

SUMMARY MINUTES
RISK MANAGEMENT COMMITTEE
MEETING OF APRIL 18, 2018

Mr. Griffin chaired the April 18 Risk Management Committee Meeting, calling it to order at 12:38 p.m. A quorum was present during the Meeting: Mr. Uncapher (Co-Chair), Mr. Lazaro, Mr. Speck, Mr. Sudow, Mr. Tejada, Mr. Williams, and Mr. Session (*ex officio*). Mr. Adams, Ms. Hanley, Ms. Lang, Mr. Mims, and Ms. Wells were also present.

Recommendation to Approve Charter Updates. Lee Wyckoff, Vice President for Audit, reported that the Risk Management Committee and the Office of Audit charters require updates in order to incorporate revisions based on the Institute of Internal Auditors (IIA) and International Professional Practices Framework (IPPF) model charter and the external quality assessor's recommendations and enhancement. He advised that the external quality assessor would be present at next month's committee meeting.

With regard to the proposed update to the Risk Management Committee charter, it would explicitly grant the right and the authority for the Risk Management Committee of the Board of Directors to oversee the Office of Audit. Mr. Wyckoff noted that the existing charter referenced a number of provisions regarding the expectation of things that the Risk Management Committee would do to provide oversight but there is no explicit right granted within the Risk Management Committee charter.

Mr. Wyckoff reported that the proposed update to the Office of Audit charter would more closely mirror the recently-released IPPF and core principles model charter. He recalled that the Office of Audit had undergone a similar process several years ago. At that time, the Office of Audit had provided a charter that matched the model charter, which has since been updated [by the IIA]. Mr. Wyckoff reviewed the elements that were updated. He stated that the Chief Audit Executive will report to the senior management and the Board annually on the Office of Audit's conformance with the Code of Ethics and the Standards. Mr. Wyckoff advised that although the reporting was being done historically, it would now be included as part of the formal charter. He reported that the proposed charter updates also denote that the Office of Audit will consider other IIA guidance as applicable, including implementation guidelines and practice advisories. Mr. Wyckoff advised that the proposed charters were reviewed by the Chief Executive Officer, Office of

General Counsel, and the Secretary. He reported that the charters meet the IIA's standards and closely mirrored those model charters that have been established.

The Committee approved the recommendation.

Recently Completed Audit Reports. Mr. Wyckoff reported that he would provide information on the objectives, scope and overall results for two audits (Infrastructure Asset Management and Retail and Restaurant Concessions Sales Reporting). Additionally, two Information Technology (IT) general controls reviews would be discussed in executive session.

With regard to the *Infrastructure Asset Management*, Mr. Wyckoff reported that the Airports Authority uses multiple systems to manage assets across the two-Airport system. He stated that the following departments are responsible for asset management: Corporate Property Management, Engineering, Ronald Reagan Washington National and Washington Dulles International Airports' Engineering and Maintenance, and Property Control Offices and Leasing and Airside Contracts. Mr. Wyckoff reviewed the facilities that the infrastructure assets process maintains, which included many of the core assets that are used daily to run the Airports. He stated that the objective of staff's review was to evaluate processes used to maintain assets and infrastructure, including the identification and replacement of assets nearing an end-of-life cycle. The scope of the audit was from November 2016 to July 2017, and it excluded airfield pavements, fleet vehicles, and other engine-powered assets. Mr. Wyckoff stated that the audit methodology included a review and examination of asset management policies and procedures, industry standards, and best practices, as well as interviews with managers and staff. The review also included testing of the asset system access and data quality, work orders, lease agreements, tenant-operated assets, and recently replaced or retired assets. Mr. Wyckoff reported that the overall audit opinion was that controls should be enhanced. He also reported that six findings were identified during the audit, and Management has developed action plans that will remediate the findings.

With regard to *Retail and Restaurant Concessions Sales Reporting*, Mr. Wyckoff reported that the Airports Authority designed policies and procedures to ensure control and provide oversight related to recording, reporting, and collecting retail and restaurant concessions at both Airports. He stated that the audit objective was to determine whether retail and restaurant concessions' tenants reported sales and remitted

concession fees in accordance with lease and contract terms and complied with key lease provisions. Mr. Wyckoff advised that the scope for the retail and restaurant transactions and activity was from January 2016 through December 2016. To accomplish the audit, staff reviewed a comparison of self-reported revenue and concession fees with independent Certified Public Accountant statements. Mr. Wyckoff advised that staff also reviewed compliance with lease provisions such as Airport Concessions Disadvantaged Business Enterprise Program participation, insurance, utility billings, open competition, and marketing funds. He reported that the overall audit opinion was that controls should be enhanced. Mr. Wyckoff also reported that four findings were identified during the audit, and Management has developed action plans that will remediate the findings.

As the Committee is aware, Mr. Wyckoff advised that the Office of Audit has been performing IT general controls reviews for a select group of systems across the Airports Authority. He reported that staff had recently issued two IT general controls reports, which would be discussed in executive session.

