

SUMMARY MINUTES
RISK MANAGEMENT COMMITTEE
MEETING OF JUNE 18, 2014

Ms. Wells chaired the executive session of the June 18 Risk Management Committee Meeting, calling it to order at 8:04 a.m. A quorum was present during the Meeting: Mr. Adams, Co-Chair, Mr. Griffin and Ms. Hall. Mr. Carter, Mr. Chapman, Mr. Curto, Mr. Davis, Mr. Gates, Ms. Lang, Ms. McConnell, Mr. McDermott, Mr. Session and Mr. Williams were also present.

Pursuant to Article IX, Section 3(g), the Authority Bylaws permits the Board and its Committees to move into executive sessions for (1) matters that the professional standards applicable to financial statement auditors, when conducting a financial statement audit and for matters that involve proprietary or confidential vendors. The Committee met in executive session to receive an update on 1) the Management Letter - Financial Statements Audit for the year ending December 31, 2013; 2) Retirement Plans for Regular Employees and Police Officers; and 3) another audit.

The Committee adjourned its executive session at 8:50 a.m., at which time Mr. Adams proceeded with the agenda items to be discussed in regular session. A quorum was present.

Valerie Holt, Vice President for Audit, presented six audit reports: General Aviation; Parking Contractor (one at each Airport); Procurement Card (P-Card) Usage for Repair and Maintenance Activities at the Airports; Taxicab Dispatch; and Sole Source Contracts. The audit reports provided for the day's meeting included background information, objectives, conclusions and recommendations. Ms. Holt noted that she would summarize the audit results and that additional details were included for each individual audit.

Ms. Holt stated that the general aviation contractor had maintained effective internal controls over accounting and reporting revenue and airport landing fees. She noted that a change had been made to the contract terms to reflect market conditions several years ago, which had resulted in a positive impact on revenue.

With respect to one of the parking contracts, Ms. Holt reported that the contractor's controls over accounting and reporting were generally

adequate to ensure that parking revenue was adequate and timely. She noted that the contractor had received an advance payment of \$22,000. Going forward, Authority staff will receive training to ensure that they understand that advance payments are not allowed under the contract.

Ms. Holt reported that an audit had recently been conducted regarding P-Card usage for repair and maintenance activities to gather results about repetitive small purchases. Staff had concluded that policies, procedures and controls needed to be updated and enhanced to better support economic and efficient purchasing and safeguarding of repair and maintenance items obtained with P-Cards. As a result, staff had made several recommendations, to which management had agreed.

Ms. Wells inquired about reducing the number of P-Card users. Mr. Potter reported that a transition had occurred over the past couple of years whereby catalog purchases were delivered to the Airport instead of individual purchases made at local stores. He noted that some Authority P-Cards were only used in the case of an emergency. As a result of the recent consolidation of the individual Airport procurement offices, the use of P-Cards would be evaluated for more effective purchasing.

Mr. Griffin asked about the follow-up process used to ensure that staff was in compliance with audit recommendations. Ms. Holt stated that the Audit Staff prepared an annual follow-up on all audits it conducted.

Mr. Adams inquired whether a different process could be used for key issues so that follow-up could occur sooner. Mr. Potter stated that the Internal Controls and Compliance (ICC) group reviewed the audits' open items to ensure timely responses.

Ms. Holt reported that the Taxicab Dispatch is a separate contract from the one that provides taxi service at the Airports. She stated that although controls over per-trip dispatch fees were generally adequate to ensure that the fees are properly recorded and collected, controls over the issuance and collection of airport taxi operator permits needed to be enhanced. Additionally, duties between cash handling and permit issuance must be segregated. Ms. Holt presented recommendations to: eliminate direct supervision of contract staff; enhance segregation of duties between the Authority and contract staff; improve recordkeeping; and improve time and attendance reporting for contract staff.

