



NORTH
TEXAS
MUNICIPAL
WATER
DISTRICT

Regional Service Through Unity... Meeting our Region's Needs Today and Tomorrow



FINANCE COMMITTEE

January 11, 2023

3:00 P.M.



I. CALL TO ORDER

II. PUBLIC COMMENTS

Prior to the start of the meeting, speakers must complete and submit a “Public Comment Registration Form.” During the public comment portion of the meeting, speakers will be recognized by name and asked to provide their comments. The time limit is three (3) minutes per speaker, not to exceed a total of thirty (30) minutes for all speakers. The Committee may not discuss these items but may respond with factual or policy information.

III. OPENING REMARKS

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



AGENDA

IV. ACTION ITEMS

- A. Consider approval of Finance Committee meeting minutes – November 2, 2022
- B. Review and possible action on Draft 2021-2022 Financial Audit by Crowe, LLP
- C. Review and possible action on Fiscal Year 2022 End of Year Actuals compared to Fund Balance Policy

V. DISCUSSION ITEMS

- A. Annual update on Purchasing (Procurement) Department
- B. Opportunity for Committee members to provide feedback on the Finance Committee meeting or request potential future agenda items

VI. ADJOURNMENT



AGENDA

IV. ACTION ITEMS

- A. Consider Approval of Finance Committee Minutes –
November 2, 2022

Recommend Approval of Finance Committee Minutes –
November 2, 2022



AGENDA

Kevin Smith
Partner
Crowe

IV. ACTION ITEMS

- B. Review and possible action on Draft 2021-2022 Financial Audit by Crowe, LLP



North Texas Municipal Water District
– Finance Committee

**Fiscal Year Ended September 30, 2022
Audit Presentation – January 11, 2023**

Kevin Smith, Partner

Smart decisions. Lasting value.™



Agenda

- Deliverables
- Results
- Internal Control Comments
- Required Communications
- Questions

Deliverables

We expect to issue the following:

- Report of Independent Auditors
- Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*
- SAS 114 Letter “Communication to Those Charged with Governance”
- Letter to Management for Deficiencies

Expected Report of Independent Auditors

Unmodified (“Clean”) Opinion

- In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the District, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Related Comments

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Three categories of deficiencies:

- *Material weakness* – a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- *Significant deficiency* – a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- *Deficiency* – a deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

Required Communication with Those Charged with Governance

- Auditor Responsibility
- Planned Scope and Timing of the Audit
- Significant or Unusual Transactions
- Significant Accounting Policies in Controversial or Emerging Areas
- Accounting Estimates
- Auditor Judgments about Qualitative Aspects of Significant Accounting Practices
- Corrected and Uncorrected Misstatements
- Other Communications

Questions



RECOMMENDATION

The Executive Director and NTMWD staff recommend the acceptance of the Draft 2021-2022 Financial Audit by Crowe, LLP



AGENDA

Jeanne Chipperfield
Deputy Director
NTMWD

IV. ACTION ITEMS

- C. Review and possible action on Fiscal Year 2022 End of Year Actuals compared to Fund Balance Policy



FUND BALANCE POLICY

Administration & Finance Policy Manual – Section 11

- Sets guidelines for fund balances; defines types of funds; and provides guidance on timing of review
- Each System has own reserve guidelines, several systems are set out in contracts
- Most systems break even annually, except Regional Water System
 - Excess revenues are returned pro-rata to members/customers
 - Any overages are recovered via end of year invoicing

Funding plan for replenishing reserves utilized for Winter Storm Uri in 2021 provided in Ad Memo 5718

FY22 available funds were used to replenish funds

Balances and policy reviewed by Finance Committee annually after the completion of the annual financial audit

Review RWS Surplus Budgeted Funds – per Settlement Agreement

Review potential policy amendment related to implementation of Strategic Plan Initiative for emergency funding in wastewater systems



PER THE FUND BALANCE POLICY

All Systems

- Interest and Sinking (I&S) and Bond Reserve Fund Balances established via bond resolution
- Construction Funds refers to bond proceeds to be used for projects; no required balance

Regional Water System (RWS)

- Operating Fund – Minimum 90 days Operations and Maintenance (O&M) expense of next year
- Combined Operating and Contingency Fund 130 – 150 days with 150-day target
- Capital Improvement Fund \$15M minimum balance

Other Systems

- Operating Funds are break even and thus have a \$0 balance
- Reserves established in the 2022 Strategic Financial Plans (SFP)
 - Reserves for Maintenance / Contingency
 - Preventative Maintenance Escrow
 - Equipment Replacement Escrow
 - Capital Improvement Fund
- Escrow guidelines established in 2022 SFP's are lower than levels prior to Winter Storm Uri



REGIONAL WATER SYSTEM

Operating & Contingency Funds 9/30/22 Combined Balances

Operating Fund Balance	\$50.2M	91.3 days
Contingency Fund Balance	<u>\$27.1M</u>	<u>49.4 days</u>
Total	\$77.4M	140.7 days
Target 150 Days	\$82.5M	

Capital Improvement Fund Balance - \$21M

Surplus Budgeted Funds – all excess FY22 funds were applied to Operating and Contingency balances and are included in the numbers above. Complies with settlement agreement.

