

**South Central Connecticut Regional Water Authority
Audit-Risk Committee**

**December 16, 2021
Meeting Transcription**

[AUDIT-RISK COMMITTEE MEETING STARTS AT 12:56 P.M.]

Catherine:

Okay, well let's turn off the rec... Oh, wait, I'm sorry. We're not going to turn off the recording. The first item of business for the audit risk committee is the approval of the minutes from September 23rd, 2021.

David:

So moved.

Kevin:

So moved,

David:

Second.

Kevin:

Second.

Catherine:

I'm not sure, did you-

David:

What a team.

Catherine:

I'm not sure who moved and who seconded, if you get it. Okay.

Kevin:

Dave moved it and I seconded.

Catherine:

Is there any discussion? All right. All in favor of approval of the minutes?

David:

Aye.

Catherine:

South Central Connecticut Regional Water Authority
Audit-Risk Committee
December 16, 2021

And I will it. So that's I think 1, 2, 3 ayes and one abstention. Moving on. The next item of business is a cyber technology resilience update. Prem?

Catherine:

Tony, did you have a question?

Tony:

No, I was just saying hello to Jamie who just joined us.

Jamie:

Hello.

Catherine:

Okay.

Tony:

Well you were working hard.

Catherine:

All right. So Prem is going to give us a presentation on cyber technology resiliency.

Prem:

Thank you, Catherine. I apologize to bring this up, but this is also in the executive session, as it says in here.

Catherine:

Yes. I entertain a motion for executive session to discuss a security issue.

Kevin:

Moved.

David:

Second.

Catherine:

Moved and seconded. We're now in executive session, please.

[EXECUTIVE SESSION FROM 12:56 P.M. TO 1:27 P.M.]

Catherine:

All right. And the next item for business is a risk management update. Amanda and Rochelle.

Rochelle:

Looks like Amanda is just connecting. So I'll just maybe spend a minute introducing. So Amanda's going to cover the risk mitigation team and the fiscal 2022 associated goal, an update on our framework for assessing risks insurance, as well as an update on how we're handling insurance for the commercial enterprises. So with that, I'll turn it over to Amanda.

Amanda:

Thanks, Rochelle. Let me get the PowerPoint presentation up and shared for you guys.

Amanda:

I'm going to try not to click the presentation button too many times. So you guys have a normal presentation screen. Perfect. All right. So quick agenda items. Rochelle touched on most of these, we'll do a quick update on the risk mitigation team. We'll discuss the new methodology we're using towards our risk register, brief introduction to some of our claims updates. And then we'll launch into some of our insurance updates related to the commercial enterprises.

Amanda:

So as we mentioned, the risk mitigation strategic goals for our '25 goal, we have to review and approve 50% of the risk perspectives in our risk register. Currently we have 48 perspectives in that risk register, and we continue to add those as the risk environment changes. There's a cross-functional team that works on those. So you can see here in the fiscal 22 actions, we are reconstituting the team. So we used a review of each one of the division leads to make sure that they have the right members that are involved in our risk mitigation team. And then this team will continue on with reviewing the top 10 enterprise risks and making sure that all of them are aligned with our new methodology.

Amanda:

Here's a chart that's listing out our current team. So this is the most up to date with everyone who participates. You can see we have multiple members from each one of our division leads. This helps us get the best information from every functional area of the business. Rochelle sits as our leadership oversight and I am our chairperson for this team.

Amanda:

So let's launch into our methodology updates. So we have gone to the COSO enterprise risk management framework. So, and anyone who may not be familiar with COSO, it's a committee of sponsoring organizations of the [Treadway 00:10:15] commission. This is a joint initiative of five professional organizations, and it helps really develop into how an organization can improve its thought leadership, enhance its internal control, risk mitigation governance, and fraud deterrence. You can see here, we can use this to identify a variety of organizational risk. It's a better fit to each different type of risk we have within the organization. It also allows us to find our objectives that we need, and it will also keep a consistency as we rate the risks across all levels of our organization.

