

SOUTH CENTRAL CONNECTICUT REGIONAL WATER AUTHORITY

AUDIT-RISK COMMITTEE

FEBRUARY 27, 2025

MEETING TRANSCRIPTION

[AUDIT-RISK COMMITTEE MEETING BEGINS AT 12:31 P.M.]

Catherine:

Great, thanks. The first item on the agenda is approval of the minutes from December 19th.

Mario:

So moved.

Suzanne:

And I'll second it.

Catherine:

It's been moved and seconded. Is there any discussion?

Suzanne:

I have a question.

Catherine:

Yes.

Suzanne:

In it, it says there'll be a follow-up discussion about AI.

Catherine:

Yes, we do need to do that.

Suzanne:

Okay. I just wanted to know if we had any plans or just...

Catherine:

Yes, that's operational and we'll get... It's a little more than operational. We've been talking to Prem about establishing a policy and it's a little hectic.

Suzanne:

Okay. So it's a little more vague to come back to.

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Catherine:

Yes. Any other questions? Discussion on the minutes? Looks like we're ready to vote. All in favor, say aye.

Committee members:

Aye.

Catherine:

Okay. Unanimous. Mr. Flint and Mr. Epstein are here.

David Flint:

Yes. Thank you, Catherine.

Catherine:

We'll hand it over to our auditors for a discussion of the audit plan for this fiscal year.

David Flint:

Good afternoon everyone. Can everyone hear me okay?

Catherine:

Yes.

David:

Yes.

David Flint:

Awesome. Thank you so much for the opportunity to speak to you today. I'm only going to need a couple minutes of your time as we just introduce the audit for 2025. So hopefully you guys have each received our planning governance communication. This is one of two required communications as part as the audit. The first one now, the planning communication and then of course the one that we deliver upon the conclusion of the audit. Basically, at a high level, the letter covers both our responsibilities as well as management's responsibilities as they relate as to the audit.

Our objective of course is to provide reasonable assurance that the financial statements are free from material misstatements. It's important to note that word reasonable assurance. We of course could not provide absolute assurance without reviewing 100% of the transactions for the year, which of course is not realistic. We also provide an opinion on compliance with federal grant requirements. This has to do with the RWA's federal single audit, and we also provide an opinion on internal controls over financial reporting.

For 2025, we do have a new accounting standard, it's GASB Statement 101, Yes. We are in the 100s for GASB statements number now, which is unbelievable. So this has to do with compensated absences. Historically, a liability is only accrued for compensated absence.

So historically, we're only recording a liability for compensated absences, which is basically sick and vacation time. We're only accruing for what we expect to be paid out upon termination of that

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employee. This standard furthers that liability that needs to be recorded to potential sick time, vacation time that will be used but not necessarily a paid out upon termination.

If sick time doesn't bank or if sick time doesn't vest but you still expect employees to use that, which of course is an expense to the authority. We need to record a liability for that and of course there's some estimation involved there. You don't know for sure how much sick time someone's going to take over the next year. So there is some estimation involved, but it is significantly going to increase the amount of compensated absences that are going to be recorded on the books year over year. The standard also brings in other types of leave time, parental leave, jury duty leave. That's all something that management has to analyze and try to calculate what kind of liability you would be on the hook for going forward. Gabe, anything you have to add to that?

Gabriel:

No, I think that was good, Dave. It's going to be a big change for the authority in some regards potentially. A lot of these other minor types of leave like jury duty and military leave probably won't be material to the authority in any world, but definitely is going to take some legwork just to understand everything that's out there and what's going to apply under the new standard.

David Flint:

Thanks, Gabe. We have had initial discussions with Rochelle about this standard and we did offer any input that might be necessary as you go through this analysis. One thing other to consider, I have talked to some of the actuaries in the state and they've expressed interest in performing these calculations. So there are opportunities to outsource this to your actuaries if that's something you guys wanted to do. Any questions on that standard?

Suzanne:

Yes. Do we have a lot of employees who can't get paid out on sick days and other kinds of methods?