- Do not recommend distributing funds to Member Cities due to being below combined balance target of 150 days



FUND BALANCE HANDOUT

Handout covers all systems and funds

- **Regional Water System**
- **Regional Wastewater System**
- **Upper East Fork Interceptor System**
- **Regional Solid Waste System**
- **Small Systems (previously referred to as Sewer Systems)**
 - 6 Water Storage / Distribution / Transmission Systems
 - 10 Wastewater Treatment Plant Systems
 - 9 Interceptor Systems
 - Pretreatment
- **Shared Services and Health Insurance Funds**

On average about 5 funds per operating system

District is generally in compliance. The comments column in handout explains variances.



Strategic Plan Initiative 2.3.1

Overview Potential Policy Amendments

- **Strategic Plan Initiative 2.3.1** - Provide for Emergency Funding Needs in the Wastewater Systems Reserves for Maintenance (Non Regional Water System Contingency Funds)
- Specific targets are not established in current policy
- Some escrow balances are as low as 1-4 days of O&M
- Winter Storm Uri exacerbated by electric bills
- Finance consulted with wastewater operations staff to apply best practices from AWWA, GFOA, and WEF
- Recommend 90 days O&M expense target for contingencies / emergencies, unless specified by contract
- Will incorporate recommendations into future presentation on recommended policy changes



RECOMMENDATION

The Executive Director and NTMWD staff recommend the acceptance of the Fiscal Year 2022 End of Year Actuals compared to Fund Balance Policy



AGENDA

Nicole Mucha
Procurement Manager
NTMWD

V. DISCUSSION ITEMS

A. Annual update on Purchasing (Procurement) Department



FY22 PURCHASING UPDATE

Major Milestones Accomplished

Procurement Policy and Administrative Directive No. 10

- First full fiscal year under policy and directive

Amazon Business Prime Account Implementation

- Provides control and visibility over spend
- Ongoing monthly compliance audits to monitor spend

Capital Improvement Program Pilots

- Collaborated with Engineering to test projects through Purchasing and the e-Procurement system



ACHIEVEMENT OF EXCELLENCE IN PROCUREMENT AWARD



- Recognizes organizations that embrace Innovation, Professionalism, Productivity, Leadership and e-Procurement
- NTMWD was one of only 15 special districts across the U.S. and Canada to receive this distinction





FY22 PROJECTS

PROJECT EXAMPLES IN SUPPORT OF GOALS

Purchasing supports all systems by soliciting and awarding goods and services over \$25,000

GOAL 1: SERVICE

Provide superior water, wastewater, and solid waste services today and tomorrow.

22-131-B THM Analyzer
 22-021-B Total Organic Carbon Analyzers
 22-111-C South System Sodium Chlorite Injection Trailer
 22-137-P Regional Composting Program Evaluation
 22-195-P Maximo Maintenance and Support
 22-010-E Water Supply Planning Assistance
 22-037-Q Emergency Preparedness Plan for SB3
 22-061-Q Lift Station Condition Assessments
 22-096-B Lifting Equipment Inspections, Maintenance and Repairs
 22-216-B Valve Actuator Parts, Repairs and Service
 22-046-B Multi-Sensor Inspection Manhole Inspection and Sewer Line Cleaning
 22-113-B Pipeline Welding, Tapping and Line Stop Service

GOAL 2: STEWARDSHIP

Responsibly manage public resources to ensure responsiveness, effectiveness, and efficiency.

22-148-P Lab Services Cost Assessment
 22-162-P Pretreatment Cost Allocation Study
 22-097-B Analytical Lab Services
 22-002-E Surface Water and Water Quality Data Collection BDL Watershed
 22-122-P OT Cybersecurity Monitoring
 22-121-P IT Organization Assessment
 22-192-E Cybersecurity Training and SCADA Security Program Update
 22-159-P Investment Advisory Services
 22-166-P Pension and OPEB Actuarial Services

GOAL 3: PARTNERSHIP

Actively work with members, customers, partners, employees, and stakeholders.

