

Washington County Service Authority Board of Commissioners
August 24, 2015 Recessed Meeting Minutes (held September 28, 2015)

The August 24, 2015 recessed meeting of the Washington County Service Authority Board of Commissioners was called to order by the Chairman at 5:05 pm.

ROLL CALL

Commissioners Present:

Mr. Ken Taylor, Chairman
Mr. Mark Nelson, Vice Chairman
Mr. Wayne Campbell
Mr. Devere Hutchinson
Mr. Jim McCall
Mr. Dwain Miller

Commissioners Absent:

Mr. Mike White

WCSA Staff Present:

Robbie Cornett, General Manager
Dave Cheek, Operations Manager

General Counsel Present:

Mrs. Dawn Figueiras

3. Approval of the Agenda

Mr. Nelson motioned to approve the Agenda. Mr. Miller seconded the motion and the Board approval voting 6-0-0-1.

4. Conflicts of Interest Act Workshop Options – Chairman, General Manager

Mr. Taylor said we (the Board) were to have Conflict of Interest Training at this time. Due to some questions about looking into different options such as training with the county and looking into some cheaper options, training was delayed so the Board could discuss options.

Mr. Taylor opened the floor for discussion.

Mr. Nelson said the Board had the first workshop that was really detailed about potential conflicts and received all the information. Mr. Nelson felt everyone

understood what could be a conflict. Mr. Nelson thought the Board had all the information. Mrs. Figueiras and Mr. Lawson will help the Board correctly fill out the information required annually and that information will be shared with the whole Board so we could help each other in case we started talking about something that could be a conflict. Mr. Nelson said he did not know what else the Board really needs to do. Mr. Nelson said he felt better now that he has better information and can think it through. Information about things such as contracts, and if you are a party to them you (Board members) can have no discussion. Mr. Nelson said he did not know why the Board needed a second session.

Certainly, the bulk of the presentation (first conflict of interest training) was to cover what is a conflict of interest and what does it mean to have a personal interest in a contract or transaction and what you had to do in those events, said Mrs. Figueiras. What we offered was a session specifically designed to discuss the forms and help the Commissioners fill out the forms correctly, she stated. Mrs. Figueiras said the forms were difficult and the instructions were not good and filling out the forms was very confusing for many. The other portion of the Conflict of Interest Act that was not discussed was on gifts and gratuity. Mrs. Figueiras felt discussion about gifts and gratuity would be appropriate at some time. Mrs. Figueiras said it was really what the Board thinks and training at their discretion.

Mr. Hutchinson said it was brought to his attention on a couple of occasions that there was some concern of the costs associated with Conflict of Interest Training. We are looking at a cost in excess of \$9,000 for the different

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Conflict of Interest training sessions in order to cover all that was recommended.

Mr. Hutchinson said he spoke to Mr. Cornett about it and gave Mr. Cornett a couple of ideas and asked that he look into the possibility of sharing training with other entities; other utilities or counties or perhaps other Boards like the Board of Supervisors that may also face conflicts of interest. Mr. Hutchinson thought Elliott, Lawson and Minor could share that information as a whole and the costs wouldn't be such a burden to WCSA. Mr. Hutchinson continued saying, according to Mrs. Figueiras, those forms are difficult to fill out and we (WCSA Board) are not the only ones that have to fill the forms out. There are other Boards in the county and even Bristol City that will be facing the same thing come January 1st (when the forms must be turned in). Mr. Hutchinson said he and Mr. Taylor discussed it and agree to have the second training session delayed until they can get ideas from all the Board members on an appropriate course to reduce the cost of training.

Mr. Hutchinson said that is why we (Board) is here; to discuss what the options may be and how the Board feels about it, what we might do; proceed with training or contact the county and ask what they are planning. Mr. Hutchinson said he was sure the county was looking into this because they know there are changes coming after the first of the year and they will have to talk with their employees.

Mr. Hutchinson asked Mr. Cornett to contact Lucy to ask what the county may be looking into for conflict of interest training.

Mr. Cornett said he reached out to Lucy. Lucy said she had done a little training in the past for the Industrial

Development Board but that had been a while. There has been no recent request for training but if something changed or developed Lucy will be in contract with Mr. Cornett. As of now, Lucy said she did not have any training in the works.

Mr. Nelson said there were no new changes to conflict of interest rules effective January 1. Mr. Nelson said he knew there were changes to the gifts section.

Mrs. Figueiras said there were more changes that went into effect last July (2015).