Rochelle:

I think, Dave and Gabe can correct me if this is wrong. This is also even just doing an estimate of going at the end of the year when you close the year of all the earned sick days that somebody might have. What's your best estimate of what it's going to be? Also, we have a sick bank, which might be the most significant because the sick bank is only usable for those that are in it if they're actually sick. But as I understand it, we're going to have to estimate what that amount is going to be. Liz and I talked as well as with Gina Smith. So we have a list of all the compensated absences, so we're going to have to go through it, but I do think it is going to be relatively significant for the first year. We do already accrue a vacation accrual and after it's on the books, we just update it every year. But this is going to be something we're going to have to evaluate and record it and then continue to update it each fiscal year.

Suzanne:

I'm just curious how you estimate jury time. The jury leave.

Rochelle:

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Jury duty, I believe is different and David and Gabe, correct me if I'm wrong. So jury time, you have to record it when you know somebody's going out but you don't assume the same estimate. I think our biggest impact is going to be for the sick bank and sick time.

Suzanne:

Okay.

David Flint:

Yes, we agree with that, Rochelle. That's sick time that necessarily isn't paid out upon termination or retirement or whatever it is. We're going to have to estimate how much of that is going to be used and add that to the vacation accrual that we've recorded in the past.

Suzanne:

Is this just... I'm sorry.

Rochelle:

Go ahead.

Suzanne:

Is this just to understand you have another liability that is held by the entity? What's the whole purpose?

Rochelle:

Yes.

Suzanne:

Okay.

Rochelle:

Even though it's different than vacation in my opinion because for vacation, it's earned and so if somebody leaves as the auditor said, it's a liability. This is more yes, because when you close the books at the end of the fiscal year, if somebody has, I'm making this up, five more sick days or that they're part of the sick bank. It's an estimate of what you expect that they will use because I believe they are entitled to it but it's not all going to be used. So we've talked about, Liz, Gina, and I have talked about some ways that we'll do our best to estimate.

Suzanne:

Interesting.

Mario:

The parental leave has got to be possible to estimate unless you don't record that until someone says, "Oh by the way, I'm out on parental leave." Right? Because-

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Rochelle:

Yes.

Mario:

I'm sorry.

Rochelle:

Okay, we have to look. I know there's a list in the standard about which types of paid absences you don't have to record unless you know somebody. So on May 31, if we know somebody is on jury duty, just make it like we'll have to record it, but there's a list of what kind of paid absences you record when somebody is in that mode versus like I said, I think sick time is going to be the biggest one that we have.

David Flint:

Yes, we agree and that's exactly right, Rochelle.

Mario:

So with the benefits here for sick. Vacation time is independent, right?

Rochelle:

Yes.

Mario:

There's vacation, sick, and whether there's personal time or not. So the sick and you have a bank, do the employees contribute to that bank out of their sick?

Rochelle:

So only some people are in the bank and Liz, keep me honest here.

Liz:

The new groups for the [inaudible 00:12:35].

Rochelle:

The sick bank we're going to have to look at separately and we're going to have to look at, I believe historically, how much of the sick bank has been used. Then we have other individuals like management employees that get so many PTO and sick days and we're going to have to ask how many on average. I'm making this up, if you have 10 days, but not everyone would use 10 sick days.

Mario:

So at the end of the year, if you're in the bank agreement. If you're not in the bank, I guess, do those sick days go away or do they stay with you?

Rochelle:

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Sick days go away.

Mario:

Okay, so you don't have to account for them in the next-

Rochelle:

The bank is a little bit different. Yes.

Liz:

They keep up to a year's worth of the ones that are on a sick plan, one that have been here since April 15th of '87, they have a sick bank that they could accrue up to a year's time. It works like their short-term disability.

Mario:

Is it a shared bank?

Liz:

A shared bank in terms of... Yes, they have two banks where they pull from their first one that they get their 15 days and then those that are seasoned and been here since '87, they have the bank that they're allowed to hold that in there up to a year's worth of time, which they could use it for a long-term illness because it's placed like their short-term disability.

Mario:

But that's in their name as opposed to other people?

Liz:

Yes.

Mario:

Joint bank. So everyone pays into the joint bank. Then at the end of the year. [inaudible 00:14:27].

Rochelle:

Any other questions?

Suzanne:

So you're just going to get a methodology down and once you do, we'll update it every year, but this year, like I said, it's going to have an impact.

Gabriel:

I think all the questions getting asked too just go towards what the purpose is of the new standard. Basically when the previous compensated absences standard was adopted many, many years ago, the amount of sick vacation and other leave types that were out there were generally a lot less complex

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than they were now. And you can hear it just from this discussion, some employees are in a bank, some employees are not. There's many different types of leave that accrues. So basically the purpose of this standard is just to get a more complete picture of what the actual liability is.