Mr. Adams commended Mr. Wyckoff on the work that had been done since he joined the Airports Authority several years ago. He inquired about how the specific audit areas were selected and whether a time schedule was associated with each of them for completion. Mr. Wyckoff stated that in addition to an ongoing audit plan that had been established, risks that could affect the Airports Authority and information resulting from interviews with Board Members and Management, a tentative audit plan was presented to the Risk Management Committee and Board for approval. He reported that the Office of Audit conducts audits based on the plan. Mr. Adams inquired whether the previously-discussed audits were included on the plan, to which Mr. Wyckoff responded affirmatively. Mr. Wyckoff advised that a follow-up brainstorming session would be conducted with members of the Risk Management Committee in July or the fall of 2018.

External Financial Statement Audit. Mr. Wyckoff reported that Krista Edoff of Cherry Bekaert, LLP (Cherry Bekaert), the Airports Authority's external audit firm, would present the results of the 2017 audit. He stated that while Andy Rountree, Vice President for Finance and Chief Financial Officer, presented some of the audit's highlights during the day's Finance Committee Meeting when he discussed the 2017

Comprehensive Annual Financial Report (CAFR), the external auditor also has the requirement to communicate directly with the Board.

Mr. Griffin advised that the external audit would be discussed in regular session, as well as executive session.

Ms. Edoff was joined by key members of the Engagement Team – Greg Miller, Senior Manager, and Meghan DePace, Manager. She reported that Cherry Bekaert was engaged to conduct a financial audit of the Aviation Enterprise and Dulles Corridor Enterprise funds and conduct an assessment of the significant laws, regulations and agreements. Ms. Edoff advised that a separate report is issued on the Government Auditing Standards. She reported that Cherry Bekaert was also engaged to perform agreed-upon procedures for the upcoming bond issuance, which would be performed in the May to July timeframe to coincide with the rating agency process.

Ms. Edoff reviewed the audit methodology, the timing of the audit, as well as some of the significant areas that had been reviewed and monitored throughout the audit. During the first phase, members of the Cherry Bekaert team met with key members of Management and the Finance team to gain an understanding of significant occurrences throughout the year financially and specific areas to audit, as well as the policies and procedures associated with a significant financial transaction. Cherry Bekaert then develops its audit plan. In the second phase (from October 2017 to January 2018), Cherry Bekaert designs interim testing of the end-of-year financial areas, conducts transactions of internal control, and performs year-end cutoff procedures. Once the financial transactions have been closed out for the year (February 2018), Cherry Bekaert conducts the final audit fieldwork, at which time significant testing of the financial balances and transactions are completed, financial statements are reviewed, and exit conferences are held with Management on any matters identified throughout the course of the audit. The phase is completed in April with the issuance of the External Audit Report and presentation to the Risk Management Committee.

Ms. Edoff reviewed some of the key areas of the audit noting that Cherry Bekaert had audited all sections of the CAFR that are considered to be auditable. She advised that the audit is focused on areas that Cherry Bekaert considers to be significant audit areas where the Airports Authority is spending the most money, conducting the most transactions, and reviewing the areas where the most risk is likely to

occur in an audit. Ms. Edoff highlighted the six major focus areas -- operating revenues, receivables, investments, construction in process, payroll and financial reportings, as well as some of the functions performed in each area. She reiterated that other areas were also audited, but the majority of the focus and time were dedicated to the six stated areas.

Ms. Edoff reported that Cherry Bekaert had issued unmodified opinions or clean opinions on the Aviation Enterprise and Dulles Corridor Enterprise funds. She stated that Cherry Bekaert does not issue a separate report on internal controls, similar to the Sarbanes-Oxley Act Section 404 (SOX-404) reporting of public companies, but the standard does require the assessment of the internal control environment. With regard to the issuance of a separate report on the Governmental Auditing Standards Report, Ms. Bekaert reported that no material weaknesses were identified throughout the course of the audit, and no matters were reported in a separate audit opinion that Cherry Bekaert issues.

Mr. Sudow observed that a separate report is not required to be issued, but he asked if the Airports Authority was SOX-404 compliant. Ms. Edoff stated that because the external audit does not cover that level of scope, she was unable to make that statement. She advised that when the walk-throughs were conducted and the internal controls were accessed and tested, Cherry Bekaert did not identify any matters that needed to be brought to the Risk Management Committee's attention.

The Risk Management Committee concluded its business for discussion in regular session. At 1:00 p.m., Mr. Griffin recessed the meeting, and advised that he would reconvene the meeting at 2:00 p.m., at which time the executive session would begin.

Mr. Griffin reconvened the Risk Management Committee at 2:05 p.m. A quorum was present: Mr. Uncapher (Co-Chair), Mr. Speck, Mr. Sudow, Mr. Tejada, and Mr. Session (*ex officio*). Ms. Hanley, Mr. Mims, and Ms. Wells were also present.

Mr. Griffin reported that the Committee needed to meet in executive session to further discuss the External Financial Statement Audit (Tab 23) pursuant to Article IX, Section 3(g) of the Airports Authority Bylaws which permits the Board and its Committees to move into executive session for matters that the professional standards applicable to financial statement auditors, when conducting a financial statement

audit, require to be discussed in executive session, and for matters that involve proprietary or confidential information of vendors or of the Airports Authority.

Upon the conclusion of the executive session at 2:13 p.m., the meeting was thereupon adjourned.