



**MINUTES OF THE MEETING  
AUDIT AND RISK COMMITTEE  
JANUARY 22, 2026  
(via Microsoft Teams)**

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**COMMITTEE MEMBERS PRESENT**

1. Christopher Herrington, Principal, Fairfax County, Chair
2. Sarah Motsch, Alternate, Fairfax County
3. Richard Jackson, Principal, District of Columbia
4. Anthony Giancola, Principal, District of Columbia
5. Jimmy Ortiz, Alternate, District of Columbia

**OTHER BOARD MEMBER PRESENT**

1. Alexander McPhail, Alternate, District of Columbia

**DC WATER STAFF**

1. David L. Gadis, CEO and General Manager
2. Lola Oyeyemi, Interim Chief Financial Officer & EVP and Vice President, Budget
3. Kirsten Williams, Chief Administration Officer and EVP
4. Amber Jackson, Chief People Officer and EVP & Interim Chief Legal Officer
5. Barbara Mitchell, Associate General Counsel and Director of Government and Legal Affairs
6. Michelle Rhodd, Secretary to the Board

**INTERNAL AUDIT STAFF**

1. Tiffany McCoy, Cherry Bekaert
2. Chris Leffler, Cherry Bekaert

**EXTERNAL AUDIT STAFF**

1. Graylin E. Smith, SB & Company
2. Chris Lehman, SB & Company
3. Yuwen Tian, SB & Company

Christopher Herrington, Chair, called the meeting to order at 9:30 AM. The meeting was conducted via MS Teams. Secretary to the Board, Michelle Rhodd called the roll.

## **I. FY 2025 AUDITED FINANCIAL STATEMENT PERFORMANCE**

Lola Oyeyemi, Interim Chief Financial Officer & EVP, provided the results of the Authority's financial performance for FY 2025. DC Water received an unmodified, clean, audit opinion with no material findings for the fiscal year that ended September 30, 2025. It was the fifth audit completed under the Oracle system and the first with a new auditor, SB & Company.

DC Water received its 28th consecutive Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its 2024 annual comprehensive financial report and anticipates the same recognition for the 2025 report. The Authority also earned its third GFOA award for Outstanding Achievement in Popular Annual Financial Reporting, in collaboration with the DC Water Office of Marketing and Communications (OMAC).

Henok Getahun, Controller presented the financial results for FY 2025. He reported that two new Governmental Accounting Standard Board (GASB) standards were issued in FY 2025: Statement No. 101 Compensated Absences and Statement No. 102 Certain Risk Disclosures. Statement 101 mandates recording liabilities for compensated absences that are likely to be used, resulting in an \$8.7 million accrual for union sick leave in the prior year's restated financials. Statement 102 requires disclosure of risks arising from concentrations or constraints that could have a significant financial impact. No material risks requiring additional disclosure were identified.

DC Water's financial position remains strong with a net position of \$3.8 billion, a \$345.9 million or 10% increase from last year, mainly due to the current year's operating results and capital contributions. Total revenue increased to \$1.1 billion, with total expenses of \$731 million.

Operating revenue rose by \$26.3 million to exceed \$1 billion for the first time, a 2.7% increase primarily driven by rate adjustments across residential, commercial, multi-family, and district customers. Wholesale revenue also increased due to higher operating expenses and an IMA settlement. Federal revenue declined as usage normalized after leak repairs in 2024.

Operating expenses increased by \$25.2 million to \$585.9 million, up 4.5%, mainly due to higher depreciation, amortization, and O&M costs related to new placed in-service assets, as well as higher electricity and water purchase costs. Chemical and small equipment costs decreased due to lower prices, partly offset by higher spare parts expenses.

The net position increased by \$345.9 million to \$3.8 billion, up 10% year-over-year, driven

by current year operations and capital contributions. The restricted and unrestricted cash and investments totaled \$959 million with increases mainly due to new bond issuance.

In response to a question from Committee member Anthony Giancola, Mr. Getahun confirmed that SB & Company had issued a management report that would be forwarded to the Committee after the meeting. In response to a question from Committee member Alex McPhail, Mr. Brown confirmed that the \$8.7 million accrual for union sick leave reflects more than one year of accumulated leave to date for all active union members of the workforce. He noted that the value will be smaller for subsequent years.

