynthia Williams, Board Administrator; Anitra Clark, Corporate Governance Specialist; Vanessa Washington, Executive Assistant; Colandus Mason, Rick Jackson, Brad Steffens, Rosalind Jones, Jacqueline Hill, Paul Lloyd, Barry Williams, Carolyn White, Dana Richardson, Jeff Wade, Charles McGee, and David Walker, BWWB Employees; K. Mark Parnell, Parnell Thompson Law, LLC; Byron Perkins, Perkins Law, LLC; Kelvin Howard, Kelvin W. Howard, LLC; and Olivia Martin, State of Alabama Attorney General's Office.

Inasmuch as all Committee members were present, a quorum was in attendance. Committee Chairman Ward called the meeting to order at 10:00 a.m., Assistant General Manager Fisher opened the meeting with prayer.

Following, Committee proceeded to the approval of the agenda. Director Burbage made a motion to approve the agenda and Director Huffman seconded the motion. On a motion duly made and seconded, the agenda was approved by unanimous vote.

Next, the Committee proceeded to the Reports of Officers. General Manager Johnson asked Assistant General Manager Fisher to provide an update to the Board. Assistant General Manager Fisher referenced a handout distributed to the Board entitled "*Executive Financial Summary*". (A copy is on file in Diligent). Assistant General Manager Fisher gave an overview of the June year to date net income. She informed the Board that operating revenue in comparison to the budget is \$2.9 million over budget, which is attributed to commercial revenue being over budget. Assistant General Manager Fisher stated that the company's operating expenses are \$150,000.00 under budget and that the operating net income is \$3.1 million over budget. Afterwards, she discussed delinquent accounts that were over 30 days. Assistant General Manager Fisher explained that in January 2023, account receivables over 30 days totaled \$22.5 million, which impacted 51,248 customers. However, through July 2023, account receivables over 30 days decreased to \$12 million, which impacted 30,810 customers, as a result of collecting. Assistant General Manager Fisher stated that there has been a 47 percent decrease in account receivables from January 2023 to July 2023 (40% decrease in customers). In conclusion, Assistant General Manager Fisher highlighted the number of employee positions. She stated there are 726 budgeted positions, 632 have been filled, and currently 94 positions are open, which concluded her Executive Financial Summary update. Following, Assistant General Manager Fisher mentioned Birmingham Water

Works would be hosting a job fair Thursday, August 10, 2023, and Friday, August 11, 2023. In addition, she stated a temporary employee has been hired to assist with internal recruiting. Director Burbage inquired whether there was one specific commercial account that impacted the increase, as it relates to over budgeted operating revenues. Assistant General Manager Fisher responded she would have to research the information and provide an answer. Committee Chairman Ward asked if there was an update on the North Birmingham / ERP Coke account. Attorney Kelvin Howard responded he is negotiating for Birmingham Water Works to receive a lump sum payment upfront. He wants to ensure the company receives sufficient payment. Attorney Howard indicated that the case has been delayed several times and is set for trial the end of August 2023. Attorney Howard stated seven percent of balance due was offered but is not satisfactory. Therefore, once an appropriate offer is made, he will notify management and the directors. Director Munchus asked about the commercial accounts rate structure, and asked to be provided the information regarding the commercial accounts increase once Assistant General Manager Fisher has researched the matter. Afterwards, Committee Chairman Ward commented that he has asked Assistant General Manager Fisher to give a report at the first Finance Committee meeting of each quarter.

Following, Carolyn White, Internal Audit Manager, presented the Internal Audit Report to the Board. Ms. White introduced her employee, Dana Richardson, Associate Auditor III. Ms. White informed the Committee that there was a change made to the presentation on tab two and that she would review the change with the Committee. Ms. White began the presentation with the Internal Audit's charter, established in 2004, an overview of Internal Auditing functions, and the services provided. Ms. White asked that the Finance Committee allow her to present a revised charter and a risk-based audit plan at her next presentation to the Finance Committee. Following, she talked about the services provided, which consists of audit of internal control over the journal entry process, Human Resources recruitment, hiring, payroll functions, purchasing process, assessment of internal controls for automated clearing house (ACHs), altered checks and automation of payroll analytics. In addition, she highlighted the internal audit department's responsibilities and authority, scope of services, and why an area is selected for review. Director Munchus asked why the charter needs to be revised and what is a risk-based audit plan. Ms. White responded that the charter needs to be revised because of the various changes in auditing and the standards. She explained that the charter needs to reflect the most current changes from the Institute of Internal Auditors. Ms. White stated the risk-based audit plan analyzes and ranks various areas of high-risk and high probability, where controls are not in place or weak. Following, Ms. White discussed a summary of the audits performed and four conditions identified where the internal audit department has not been provided sufficient evidence to correct the findings. Committee Chairman Ward instructed Ms. White to read the results of "A" and "B" from the table that referenced said findings/conditions, which she complied with. Ms. White stated the first condition, audit of internal control over the journal entry process consisted of inefficient comprehensive accounting policies and procedures manual, and absence of a separate fund for the defined pension plan in the Systems Applications and Products (SAP) software, which is a repeat finding since 2017. Ms. White stated that the pension fund needs to be in the SAP system, because the company has large sums of monies being invested. She stated the company needs to internally know the pension funds' daily transactions and activities (in real time) as opposed to waiting to receive said information externally, and that SAP has the capability to produce that information. After Ms.