Amanda:

So in case anybody hasn't seen it prior, I did put in what our former guidelines for our risk assessment was. It's a very, very basic enterprise risk management assessment. This was developed through PRIMA,

which is a public risk management and insurance association. I've taken their ERM course, and this is exactly what they push forward as part of their framework. You can see it works on a one to five rating scale and a one to 100% probability scale. Let's move in. So now when we start looking at the COSO framework, you can see that it is much more advanced. It involves a lot more information. Here, we're looking at just what the likelihood of occurrence is. So in the past, we were looking at probability percentages. Now we're looking at specific measurable information that goes across the frequency, what our existing controls are, and also applies to scale based rating.

Amanda:

And then within the framework, there's also the impact of risks, which again was the one to five rating we had seen in that previous assessment. We still are looking in a one to five, but we're breaking that out over six different areas, including legal, financial, operational, disruption, reputation, health and safety, and then our ability to pursue our strategic goals. All of this information will allow us to accurately assess each one of the risks that we have within our risk register. One of the hardest parts about assessing our risk is that they vary from each and every type of issue we have within the organization. So having a financial risk, an operational risk and an employee risk can all be judged based on the same impact rating. And we find that the assessment is much more accurate based off of this framework.

Amanda:

So just to give you guys an example, so we have assessed 21 of the 48 risk perspectives with this new methodology. I've included in here one of ours that we just recently did was the hazardous trees risk perspective. You can see in the first three line items, it has the previous impact, the previous likelihood and the previous risk level. And then it has what our new methodology has assessed. One of the things I find really interesting in here is that we've gone from a five point scale to a 25 point scale while it's not quite apples to apples. The risk level has changed on a 25 point scale. That 0.06 would be a three. So you can see that our risk level in the hazard trees has definitely increased based off of this new assessment. And we think that we'll have a much better understanding of each one of our risk perspectives with this new framework as we move through each one. Are there any questions on that? I breezed through it really quickly. It was a lot of information.

Catherine:

Amanda, because I had the benefit of actually talking this through with Rochelle and also Prem earlier this week. And one of the things that I found a little bit confusing was the difference between the likelihood of occurrence and the impact of risk, because for example, and the one example that I gave was that the likelihood of occurrence of say a cyber attack is almost certain, but we have lots of controls in place. So I think it's important to understand that we have to look at both the likelihood of occurrence and the impact of the risk in terms of how you get to that analysis. Can you talk anymore about that?

Amanda:

Yeah. So I'm just going to pull back up the likelihood of occurrence table here, so you can see, so number five is the almost certain where you're going to look at the frequency expected to occur in most occurrences, most likely more than once per year. So that's where you're looking at the frequency, but then we also have to take into consideration the controls that we have in place for that. So what happens is that you end up almost rating this in two and averaging between your frequency and your

existing controls, where we would most likely probably give this one a 3.5 or a four on a likelihood of occurrence, because we know that it's most likely to occur, but we've put in significant controls in place to avoid it. So it kind of helps to look at it from both ways. And in the past, we would only look at it as the potential for occurrence. And I think that having these existing controls in place really kind of help us to get a better idea of the risk level.

Catherine:

Thank you.

Rochelle:

And Amanda, I'd maybe just add, what I'm going to mention with Catherine. We can also look at this from a gross versus net. So gross is sometimes looked at when, what is the likelihood of occurrence if you have no controls in place versus what it is if you do actually have significant place.

Amanda:

Absolutely. And that is important to note for our risk perspectives. We start with the worst of the worst, no controls in place. If this risk were to occur, what is the impact to RWA? And we rate it off of that, then we put in existing controls and we rate it again. And then we also put in recommended future controls and another assessment based off of that. So we look at these in three different ways. I find a breakdown in controls to make sure we understand what the gross risk is. And then we also take a look at it twice as to what we're doing now and what we could do, so that way to help drive some of our capital spend, because if there's significant recommended controls that we could put in place, then we can start making arguments that those might need a place budget.

Suzanne:

Can I ask a question, Catherine?

Catherine:

Yes, absolutely.

