

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

May 21, 2020

Meeting Transcription

A regular meeting of the South Central Connecticut Regional Water Authority Audit-Risk Committee took place on Thursday, May 21, 2020, via remote access. Chairman Cermola presided.

Present: Committee – Messrs. Cermola, Borowy, Curseaden, DiSalvo and Ms. Sack
Management – Mss. Discepolo, Kowalski, Nesteriak, Reckdenwald, Schenkle and Messrs.
Bingaman, Bocciarelli, Norris, and Singh
RPB – Mr. Jaser
Staff – Mrs. Slubowski

The Chair called the meeting to order at 12:32 p.m.

Tony:

I will entertain a motion to recess as the Authority and to meet as the Audit-Risk committee.

Joe:

So moved.

David:

Second.

Tony:

All in favor, aye. Opposed? Motion carries. Joe, it's all yours.

Joe:

I'm not Audit-Risk.

Tony:

Yes, you are.

Joe:

I'm Compensation- oh, I am too.

Tony:

I keep telling you, we're going to work you to death for a long while.

Joe:

I thought I was only Compensation, but that's fine.

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Joe:

For Audit-Risk, we have an update.

Tony:

I move that we approve the minutes.

Joe:

Oh, okay. Is there a second? Is there a second?

Kevin:

Second.

Joe:

All in favor?

Group:

Aye.

Joe:

Opposed? Motion carried. Moving on, we'll have Risk Management Update. Rochelle, Peter and...

Rochelle:

Okay. Good afternoon. We do have Amanda Schenkle, who is our Risk Manager with us this afternoon, as well as Peter Bocciarelli, who is the Director of Procurement and Risk Management.

Rochelle:

You might recall that last Risk Management meeting, we said that in our next meeting, we would be focusing on the top 10. So, if you would just go to the agenda, that will be our focus. We're going to revisit the top 10. What the risk mitigation plans are, what the roles are relative to its mitigation committee and how that committee is supported. We're going to go through with you, both the gross risk and what we call the current risk. The current risk is the risk level, but after the adjustment for the current controls that are in place.

Rochelle:

We're going to talk a bit about the risk mitigation committee activities, and we're also going to touch upon new and emerging risks.

Rochelle:

So with that, I'm going to turn it over to Peter who will start on page three.

Peter:

Okay. Thank you, Rochelle.

Peter:

Good afternoon, everybody. So as Rochelle said today, we're going to be reviewing the top 10 risks categories and show how the risk mitigation committee has ranked them. The list is based on our key performance areas of the balance scorecard, which include financial customer constituents, employee and internal business processes.

Peter:

So the committee applied 22 of the 46 perspectives listed in a risk register to the key performance areas, which resulted in the top 10 that you see right here. And in order to ensure the risks are rated correctly, the committee reviews each assessment for consistency in the rating. And it's important that the primary owner of the risk perspective is using the same method that everybody else uses during the evaluation process. So the list you see in front of you here, cybersecurity is the number one risk and I don't think that's a surprise to anybody here, followed by the financial category.

Peter:

So the roles that the risk mitigation committee play in order to come up with this list here-

Rochelle:

And that's moving onto slide four, Jennifer.

Peter:

The VP of Finance does provide leadership for the committee, and currently that is Rochelle. The risk manager does coordinate all the meetings, assign the goals, maintain the risk register and provide updates, and that is Amanda Schenkle. Each perspective is assigned to a primary and secondary owner. Their role is to keep each risk updated, make recommendations, and become a subject matter for that risk. And if you move to the next page, the heat charts, these are all set up with all the perspectives that are in the top 10 categories.

Peter:

So the highest risk is in the upper right. The lowest risk is in the lower left. So the first chart you see is plotted with the gross risk before we apply any of the controls. The second chart is after the controls have been applied. So once we apply the controls, you can see how most of the risks, or the perspectives, have moved down below the mitigate line. Stolen the low probability, both a low probability majority is high impact, but low probability. And so what I'm going to do is just turn to Amanda right now. She's going to give us a couple of examples of the perspectives that were affected the most when we applied the controls.

Peter:

Amanda?

Amanda:

Thanks Pete.