David Flint:

Yes, I think the original standard was GASB 16, right, Gabe?

Gabriel:

Yes.

David Flint:

And now we're on 101. So there you go. That was a great point. Any other questions in regards to that?

Catherine:

So actually, you answered a bunch of my questions all related to the new standard. So this is the third year that we are from the implementation of the... ADC-SF is it 87? There's so many of them. So I assume, and I'm looking for clarification or confirmation that you're not anticipating any challenges with implementation of 87 and similar to what we're discussing on this new 101, that we've worked out a methodology for dealing with the leases.

David Flint:

Yes. I think we have a pretty good system. So GASB 87's leases, GASB 96's software subscriptions. I think we have a pretty good process two years down the road now. We already talked about those with Rochelle. She's going to create an updated inventory for us and from that inventory, we request all the contracts and we update the software that we use on your behalf to include any necessary leases or subscription agreements. Don't see any issues with that, Catherine.

Rochelle:

The only thing I will add is so since CIS UMACS will be in service when we close the end of the year, that is the most complex agreement. So I know I provided the contract a while ago, but there have been some updates, so we'll be providing that. I think out of all those agreements is the most complex.

David Flint:

Agreed. I'd say probably we wait until that final agreement, any updates, Rochelle, before we have our lease team review it.

Catherine:

Are there any other questions? Understood?

Mario:

Just the single federal audit also covers any state grant points, correct? Just want to confirm that.

David Flint:

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Nope. So they're separate. So there's a federal single audit and a state single audit. You guys have not needed a state single audit.

Rochelle:

There's a reason, and Mario, I can explain.

Mario:

Please.

Rochelle:

Because here, it's because of how DWRs are surmised and this was a change a few years ago. So they're classifying our grants as federal.

Mario:

Oh, okay.

David Flint:

So a lot of the federal grants, they get granted to the State of Connecticut and then the State of Connecticut passes it through to governmental entities across the state. That doesn't change the fact that it's still a federal grant.

Mario:

And what about the loan?

Rochelle:

The loan we also report in the same schedule. So it's the one-

Mario:

That doesn't require a separate audit?

Rochelle:

Again because it's how DWSRF is considering how, I forget what word they use, but to meet their own metrics and everything, they're classified as federal. And we got that directive. We used to do a state and federal until we got a directive that it's all considered federal, at least the ones that we've got.

Mario:

So that makes me more concerned than I was about future months.

Suzanne:

Oh, Yes.

Mario:

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We were talking about that a little earlier. Budgeting on a local level. I was less concerned if it was state monies as we were getting that got washed in the state treasurer's office.

Suzanne:

Topic for another day.

Mario:

Yes, for sure.

Catherine:

She's not the treasurer's office, but okay. Come through.

Suzanne:

That's passing through also.

Catherine:

Office of budget management now. Maybe that's something different. Are there any other questions on the audit? All right. Thank you very much, David and Gabriel.

David Flint:

Absolutely guys, talk to you guys soon.

Gabriel:

Thank you.

Suzanne:

I just want to make a note that I thought it was pretty cute the way you talked about a 100. All the financial people are like, "Oh." It's a collective experience.

Catherine:

That's how I felt when we got to 87.

David:

The aggressiveness with which they're issuing more over years. It's just gotten more and more. It's just too much.

Catherine:

Before I call for adjournment, I just want to say one thing as an exercise of the property of the chair. Earlier this month, I observed a tabletop exercise which was regarding training for security matters. And I'm not going to go into detail on for obvious reasons. And I really just want to compliment the leadership team and frankly all of the participants. I was so impressed with the level of professionalism, the amount of knowledge and expertise, the willingness to share knowledge with their colleagues in the

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best interest of the RWA and frankly, all of our customers. And so I just wanted to put on the record that was a really impressive and makes me proud to be a member of this board.

Mario:

Thank you. It's good to hear the feedback.

Catherine:

All right. Unless there's any other new business, I'm going to enter a motion to adjourn?

Mario:

So moved.

Kevin:

Second.

Catherine:

All right, we have a second. All in favor? Aye?

Committee members:

Aye.

[AUDIT-RISK COMMITTEE MEETING ADJOURNS AT 12:49 P.M.]