Suzanne:

Can you go back to the framework of impact? Great. So for me to your point, Catherine, the worst scenario is the low potential of likelihood and the high catastrophic, right? Because it's the one that, because you think it's not going to happen, might expose us the most. So I don't know if anybody wants to talk about a philosophy about that. Just so when we, in the financial services industry, the likelihood of a rogue trader getting away with some huge whale trade or process is very low because we have so many sort of things in place. However, the one time that it happens can bring the company to its knees. So any thoughts on that piece of the puzzle as well?

Rochelle:

One thing Suzanne I'll mention is when you look at actually both likelihood as well as the impact if it happens. So if something is really catastrophic, it's actually, even if it's not likely, it should end up ranking actually pretty high. So that is one way even this framework would factor something like that in.

Amanda:

Yes. And one of the items, and it may be some time since you guys have seen that, but we do heat mapping as well. I don't have that in this presentation. And I can send that through to Rochelle to share, we heat map where it goes from green in the corners to orange and red in the center. So it judges that from the full length of the access. So we're looking at things that are at the catastrophic impact as well as a catastrophic likelihood. So there's the heat mapping really kind of pulls that out. I will share that. So, that way you guys can have an updated version of that.

Catherine:

Thank you. That would be helpful. I agree with-

Kevin:

Can I say something?

Catherine:

Yes, please.

Kevin:

Yeah. Would you mind going back to that last slide, I think, or the likelihood or the likelihood slide? So, Catherine, I appreciate you bringing up your comments on it because it's got me looking more closely at it, thinking about it, is this framework as presented, is this the framework, is this laid out exactly as COSO provides it or is this we've taken the information and we've put it into our own slide? I'm just curious how this-

Amanda:

This is it directly from the COSO framework. We made no changes to how they're rating.

Kevin:

Yeah. Because I mean the comments from Catherine and Suzanne and the discussion, I mean, it almost seems to me that this slide is, I mean, obviously it's not just likelihood of occurrence, but I think that it's either mislabeled or misleadingly labeled, because you also have the likely of occurrence, at least to me, either there's two ways it could go, I guess. It could mean likelihood of occurrence if you don't have controls in place, or it could mean just straight likelihood of occurrence. Because to me, likelihood of occurrence, the existing controls in place, whether there's controls in place or not, doesn't really go to the likelihood of occurrence. So, I mean, it's things that, this is things that I think we're all familiar with to a certain extent and may be laid out differently, but it is a little bit, it's almost like it should be likelihood of occurrence slash with no controls or controls. It seems to either be missing something or maybe it's to be read a different way. So, I mean, I appreciate the discussion. So maybe when Amanda provides that other information, that would be helpful too.

Rochelle:

And Kevin I'll just add, these are excerpts. I mean, the COSO framework is actually pages and pages long, and there is definitely a concept of gross risk. In other words, when there's no controls, as well as the net risk that you assess based on the controls that you have in place.

Prem:

Yeah. I think just to add, right? So it's the risk and the impact, right? If you look at it from the lens, when you look as likelihood, then you add the controls, no controls, but this versus impact. And I think Amanda, if you share the heat map it would help the team in terms of the mapping, because that actually is the risk impact mapping, right. It tells you how big the bubble is, is it red, orange, et cetera? I think that kind of would help to see the actual impact and the occurrence is going to be the likelihood that's actually part of that impact analysis. Right. So I think that would be helpful. The mapping is going to really help to orchestrate what it means, because one thing is what COSO says. Other thing is where does RWA stand in that in terms of our risk and our impacts, right? So the mapping is going to help us to kind of visualize that. Right.

Amanda:

Absolutely.

Kevin:

Thank you.

Catherine:

Thank you.

Amanda:

All right. I'll keep this moving forward. So jumping in to insurance and claims management, I wanted to give you guys a quick update as to our general liability and our auto liability claims. As you can see, we've had some downward trends year over year, as we keep moving through our general claim counts. Those look at our general liability claims as well as our RWA property damage claims. So think of those as hydrant claims, think of those as contractors that hit our mains and services, we do a collections-based claim for those, and then our fleet vehicle accidents year over year, we have had a consistent, great vehicle accidents as, I think you guys have heard. We went almost nine months with no accidents and that's preventable or non preventable. So we're down to in this fiscal year, just seven accidents to date, which is fantastic for how many fleet vehicles we have out on the road.