Amanda:

Jen, would you mind going on to the next slide? Thank you.

Amanda:

So this is a little bit of what Pete was talking about, how these risks have moved with our existing controls. We're going to point out three of them in particular that have moved the most, if you will.

Amanda:

We saw the largest reduction in probability on IO4, which is really the system security is breached or unauthorized access is obtained. This sits within our cyber security risk. You can see that between five and six, this moves from the upper quadrant all the way to the lower quadrant. While the impact still remains high, we've greatly reduced the probability on this based on over 23 current controls that our IT team is putting into place. We still understand that a breach would have a large impact RWA as a whole, but we feel that our controls are really reducing the probability of that happening.

Amanda:

The next item I want to point out is EO3, which is our retirement or turnover of long-term employees. This has our greatest reduction in impact. So, we are very fortunate to know what the likelihood of retirement is for RWA. So we have looked at this impact as a reduction based on the mitigation of the risk owners. We know that everyone's still going to retire, so there's still going to be a probability there, but we know that we can greatly reduce the impact to the company.

Amanda:

And then lastly, we'd like to point out, which is C3, a failure to influence successfully political or regulatory process, governmental or local, or state federal entities. This saw the largest movement in both impact and probability from the gross risk end to the existing risk. Now we see on this one, it moves greatly. It's probably the largest one. We have a dedicated team and controls in place, so while we know that the probability is reducing, we also know that the impact RWA is reducing. And I just wanted to go over in the appendix there's a few definitions for these items, and when we say that the impact is reducing, we're talking the threat to the continuation of business and then we see it move down to manage within day to day financial and operational business.

Amanda:

So these items are looked at over all of these definitions. So if you're trying to see where they come down in impact and profitability, those definitions are in the appendix.

Amanda:

Does anybody have any questions related to any of the risks that have moved?

Prem:

Can I just comment, right? I mean, again, this is Prem here.

Prem:

So one of the key things, as you see, especially with the board, right, it kind of speaks to itself, in terms of an example would be cyber security. While we have that as a high probability in the past, we had to

put a lot of mitigation measures in place and the controls that Amanda talked about. So a lot of good work, and with COVID coming in play, we even beefed up in terms of our security vulnerability scans and et cetera, closely partnering with DHS.

Prem:

So we have done much more stringent controls and that's one of the main reasons the probability has gone pretty low, right. So I just wanted to point it out. So a lot of focus on that.

Prem:

Sorry, I want to thank you. I just thought I'd make a comment there.

Amanda:

Absolutely. Yeah. All right.

Peter:

Thank you, Prem.

Amanda:

Why don't we move on to the next area with Pete going over the side seven?

Peter:

Thank you Amanda.

Peter:

Our existing programs, projects and committees that help us identify any new risks really come from the business continuity committee, any assessments that are made, especially with American Water Infrastructure Act, and of course the risk mitigation committee does review them. So the risk mitigation committee integrates with the business continuity committee. So whenever there's a tabletop exercise or any type of assessment that the business continuity committee is performing, this is communicated with a risk mitigation committee. They take a look at all those additional risks.

Peter:

The recent assessment with AWIA, we had additional risks that came out of there. Those will go to the risk mitigation committee. And we have three new perspectives that we're evaluating right now, which is enterprise strategy, program delivery, and merger and acquisitions. If we take a look at the chart below, you'll see how we rank these one to 10.

Peter:

So of course, cyber security is the top one. Gross risk is 3.18, but we have 36 controls that Prem was mentioning that help mitigate this risk, and it does drive it down very low. Of course, it's always new risks coming up, new assessments, but there's a lot of controls in place at the moment.

Peter:

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The health and safety of RWA employees, you notice that there is 43 controls there. So once you apply all these controls, the ranking does change a bit. So now you're looking at the financial performance as being the highest rank, followed by health and safety, and then the succession planning.

Peter:

So one of the things that did change with this list because of some recent events with materials is the ineffective supply chain category. We had some issues. We took a look at that. We added additional risks, the gross risk increased. We had recommendations to drive that down to .75. So that changed the whole order here.