One thing to keep in mind, as you (the Board) weigh your options, is the Conflicts of Interest Act has many different sets of rules depending on whether you are appointed or elected and depending on the size of your county and so on, said Mrs. Figueiras. The forms the Washington County Board of Supervisors fills out is entirely different than the forms the WCSA Board fills out. When you are looking at different training options you want to make sure you are looking at options that are applicable to you, stated Mrs. Figueiras.

In the first training session, Mrs. Figueiras and Mr. Lawson focused on things that pertained to the WCSA Board.

Mr. Nelson thought if the Board had a question, they could ask legal counsel at a Board Meeting. Mr. Nelson thought the only additional information he may need is on gifts, to be absolutely sure he there was no conflict with it. We all have to look down deep inside and "say hey, if there is a question about something we (the Board) are involved with we have to back away from it based on the information you've (legal counsel) given us" stated Mr. Nelson.

Mr. Nelson said even if we (the Board) have all the training, we aren't going to

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remember it all and we (the Board) have to rely on legal counsel to tell us when we are moving into an area where there could be a conflict. Mr. Nelson said legal counsel had to know what the Board members were involved with so they could stop any Board member before they get in a position of conflict of interest. Mr. Nelson said his position was, "if we are paying you to sit there as our attorney during these meetings, you have got to be the one to help us (the Board) keep ourselves out of trouble with this."

It needs to be an interactive process for sure, stated Mrs. Figueiras.

Mr. Taylor said the company he works for has; code of conduct training. Mr. Taylor said the main thing is you (Board members) have to know where your conflict is and said he felt Mr. Campbell would be less likely to have a conflict of interest of all Board members. If it is a work contract and W&L is bidding, I understand I have a conflict. Mr. Taylor thought Mr. Miller and Mr. McCall would fall in that same category he is in. If it is about banking or financial in matter, Mr. Nelson has a conflict, said Mr. Taylor.

Mrs. Figueiras said from her prospective as general counsel, she can know general things but will not know particulars about the Commissioners. She explained saying, I'm not going to know you are part owner of a piece of property that WCSA is interested in.

"We understand that", said Mr. Taylor.

The law puts the obligation on you (the Board) and we as legal counsel want to do our absolute best to help the Board fulfill those obligations in every way possible. Whatever you, the Board, think is the best way to receive that information, legal counsel is happy to do so, stated Mrs. Figueiras.

This is a three way partnership, said Mr. McCall. If we all do not work together and do our part, it puts you in a bind where you can have a conflict real quick if you are not careful, stated Mr. McCall.

Mr. Nelson said we all have to be transparent with each other, we are all adults here. The truth is we all came on this Board to do some good for Washington County; we did not come on here for self-interest, stated Mr. Nelson. We have to say to ourselves, we are going to share the forms with legal counsel; we want them to look at the forms and we want to be open with legal counsel with what we are involved with, we want to tell them who we work for; so if something comes up in our zeal to do the right thing and start talking, we need someone that will tell us to back away; or Mr. Cornett, Mr. Nelson stated. Mr. Nelson continued saying, to him, that was more important than a two hour training class. The truth is, stated Mr. Nelson, I would rather spend the money for legal counsel to look over our forms and make sure we (the Board) fills them out correctly so we don't have someone from a news outlet taking the forms and embarrassing one of us.

Mr. Nelson said he was a passionate person about his company and he wanted to talk about it, but said he knew better and knew it was a mistake if he said anything so he did not. Even if you know something is wrong, you have to sit there and be quiet, Mr. Nelson stated.

Mr. Hutchinson said as he mentioned before in a meeting, what we as Board members need to do is cover each other's back. If we (Commissioners) see that someone is about to do something one of us knows is a conflict of interest, we to bring that to that persons' attention. As Mrs. Figueiras said, we (Commissioners) cannot rely on legal

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counsel to prevent us from violating the law. We can't always rely on Mr. Cornett and Mrs. Boyd to stop us when we are about to violate the conflict of interest; we need to be able to govern ourselves, stated Mr. Hutchinson. According to Mr. Hutchinson, the only way the Board can do that is to be transparent with one another. Mr. Hutchinson said he did not want the WCSA Board to get in a situation like "our partners down the road have gotten into, were they have been scrutinized." We don't want to ever get in a situation or put this Authority in a situation where the public sees us in that light. Mr. Hutchinson said that was the reason he inquired about training options or alternatives to cut the costs.