White read management's response to the finding, which stated creating a separate fund for the defined pension and OPEB plans has not been feasible with current staffing and resources. However, the accounting team prepares monthly financial statements for both plans and the risks are mitigated by an independent actuary and external auditor reviewing the plans annually. Director Munchus asked regarding the defined pension plan whether the company would go backwards or move forward with its information for SAP. Ms. White responded that the balance sheet would go back, and revenue and expenses would reflect a time period. She also stated that staff should not "park and post" transactions. Director Munchus asked for the meaning of "park and post," which Ms. White provided. The second condition, audit of internal controls over Human Resources recruitment, hiring and payroll functions consisted of missing job applications for awarded jobs and potential unfair job awarding, which is a repeat finding since 2019. Ms. White stated seven new hires were interviewed and hired for a PMW position but were awarded different jobs. Director Huffman asked whether there was a job based on a particular employee's qualification or was there a general job description where the employee met the qualifications. Mr. Paul Lloyd, Human Resources Manager, responded that regarding the PMW entry level position, passing the grade 4 exam is automatically a step-up. He stated the PMW job issue was a rare situation, because one candidate for the job was overqualified and had over 25 years of experience; therefore, the company did not want to pass on a candidate with that level of water treatment experience. The employee was offered the Operator Trainee position instead of the PMW position, based on his strong qualifications. The third condition, auditing of internal controls over purchasing process consisted of compromised configuration of SAP, eight potential splitting of invoices, and anomalies in the purchasing requisition process. Ms. White indicated that having a proxy when a manager is out will create checks and balances for the purchase requisitions approval process. Director Huffman left the meeting at 10:45 a.m. General Manager Johnson stated that some of the context is off based on Ms. White's delivery. General Manager Johnson stated that the management's response was not covered well, because there is a reason for certain things. The fourth condition, assessment of internal controls on ACHs and altered checks, consisted of inadequate internal control over ACH payments, which resulted in two payments that caused a financial loss. Director Huffman returned to the meeting at 10:49 a.m. Following, Ms. White asked Executive Management and the Board to consider outsourcing the physical inventory count observation. Ms. White stated this would result in reduced risk, less down-time for the Accounting Department, independent verification, and using a skilled labor force. Afterwards, Committee Chairman Ward stated he has confidence in the Accounting Department and commented that the auditing process is coverage for the Board. Committee Chairman Ward indicated that the Accounting Department needs more support and would receive it; however, Accounting is doing a great job.

Subsequently, the Committee proceeded to the first item on the agenda, Request Committee to recommend to the Board to approve a three-year agreement with Carr, Riggs & Ingram, LLC, Certified Public Accountants, to conduct the 2023, 2024, and 2025 Financial Statement Audits, including interim audit procedures, at a cost not-to-exceed \$195,000 for 2023; \$202,500 for 2024, \$210,000 for 2025; and to authorize the General Manager and/or the Assistant General Manager to execute said agreement. Director Huffman made a motion to recommend said

item be moved to the full Board for approval and Director Burbage seconded the motion. On a motion duly made and seconded, agenda item one was approved by unanimous vote.

As there was no further business before the Committee, Director Burbage made a motion to adjourn the meeting and Director Huffman seconded the motion. On a motion duly made and seconded, the motion was approved, and the meeting adjourned at 11:00 a.m.

_____/s/_____
Michael Johnson
General Manager

_____/s/_____
Raymond “Larry” Ward
Committee Chairman

_____/s/_____
William “Butch” Burbage, Jr., Esq.
Director

_____/s/_____
Tereshia Q. Huffman
Director