With regard to Sole Source Contracts, Ms. Holt reported that the number of awards had declined from 91 to 28 when compared to the prior period. She stated that no exceptions were noted for 18 of the 28 contracts reviewed and 8 of the 10 exceptions were for proprietary software or equipment. Staff had made three recommendations to enhance understanding and controls over the development and approval processes for sole source justifications for proprietary equipment and software. Ms. Holt noted that personnel changes had been made and that appropriate training has been provided to those individuals responsible for ensuring that sole source contracts are awarded exclusively to proprietary owners and not to licensed secondary vendors that support the product.

Mr. Davis asked about the percentage of contracts awarded that are not categorized as sole source or full and open competition, but rather a participant in the Disadvantaged Business Enterprise (DBE) set aside program. Ms. McKeough responded that providing that the level of competition warranted a contract be awarded to a firm that qualifies as a 100 percent Local Disadvantaged Business Enterprise (LDBE), the Authority's Contracting Manual defined LDBE set aside contracts as full and open contracts. Ms. Holt noted that the procedure management had implemented requiring sole source awards to be advertised on the Authority's website for 15 days to allow contractors an opportunity to provide a Statement of Interest had helped to ensure better results going forward. She also noted that the procurement office is ensuring that staff is compliant in completing the required procurement justification forms, which are reviewed separately.

Ms. Hall inquired whether the 28 sole source contract awards represented the total number of existing sole source contracts. Ms. Holt stated that 28 new sole source contracts had been awarded from October 1, 2012 to September 30, 2013.

Mr. Carter inquired about contracts that are extended after their expiration date. Ms. McKeough stated that the quarterly acquisition report included the requested information, which would be highlighted in the next report.

Ms. Holt reported that although the parking contractor's controls over accounting and reporting were generally adequate to ensure that parking revenue was adequate and timely, controls over reporting and paying vacation and sick leave were deficient. She stated that a contractor had

been reimbursed for unearned vacation and sick leave but was later required to repay the Authority \$14,652 for the unearned leave. Ms. Holt reported that staff had directed the contractor to enhance its payroll process to include an automated reconciliation system of the leave accrual and payroll records.

Report on Internal Controls and Compliance Activities and Accomplishments. Julia Hodge, Deputy Vice President of Corporate Risk and Strategy, provided a summary of ICC's responsibilities, including assisting Authority-wide management in identifying internal control weaknesses; preparing for audits and reviews; remediating identified audit concerns; and monitoring existing and new business processes. She presented the ICC's current priorities and noted that it had been primarily focused on addressing internal control weaknesses noted by the U.S. Department of Transportation (DOT) Office of Inspector General (OIG) and the Federal Transit Administration (FTA). Ms. Hodge reported that the OIG had closed eight of its twelve recommendations identified in the November 2012 report. She stated that significant progress had been made on the open procurement recommendations and that the Authority is working closely with the Federal Accountability Officer and the OIG to bring the remaining recommendations to closure.

Ms. Hodge reported that the Authority had undertaken several actions to enhance its financial management controls to address requirements in an OIG audit report released last January. She stated that two of the six requirements that FTA had requested had been satisfactorily closed. The Authority is currently revising certain policies and procedures and conducting training to address the FTA's remaining requirements. Ms. Hodge reported that the FTA had closed all findings included in the July 2013 Follow-up Procurement System Review as a result of the Authority revising select policies and procedures, conducting additional training and submitting the results of the ICC's procurement compliance reviews. Additionally, the Authority had performed the requested training to address reoccurring findings and notified FTA when the new Procurement Manager for the Dulles Corridor Metrorail Project had been hired. Ms. Hodge reported that the ICC's implementation review is underway and scheduled to be provided by July 30. She stated that the ICC is working with management to ensure full implementation of the recommendations made by the OIG and FTA.

Ms. Hodge noted that additional ICC priorities include conducting compliance reviews over recently adopted policies, centrally managing

control deficiencies to ensure timely remediation, and facilitating an integrated risk assessment process to identify opportunities to enhance internal control across the organization.

The Meeting was thereupon adjourned at 9:22 a.m.