If Mr. Nelson feels he has enough information where we can continue without additional training session and cut the costs by \$3,000, I do not have a problem with that, said Mr. Hutchinson. Mr. Nelson said the bottom line is it is the responsibility lies on each of us. The information is there and it is just a matter of us saying we are willing to share with each other and help each other.

Mr. Nelson continued saying, If I am going to pay an attorney to sit in a meeting, they better be strong enough, if they know something is going wrong, to stop it...right there; not wait until it is over. Mr. Nelson said his biggest concern was filling out the forms correctly and making sure we all disclose. If we do what we put in the minutes, to fill out the forms right and we had the agreement to disclose to each other. Mr. Nelson said that told him a lot about the Board, that they were transparent enough that we were looking for it. If one of us (the Board) tries to hide something from the other, that person will have to accountable for it.

In the situation we had, if someone would have just came out and said period, "you can't have any more discussion in this", I think that person would have backed off and we would have not ended up in this situation, stated Mr. Nelson. Mr. Nelson said he thought all the Board members were passionate people about what they believe and that was why they were on the Board, and sometimes you get caught up in the passion and forget sometimes. Mr. Nelson said he did not think the Commissioners did it intentionally.

Mr. Nelson said he did want to spend the money letting legal counsel look over the forms to be sure they are all correct. With what has gone on around us, we are just susceptible to people reviewing and analyzing everything we (the Board) are doing...why give them the opportunity. It takes away from all of us. Mr. Nelson stated. Mr. Nelson said he certainly did not want to be in legal counsel office talking about a conflict of interest for 1.5 hours. And worse than that, said Mr. Nelson, I don't want to read about it in the paper; and said that was his opinion.

Mr. Taylor said "that's a good opinion." Mrs. Figueiras asked if Mr. Nelson was suggesting legal counsel meet with each Commissioner individually to go over the forms.

If the person feels confident they filled it out the forms correctly, Mr. Nelson thought reviewing the forms would be sufficient.

Mrs. Figueiras said there is no way legal counsel could review the form for accuracy without sitting down and talking to the individual and going through the information.

Mr. Nelson said he felt confident he could read the form and fill it out

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correctly but was more concerned about putting things down that do not need to be there.

Mrs. Figueiras said she would always advise going in that direction; disclosing more than required.

Mr. Nelson said he was fine with legal counsel helping the Commissioners one on one to fill out the forms. Mr. Nelson said based on the motion, all the Commissioners are going to have to tell the others what (conflicts) we have.

Mr. Miller asked if the forms were new. There are two forms; one form for the WCSA Board and other such Boards to fill out and another for the Board of Supervisors (BOS) and such Boards to fill out. The form for the BOS has been revised but the form for the WCSA Board has not yet been revised. Mrs. Figueiras anticipated the forms for WCSA and such Boards to be revised and that is why legal counsel suggested having training in November as those forms are due December.

According to Mrs. Figueiras, there was cause to review some forms in the past year and based on information about the Commissioners legal counsel was aware of, there were problems with the forms.

Mr. Nelson again stated he would rather spend the money to discuss the forms one on one.

Mr. Miller said he thought the first training was an eye opener for a lot of the Commissioners. The biggest thing he learned was if you think there is a problem, ask! Mr. Miller mentioned training about gifts and gratuity and said based on the first training session, if something comes your way, ask before you take it; that is the best thing to do.

Mr. Hutchinson said if you read the Conflict of Interest Act information and examples provided by legal counsel at the first training session, it is very clear.

Mr. Hutchinson said based on the information provided, Commissioners should be able to make sound decisions.

Mr. Nelson said from his prospective, if we want to show the public we are serious about gifts, we can have a policy among the Board that we the Board will not accept any gifts. Anything can put us in a bad position. Mr. Nelson also said he did not think any Commissioner was compromised because Mr. Taylor gave them a knife at Christmas because he was doing that out of the kindness of his heart and not for favor. Mr. Nelson felt the same way about Mr. Lane giving the Board peanuts for Christmas saying he is not giving them for something he thinks he is getting in return.

Mr. Hutchinson said the cost of those peanuts is not at the level so they have to be reported.

Mr. Nelson said the problem is when the gifts are compounded; you get peanuts and along with something else; that is where the problem is.

That is part of the new provisions of the Act is when you have to aggravate gifts and how much you aggravate over a period of a year and at what level you have to report, explained Mrs. Figueiras. Given the information the Board now has from the first session of conflict of interest training, Mrs. Figueiras thought they would have a better understanding when filling out the disclosure forms, because they now have a better understanding of personal interests.

Mr. Hutchinson said he now understands he doesn't need to include his investments.