Amanda:

Another update I wanted to provide was we had a recent large claim settlement against Holland companies. This claim involved inferior aluminum sulfate that was delivered to the Gaillard water treatment plant. The sulfate caused some significant clumping in our filter beds, across all of the filters at the plant. We were able to get the Holland companies to do all of our cleaning on our tanks. They also reimbursed us for the loss of aluminum sulfate that we had to remove. And then we also were able to recoup all of our repair costs and most of our labor costs related to remediating our filter bad media.

Jamie:

While you take a breath, how many cars are in our fleet, or how many vehicles do we have in our fleet?

Amanda:

South Central Connecticut Regional Water Authority
Audit-Risk Committee
December 16, 2021

Currently, as of today, we have 159 vehicles in our fleet. Actually, I'm sorry, 159 for RWA and four for RWA Commercial Enterprises.

Jamie:

Thank you.

Amanda:

No problem.

Suzanne:

And another question, when we assessed the claim from Holland, what was our total that we thought it cost us at the end of the day?

Amanda:

This total is actually less of the [crosstalk 00:24:46] for any fees that came with it. So our true settlement was actually \$270,000, 70 of that actually goes towards the attorney group that was fighting the claim on our behalf. The full claim that we went through was \$353,000. We settled this through mediation. So part of the mediator talk down was those minor step downs through each one of the mediation discussions.

Suzanne:

Thank you.

Amanda:

You're welcome. And it should be important to note that we settled this in May of 2021. However, we haven't had an opportunity to give you guys an update through the risk management updates, since that settlement, so this was actually booked in our last fiscal year, because we managed to get it in on May 28th so we could book it into FY21. All right. And then looking at it. So as of July 1st, we have gone through a major insurance review you for the RWA Commercial Enterprises. We had the opportunity to pull the commercial enterprise businesses into our current captive business, through Churchill Casualty. RWAs position as a member within the captive, allowed us to bring it in for \$0. The exposures falling less than 10% of the RWA full exposures to the insurance, allowed us to bring them in. As we move forward into each of the renewals, we'll keep a look at what those exposures are versus the rates.

Amanda:

So that way we can charge them back to commercial services as they become part of it. Unfortunately for Commercial Enterprises, it was cost prohibitive for us to include them in their own DNO EPLI cyber and umbrella excess markets just based on how small they are currently. We were able to bring them into the RWA umbrella through most of those actions at again, zero premium cost to the business. As we continue to look at additional subsidiaries underneath the RWA commercial enterprises, we'll look at what their insurance program looks like. As of right now, we've used the most cost effective method, which is to include them within our large policies and able to insulate how we would charge back the costs of the claims as well as any premium increases we may see year over year to the company.

Amanda:

One of the drawbacks from when we started is we only had one type of business within the commercial enterprises. And one of the concerns we have is if we have a plumbing company and then if we look at a lab services, or if we look at any additional types of business, an insurance carrier may say, well, we only agreed to ensure plumbing, or we only agreed to ensure a lab service. So we want to make sure that we have a solid foundation of what types of subsidiaries will fall under the commercial enterprises before we get them a full program, that will be just theirs.

Amanda:

And again, that will continue to look at what the insurance marketplace looks like. I don't know how many of you have had any updates, but the marketplace is still not in the best of places it has been. Unfortunately, cyber is out of control. Good news the umbrella access markets are no longer hardening. They have not softened, but they're no longer hardening. So we're taking that as a hopeful moment for the Q3 results. Right. Does anybody have any questions about the information that you've received today?

Catherine:

Well, I see no questions. Thank you very much, Amanda and Rochelle.

Amanda:

Thank you.

Catherine:

I believe that concludes the agenda for the audit risk committee. Might entertain a motion to adjourn.

David:

Recess as the authority.

Suzanne:

I'll make that motion.

David:

I'll second it.

Catherine:

Right. Reconvene is the authority.

[AUDIT-RISK COMMITTEE ADJOURNS AT 1:48 P.M.]