Peter:

So there's always new challenges. You know, we have this pandemic going on now and there's going to be additional risk categories coming out of that. New cybersecurity issues, and I'm sure Prem can attest to there's always new ones popping up. You have to stay on top of them. And employees working remotely, there's a whole new set of risks involved there.

Peter:

So, you know, this is always changing. The risk registry is always changing. There's new risks happening, new recommendations. If it changed the page eight, when we do apply the recommendations that are in motion right now, that'll set up a new order here, new ranking.

Peter:

And again, there's always new risks, new recommendations that come out of the committee. Does anybody have any questions at the moment?

Joe:

No questions?

Sue:

No, I just-

Joe:

Go ahead.

Sue:

I just wanted to jump in and let you know that I was on the meeting.

Tony:

We got you, Sue.

Sue:

Thank you.

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Joe:

Well, moving on.

Peter:

Rochelle, I'll move over to you.

Rochelle:

So if there aren't any questions, just to summarize. The top 10, other than the one changed in the order that Peter mentioned, and Jennifer, I'm on the page nine, they did remain consistent from the last time that we presented. And as Amanda and Peter pointed out, there is significant risk mitigation when you go from the gross risk level to the current risk level.

Rochelle:

Also, just to reinforce that the risk mitigation committee, it's a cross functional team and their focus is identifying risks and the mitigation of those risks. We are looking at new and emerging risks and as Peter mentioned, there's definitely new items that we need to take into consideration and we'll be incorporating, and it also was mentioned the integration with the business continuity committee. The task of incorporating the AWIA assessment, that was the certification that was recently done and there's more work yet to do relative to that Act that we'll be incorporating, the new perspectives and addressing the new challenges. So it is ever evolving.

Rochelle:

And that is our update, if there is no other questions.

Joe:

Any questions, anyone? If not, let's move on to our fiscal year '21 work plan.

Peter:

Okay, thank you.

Amanda:

Thank you.

Rochelle:

Can you put up the work plan?

Jennifer:

Hold on one second.

Rochelle:

Well, while Jennifer's doing that, the work plan is an update of what it was in fiscal '20, in September of 2020. That will be where the external auditors will report on the outcome of our fiscal '20 audit.

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Rochelle:

In December, our plan is to do a cyber/technology resilience review. We'll also do another risk management update. In February, the auditors will be in to talk about the plan for the fiscal '21 year-end audit.

Rochelle:

We'll also do an update on our record retention policies and practices, and then in May there'll be another risk management update, and also review of the fiscal 2022 work plan.

Rochelle:

Are there any questions or concerns on the work plan?

Joe:

Yeah, we don't have it on the screen though.

Sue:

Yeah. Just as a FYI, Jen, I sent you an email asking for the link to be sent to my computer, only because I'm trying to watch the meeting on my computer and then have my materials in front of me on my board pack. Because that would just be a little easier to facilitate.

Jeanine:

Suzanne, I can forward you mine.

Jennifer:

Can everybody see the work plan that's up there now?

All:

No.

Joe:

It's not up there.

Sue:

We see a bunch of documents, Jen.

David:

Yeah, you're in your folder.

Jeanine:

Yeah, you have to open it.

Jeanine:

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Hey Suzanne, do you want me to send you the link?

Sue:

Sure.

Prem:

Jennifer, when you open the document on the shared screen, do you see ... there should be a window that says show all windows, and then you should be able to pick the one that you want to share.

Jennifer:

Okay. There's one here.

Rochelle:

I think you just need to open, Jennifer, the one that you're on.

Jennifer:

Okay. The one that I'm on does not include the audit risk. I didn't think I was going to need to pull this one up, that's why I didn't include it. I thought everybody would have that on boardpaq.

Joe:

Well, we do have it on board pack. Does everybody see the work plan?

Joe:

Are there are any comments or questions about it?

David:

Well organized, Joe.

Joe:

Looks good to me.

Joe:

If there are no questions then why don't we move on?

Tony:

I move we adjourn as the Risk Committee and convene as the Compensation Committee.

Kevin:

Second that.

Joe:

Any seconds?

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Joe:

All in favor?

Group:

Aye.

Joe:

Motion carried.