Mr. Getahun then reviewed the Authority's capital assets. Net capital assets increased by \$461.2 million to \$9 billion. Construction in progress totals \$1.8 billion for projects, including Clean Rivers, the Enhanced Clarification Facilities, Potomac Interceptor projects, and Lead Free DC projects. At the end of the fiscal year, there was a \$4.1 billion outstanding debt balance and DC Water anticipates issuing \$3.3 billion in new debt to pay for the capital program over the next ten years. The fiscal year-end combined debt coverage ratio was 2.4 times, exceeding the Board policy requirement of 1.6 times.

Mr. Getahun noted that the clean audit opinion was the Authority's 29th consecutive clean opinion.

## **II. FY 2025 FINANCIAL STATEMENT AND UNIFORM GUIDANCE AUDIT RESULTS**

Graylin Smith of SB & Company, LLC, provided a review of the FY 2025 audit, noting that additional first-time audit procedures were required as it was SB & Company's first audit for the Authority.

He noted Management's cooperation with the audit, which facilitated the unmodified opinion with no audit adjustments and no material weaknesses identified. The audit met its timeline despite being a first-year engagement, and no evidence of fraud was detected. Management received minor housekeeping recommendations, but no material weaknesses were identified. A new standard adopted this year require restating the prior auditors' net position.

The single audit and green bond reports are being finalized and will be shared when complete.

The audit process assessed Management's controls, tested key processes, and focused on areas with higher risk or materiality. The auditor evaluated internal controls using the COSO model and found that all relied-upon controls were effective. Some functions were not tested in detail due to lower risk or minimal transactions. Key operational processes, including billing, payroll, disbursements, and technology, were reviewed to confirm that relevant controls functioned as intended. Mr. Smith noted that if any material weaknesses were identified, the auditor would be required to bring them to Management's attention. He also stated that there were no deficiencies in internal controls to bring to

Management's attention.

Significant events affecting current year transactions include the adoption of two new accounting standards and a debt issue. Three new pronouncements to be adopted in the future include GASB Nos. 103 and 104, which began to take effect on June 15, 2025, and GASB No. 105, which will take effect on June 15, 2026.

For the uniform guidance compliance audit, approximately \$71.78 million in federal assistance was received, with \$35.4 million or 52% tested for compliance. As DC Water is deemed a low-risk auditee, 20% coverage is required.

The required communications confirm an unmodified opinion with no adverse findings. Management is noted to be responsible for the financial statements, and accounting policies were found to be reasonable. No audit adjustments, fraud, or illegal acts were discovered. All supplementary reports reviewed were consistent with the audited financials, and there were no disagreements or difficulties during this first-year audit. Management cooperated fully throughout the process. There were no subsequent events affecting the audit. Mr. Smith confirmed SB & Company's independence from the Authority.

Board member Alexander McPhail inquired about the vendor file maintenance item. Mr. Smith clarified that the audit considered the process for adding a new vendor to the Authority's payment system to mitigate the risks of misappropriation and fraud.

### **III. INTERNAL AUDIT UPDATE**

#### **A. FY 2026 INTERNAL AUDIT PLAN STATUS UPDATE**

Tiffany McCoy of Cherry Bekaert reviewed the approved internal audit plan for 2026, noting that the first five engagements have started:

- the Customer Billing and Collections Audit,
- the Emergency Management Policy Gap Analysis,
- the Legal Operational Audit,
- the Recruitment, Performance Evaluation, Compensation Analysis & Training/LMS Assessment, and
- the Asset Management Lifecycle Audit.

The Budget Monitoring Audit and Third Party Vendor Management Audit final reports have been submitted. Management action plans are being drafted for the Contract Compliance Audit.

## B. STATUS UPDATE ON PRIOR AUDIT FINDINGS

Chris Leffler of Cherry Bekaert provided the quarterly update on prior open audit findings. Eight prior findings were closed out during the quarter, of which six were high risk and two were low risk. Of the six high-risk findings, one was from FY 2023, and five were from FY 2025. All high-risk findings prior to 2025 have been completed.

One of the previous low-risk audit findings will be extended due to the lack of subject matter expert (SME) availability. It will be reassigned, and more time is required to finish the work.

One high-risk finding is open, from the Facility Work Order Management Audit. For all findings from FY 2023 through FY 2025, 21% are open, and 79% are closed.