Mrs. Figueiras said it is always better to disclose more than required.

Mr. Hutchinson asked if the Board was in agreement to postpone training until the Board received the required disclosure forms.

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Mr. Taylor said he had prior training and felt comfortable.

Mrs. Figueirs offered to provide information about gifts and gratuities to the Board at their request either in the form of a memo or the like or in a training session.

Mr. Taylor said he wanted to reinforce one thing Mr. Nelson said. Mr. Taylor said he expects legal counsel to stop him if he is doing something wrong, saying "that's what we are paying you for". Mr. Taylor said if anyone in the room was doing something that wasn't correct, stop them.

Mr. Nelson said I would rather you hurt my feelings than me get in trouble. Mr. Nelson said he did not want to know after the fact but to stop him right there. If legal counsel doesn't know about an issue, Mr. Nelson said he could not expect them to stop him, but if you (legal counsel) know it, I expect you to.

Mr. Hutchinson said we need to that among ourselves; put a haul to something and turn to legal counsel and say, I suspect there is a conflict. Mr. Hutchinson said he thought the Board needed to question things and protect themselves.

5. Auditor Issued Fraud Questionnaire and WCSA Policy and Procedure Related Purchasing – General Manager

Mr. Cornett said he would try to be brief. Mr. Nelson said there are two sections you are referring to, 240 and 260.

Mr. Cornett said the auditor only provided section 240. The idea is to share the auditing standards as well as various policies and procedures at WCSA. In talking with the auditor, this is the standard with respect to fraud they are using to audit WCSA financials. A couple of sections were highlighted the

auditor thought may be more relative to specific questions.

Regarding the presentation of the Audit Standard, Various Laws, WCSA Policies and Procedures related to fraud, having covered that information fairly quickly, I wanted to share my notes on the subject for you reference.

Mr. Cornett said the auditors are tasked with obtaining the reasonable assurance that the financial statements are free of errors. It is not a total guarantee nothing is there but the auditors are tasked with a reasonable assurance, stated Mr. Cornett. What WCSA made a contentious decision to do several years ago as an extra level of assurance is we do not prepare our own financial statement, a third party takes care of that. Auditors also look at WCSA's internal controls as part of the audit.

The form that has been shared with the Board this year has been shared in the past three years. The form related to fraud was presented to us and the auditors asked that the form be forwarded to the Board. The form comes from Section 240 of the Standard.

What the auditors are looking for is if the governance of WCSA has any thoughts, questions or concerns in areas of fraud or embezzlement. Mr. Cornett said it is an avenue for the Board to interact with the auditors.

Mr. Cornett wanted to discuss Capital Projects Procurement developed by Doug Canody and reviewed and approved by the Board for professional services and contractors.

What are some of the Policies, Procedures and Laws that are in place that pertain to transactions at WCSA?

WCSA Capital Projects Procurement

- Professional Services (Engineering) Procurement Policy (Locating it)

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- Board considers and approves CIP Annually
- Board may participate in procuring Engineer
- Board approves “all” Engineer Agreements except small ones issued under General Services and sometimes we include those for approval also.
- Board approves “all” Engineering Agreement Amendments.
- Staff has a minimum of three sets of eyes (approvals) on each Engineering invoice to ensure:
 - That the invoice matches the Agreement (Kim Boyd)
 - That the work invoiced was completed (Ryan Kiser)
 - General review of invoices (Robbie Cornett)
- “All” payments (checks) written to pay Engineers are published in the Check Register published in the Board Book.
- Construction Contracts Procurement
 - Publically advertise projects for bid
 - Bids are presented to and approved by the Board
 - All changes in Contract Time or Price are approved by the Board
 - Pay Requests are reviewed and approved by the:
 - RPR
 - Project Engineer
 - Controller (Kim Boyd)
 - General Manager (Robbie Cornett)
 - Funding Agency

WCSA Procurement Guidelines

- WCSA’s Procurement Policy was adopted by the Board in June of 2008
- Ethics and Public Contracting

Mr. Cornett said there were two pages in the handout relating to ethics and public conduct. Items detailed in the handout:

- Gifts and Gratuities
- Involvement by staff or anyone associated with WCSA in respect to contracting

Mr. Cornett said this information comes from the Virginia Public and Procurement Act. While this information is WCSA Policy, Mr. Cornett thought it was important to know is state law as well.

WCSA Accounts Payable Standard Operating Procedure

- Adopted in December of 2009.
- This was adopted following an audit were auditors suggested ways to strengthen internal controls.