22-176-P Communications Services
 22-188-P Website Development and Support
 22-198-P Regional Water System Customer Premium and Buy-In Charges Study
 22-065-Q BDL Shoreline Development Consultant
 22-081-E ICI Water Efficiency Program
 22-036-B Planting Aquatic Vegetation

GOAL 4: PEOPLE

Build a talented, competent, and committed team.

22-223-P Executive Recruitment for General Counsel
 22-160-P Executive Search for Water System Manager
 22-011-E Velocity EHS Training Software
 22-085-E OSHA, FEMA, DHS, TCEQ Training

- **219 Procurement Processes**
 - **17% increase over FY21**
- **245 Active Contracts**
 - **60% increase over FY21**
 - Managing renewals, expirations, insurance, change orders
- **Added 2 New Cooperative Programs (48 total)**
 - 1 Government Procurement Alliance
 - Fire Protection Systems
 - TXShare (North Central Texas Council of Governments)
 - Consulting Services
 - Auto Parts for Fleet
- **Bonfire eProcurement**
 - 106 solicitations posted
 - **61% increase over FY21**
 - 4,898 vendors registered



PURCHASING IMPACT

- **Awarded 78 Competitively Procured Contracts**

- **39% increase over FY21**

✓ **Cost Avoidance: \$2,905,887**

- **Cost Avoidance** is calculated by taking the total amount of all bid received and dividing by the number of bids received, and subtracting from the awarded amount; this shows the value generated from the competitive solicitation process

- **Total Rebates Received for Cooperative Program Participation**

✓ **\$50,762**

- BuyBoard (22% increase)
- Home Depot Pro (20% increase)
- TIPS (90% increase)
- Staples Advantage



PROGRAM SUPPORT

- First vendor outreach event held
- Continued internal communication
- Partnering meeting support
- Robust training provided
- Strategic Initiative 2.3.2
 - Analyze P-Card Spend to Maximize Savings Opportunities
- Team accomplishments
 - Ali Nobles – CPPO certification
 - Ali Nobles – 2021 Employee of the Year Nominee
- Major focus areas for FY23
 - P-Card program updates
 - Vendor measurement program
 - CIP bidding centralization framework



QUICK HIGHLIGHTS

PROCUREMENT PROCESSES*

FY22: 219
17% increase over FY21

*MIX OF BID, PROPOSAL, EXEMPT AND COOPERATIVE

MANAGING RENEWALS, EXPIRATIONS, AND CERTIFICATES OF INSURANCE FOR

245 ACTIVE CONTRACTS
60% INCREASE OVER FY21

BONFIRE

106 PURCHASING BIDS INCREASE OF 61% OVER FY21
19 ENGINEERING NOTICES

245 CONTRACTS UPLOADED INCREASE OF 60% OVER FY21
4,898 VENDORS REGISTERED 60% INCREASE OVER FY21

COST AVOIDANCE

\$2,905,887

For More Information Contact:
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Purchasing Manager
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PURCHASING DEPARTMENT MISSION STATEMENT

Create a centralized purchasing function with uniform procedures to obtain the highest quality goods and services at the lowest possible price in a manner consistent with best purchasing practices and legally mandated standards.

In fiscal year 2021-2022, the Purchasing Department reached a watershed moment as it was the first year where all departments/systems District-wide were centralized and operating under the new Procurement Policy. Operating budget spend over \$25,000 is required to be facilitated through the Purchasing Department.

This fiscal year saw unprecedented supply chain constraints and price increase requests that created a challenging environment. Purchasing worked closely with Water Operations and conducted extensive research to explore every option to minimize the impact of chemical price increases while ensuring critical supply.

In addition, Purchasing collaborated with Engineering to facilitate two CIP pilot projects to explore construction bidding consolidation into the Purchasing Department. Further evaluation will be done in FY23.

Also in FY22, Purchasing was awarded the prestigious 2022 Achievement of Excellence in Procurement from the National Procurement Institute. This is the first time NTMWD has applied for and won this award. The AEP award is earned by public and non-profit agencies that demonstrate a commitment to procurement excellence.



This annual program recognizes organizations that embrace Innovation, Professionalism, Productivity, Leadership and e-Procurement. For 2022, there were 171 successful applicants across the U.S. and Canada including counties, cities, state agencies, higher education and school districts. NTMWD was one of only 15 special districts to receive this distinction.



AGENDA

V. DISCUSSION ITEMS

- B. Opportunity for Committee members to provide feedback on the Finance Committee meeting or request potential future agenda items

VI. ADJOURNMENT