

NORTH TEXAS MUNICIPAL WATER DISTRICT

FINANCE/AUDIT COMMITTEE MEETING MINUTES

JULY 12, 2018

I. CALL TO ORDER

Chairman Phil Dyer called the meeting of the Finance/Audit Committee to order at approximately 2:30 p.m. on Thursday, July 12, 2018, at the NTMWD Administrative Offices in Wylie, Texas.

Members present included Chairman Phil Dyer, Directors David Hollifield, Joe Farmer, Darrell Grooms, John Murphy, and Richard Peasley were present. Director Terry Sam Anderson was absent. A quorum of the Finance/Audit Committee was present.

President John Sweeden, Secretary Larry Parks, and Directors James Kerr, Lynn Shuyler, David Paschall, Rod Hogan, Bill Glass, Bill Lofland, Blair Johnson, and Marvin Fuller were also present.

Staff present included Rodney Rhoades, Mike Rickman, Joe Stankiewicz, Erik Felthous, Drew Farris, Teresa Wigington, John Montgomery, Melisa Fuller, and Terina Turner. Lauren Kalisek of Lloyd Gosselink Rochelle & Townsend, PC, Nick Bulaich of Hilltop Securities and Victor Padilla and Bruce Bush of RSM US were also present.

II. OPENING REMARKS

A. Executive Director/Committee Champion Status Report concerning legislation and regulatory matters, budgets, current projects, and ongoing programs of the District

Assistant Deputy Erik Felthous announced to the Committee that Drew Farris had been selected as the Finance Manager.

III. ACTION ITEMS

A. Consider Approval of Minutes – June 28, 2018

Upon a motion by Director Darrell Grooms and a second by Director David Hollifield, the Finance/Audit Committee voted unanimously to approve the minutes of June 28, 2018.

B. Review and Possible Action on Transitional Audit by RSM US

Deputy Director Rodney Rhoades reported that the draft report of the Transitional (Forensic) Audit had been received by the District and provided the Committee a copy of the draft report, as a handout. Mr. Rhoades advised that the original scope or work had been expanded due to receipt of the final Police Report regarding the death of former Deputy Director Judd Sanderson. Mr. Rhoades introduced Victor Padilla and Bruce Bush of RSM US, and stated they would be reviewing their initial findings, and a final report was expected within a week.

Victor Padilla with RSM US reviewed the draft report and noted the items RSM US initially audited and the expanded scope of work. Bruce Bush briefed the Committee on the process used in Forensic Accounting. He stated RSM staff had full access to NTMWD records and personnel as requested at all times, and advised that the audit found no evidence of any transactions that would be considered potential fraud, misconduct, irregularities, improprieties or potential conflicts of interest.

Mr. Bush continued his report, stating that an analysis of email correspondence and files maintained by Judd Sanderson for six years prior to Mr. Sanderson's death resulted in no findings. He also stated there were no exceptions found when reviewing the District's Interest & Sinking Funds, Debt Reserve, and Construction Fund accounts.

Mr. Bush reviewed some observations with the District's purchasing procedures and practices and reviewed those findings with the Committee, none of which were related to Mr. Sanderson's performance or duties. NTMWD staff noted similar findings were reported in the Annual Audit conducted by Weaver Tidwell and reported to the Committee as well as the Board of Directors in January 2018.

In response to questions by Committee members, the Auditors confirmed the cost of the audit was approximately \$220,000 - \$230,000, that the FY 18 Annual Audit firm (Weaver Tidwell) was not contacted prior to or during the forensic audit, and that RSM was aware of the circumstances surrounding the death of Mr. Sanderson when they were engaged to perform the audit. Following questions by and discussion amongst Committee members it was requested that the timeline from date of contact to current be included in the final report, and to include the date RSM US received the Police Report with findings surrounding Mr. Sanderson's death.

President Sweeden provided an opportunity for the Directors present to speak with RSM without any staff present.

C. Review and Possible Action on FY18 Budget

Deputy Director Rodney Rhoades indicated he would review Agenda Item Nos. C. and D. simultaneously. Mr. Rhoades reviewed FY18 Budget noting an increase in power and chemical charges during this fiscal year. He reviewed the anticipated request for 23 additional personnel in the FY19 Annual Budget as well as the 12 additional personnel added mid-year FY 18. Mr. Rhoades noted the proposed Legal Department and mentioned that additional discussion would be needed regarding these proposed positions (i.e., roles, responsibilities, as well as reporting).

In response to questions by Committee members, Rodney Rhoades advised the positions requested for Transport Drivers would reduce payroll cost by cutting overtime accumulated by current employees, the position requests for Construction Inspectors should decrease the need for outside contract assistance, and the Fleet Department was working to reduce the need to purchase additional vehicles. Mr. Rhoades reminded Committee members that some items in the

Water System budget are allocated out to other systems for their share of the salaries and operating expenses (i.e., laboratory testing, maintenance/repairs). He also stated the expected merit increase should average 3%, and the market adjustment should average 2%, down from 5% the previous year.

D. Review and Possible Action on FY19 Proposed Budget

This item was discussed in conjunction with Agenda Item. No. III. C.

IV. DISCUSSION ITEMS

A. Opportunity for Committee Members to Provide Feedback on Finance/Audit Committee Meeting

There were no comments provided by Committee Members.

B. Opportunity for Committee Members to Request Potential Future Agenda Items
(No substantive discussion of items will take place at this time)

A request was made to provide the additional materials utilized in the budgeting process as well as provide a Budget Workshop to cover the Capital Improvement Program and Operational costs.

V. ADJOURNMENT

There being no further business, the meeting adjourned at 3:58 p.m. The next meeting of the Finance/Audit Committee will be called by the Chairman with proper notification to all members.


PHIL DYER
Chairman