Committee member Sarah Motsch asked for additional details on the safety audit items. Mr. Leffler confirmed that further information will be provided via email.

Chair Herrington noted several prior requests for a report listing all open audit findings, not just those rated high risk, and asked whether the report could be provided before the next meeting. Ms. Motsch asked that the report also include any relevant management responses and anticipated completion dates. Francis Cooper, Director, Enterprise Program Management Office, confirmed he would send a follow-up memo with the requested information.

The Committee further discussed the Fleet Management Audit item that will be extended for the fourth time due to a change in the SME. Kirsten Williams, Chief Administration Officer and EVP, assured the Committee that efforts would be made to close out the item. Mr. Giancola noted that extensions are granted for audit items whenever there is a change in supervisor. He questioned why staff are unable to continue work on audit findings despite a change in leadership. He also inquired whether Oracle is a cause of some delays. Mr. Cooper noted that for the Fleet Management item, the ECMO Department was leveraging a fleet waste system and wanted to rely more on the system of record, Oracle, which required some system updates.

Mr. Leffler noted that the average time to complete audit findings was 5.46 months in 2025, which is below the target of eight months.

### C. HOTLINE UPDATE

Ms. McCoy provided an update on the Fraud, Waste, and Abuse Hotline.

A total of six cases have been received to date in 2026. Four cases have been closed, and two are open.

Chair Herrington stated that Amber Jackson, Chief People Officer and EVP & Interim Chief Legal Officer, will circulate the SOPs for how the internal auditor handles hotline reports, particularly those involving members of senior management. He asked the Committee to review the SOPs in preparation for further discussion about the Committee's role in reviewing hotline items at the next meeting.

### IV. ERM AND NON-REVENUE WATER UPDATE

Mr. Cooper provided an update on enterprise risk management (ERM) and non-revenue water.

All departmental roadshows and ERM 101 training have been completed. ERM 201 training has launched, reaching 116 of the Authority's 291 Grade 17 and higher employees. ERM 202 training will begin in Q2.

There is a strong effort to continue the advancement of a bottoms-up approach to ERM, including outreach to the organization through the Origami tool to identify potential operational risk areas.

ERM team is also working to schedule a board-centric ERM training session for all Board members.

An ERM annual report is being developed and will be issued at the end of the fiscal year.

#### *Non-Revenue Water Initiative*

Mr. Cooper also provided an update on the non-revenue water initiative.

Non-revenue water (NRW) represents revenue losses due to both apparent (non-physical) and real (physical) losses and is calculated as the difference between water supplied and water billed. CEO David Gadis has authorized the EPMO to integrate remediation of non-revenue water loss through a risk and ERM framework, which has been completed, with a

focus on risk governance, risk treatment and mitigation, and risk and performance reporting.

Several options are under consideration to enhance monitoring capabilities, including the annual M36 water audit process.

The water operations team is prioritizing improvements to metering. A recent AMI system assessment identified problem areas, and there is now a 91% read success rate against an industry benchmark of 98.5%. Ongoing efforts include reducing estimation in billing, improving data validity, and decreasing leakage index scores through leak detection initiatives and better equipment deployment.

Management has identified approximately 14,000 locations that require meter repair or replacement and is developing a plan to address them. Additional strategies include installing meters at reservoirs and key flow points for more precise loss tracking.

A formal water loss control plan is being developed, integrating AMI, valve and hydrant programs, and data governance to move from Tier 3 towards higher performance in non-revenue water loss reporting. A dedicated proactive leak detection team is under consideration.

Quarterly status reports will continue, as will collaboration with the ERM Committee and partners to develop a remediation plan with clear, actionable steps to address NRW across the business process. Mr. Cooper confirmed that the remediation plan will be available for the next meeting and will include a target for NRW.

## **V. ADJOURNMENT**

The meeting adjourned at 10:53 AM.

### **Follow-up Actions:**

1. Henok Getahun will forward SB & Company's management report to the Committee after the meeting.
2. Chris Leffler will provide the Committee with additional details on the safety audit items via email.
3. Francis Cooper will provide the Committee with a report listing all open audit findings, not just those that are rated high risk, to include any relevant management responses and anticipated completion dates.
4. Amber Jackson will provide the Committee with SOPs for how the internal auditor handles hotline reports, and in particular, those involving members of senior management.