- Except as noted below, every payment made by WCSA appears in the monthly Check Register published in the Board Book. The exceptions are:
 - Payroll
 - Auto-drafted utility bills
 - Wire transfers for debt service payments

WCSA Personnel Policy and Procedures Manual

- Mr. Cornett referred to a handout presented to the Board.

WCSA Credit Card Policy

- Mr. Cornett referred to a handout presented to the Board See Handout.

Mr. Cornett offered to answer any questions, either now or in the future.

Mr. Nelson said he received a questionnaire and had no issue with it. Basically the questionnaire asked if I had any knowledge of something, stated Mr. Nelson. Mr. Nelson thought it brought good points on the policies because some of the policies were put in place before some of the Commissioners came on the Board.

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Mr. Nelson said he thought it would be nice, on an annual basis, to have the new Board reapprove these policies and be able to look at them. There are changes and it would help us all to understand how things work, stated Mr. Nelson.

Mr. Nelson said when he filled out the questionnaire he did it from the standpoint he is not at the Authority every day and he put things in his questionnaire he thought the auditors would look at. Mr. Nelson said he knew auditing was not an exact science and was more interested in the internal control review than the audit. He said he was more interested in if there is collusion, that it is identified. In a small company, you put a lot of faith in one person and they have total control before you know it and don't realize it until something bad happens; and then we wonder how it happened, stated Mr. Nelson.

Mr. Nelson said he never looked at the questionnaire in a way the auditors were expecting him to know anything but if he did know something; the auditors were expecting him to share what he knew.

The auditing firm signs an engagement letter that states what the firm is required to do and they take that responsibility very seriously. There are specific things they have to look on government contracts that are in the audit itself they must disclose, explained Mr. Nelson. Mr. Nelson said the financial statement audit was one piece but at some point in time, Mr. Nelson said you need to have an internal control audit. "We are not here every day" stated Mr. Nelson. He said policies can be invalidated every day.

"Sure", said Mr. Cornett.

Testing those controls and having the auditors come to us (the Board) and say;

"we took policy that you approved and tested a reasonable number of transactions and your system is working as designed", Mr. Nelson said that is what he would like to see. We all know the financial statement numbers. The truth is if you are waiting until October or November to get those financial statement numbers, "you are whistling Dixie; it is after the fact", stated Mr. Nelson. Mr. Nelson said he thought that was something the Board should consider.

Mr. Cornett said from his prospective, an internal control audit is something he would very much welcome and offered to seek pricing or proposals from reputable firms for that service.

Mr. Nelson said in his opinion there should be an Audit Committee that delves into what the auditors do. Mr. Nelson said we (the Board) are all designed different and have different expertise. Mr. Nelson said he thought it would be nice to have an Audit Committee that met with the auditors and could ask the auditors questions for the Board and could delve into the audit in a lot more detail than Mrs. Cox spending 5 or 10 minutes last year that to discuss the 40 plus page report. Mr. Nelson said he thought it was that important long term. Mr. Nelson said when we are not here every day, you better have experts you believe in. "I trust Mr. Cornett but I want him to verify what he is telling me."

Mr. Nelson said his suggestion was to have an Audit Committee of the Board that could delve into the audit a little deeper; talk with Mrs. Cox and ask questions the Board may have; and have someone delve into the internal controls not yearly but on a rotating basis and give an opinion of that.

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Mr. Hutchinson said he had questions about the questionnaire before he filled it out. He didn't know if legal counsel implemented any new financial policies last year he was not aware of and that was the reason Mr. Hutchinson questioned the information.

Mr. Hutchinson said the information provided by Mr. Cornett tonight has been very helpful in filling out the form.

Mr. Hutchinson said this is only the second form I have filled out since he has been on the Board.

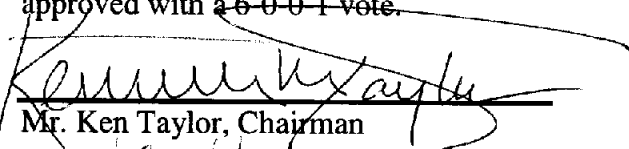
Mr. Cornett said it was sent to the Chairman, Mr. Chase, only one year.

Due to time constraints, the Chairman asked for a motion to adjourn.

6. Adjourn – 5:55 pm

Mr. Nelson made a motion to adjourn.

Mr. McCall seconded and the Board approved with a 6-0-0-1 vote.



Mr. Ken Taylor, Chairman

Carol Ann Shaffer, Assistant Secretary