



Water Works Board of the City of Birmingham Jefferson County, Alabama

May 1, 2023 through May 31, 2025

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ALABAMA DEPARTMENT OF
EXAMINERS of Public Accounts

Rachel Laurie Riddle, *Chief Examiner* | 334-777-0500 | www.alexaminers.gov

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Rachel Laurie Riddle
Chief Examiner

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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

A limited review was conducted on certain activities of the Water Works Board of the City of Birmingham, Jefferson County, Alabama, for the period May 1, 2023 through May 31, 2025, by Examiners Laura Madison and Kalandria Morris. I, Laura Madison, served as Examiner-in-Charge on the engagement and under the authority of the ***Code of Alabama 1975***, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the review.

Respectfully submitted,

Laura H. Madison
Examiner of Public Accounts

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Executive Summary

Executive Summary

A limited review was conducted of the Water Works Board of the City of Birmingham, Alabama, (the “Board”) related to the Board’s books, accounts, transactions, and records for the period of May 1, 2023 through May 31, 2025 as approved by resolution at the June 2, 2025 Board meeting. The Department also reviewed and evaluated the Board’s internal controls and its compliance with certain state and local laws. A separate independent audit by a Certified Public Accountant is currently being conducted to review financial records and assess operational concerns.

The Board is a public corporation incorporated on November 21, 1950, pursuant to a resolution adopted by the governing board of the City of Birmingham (the “City”). In accordance with Section 11-50-301 of the ***Code of Alabama 1975***, the Board was reorganized from a five member board to a nine member Board, effective January 1, 2017. The Board operates and manages water filtration plants and a water distribution system (collectively referred to as the System) in Jefferson County, Alabama and portions of adjacent counties.

In accordance with Sections 11-50-300.01 through 11-50-300.10 of the ***Code of Alabama 1975***, the Board was converted to a regional board, effective May 7, 2025, and the number of Directors was changed from nine members to seven members and the terms of the existing directors were terminated. In a meeting held on June 24, 2025, the Board voted to amend the certificate of incorporation and rename the organization to the City of Birmingham Regional Water Works which will do business as Central Alabama Water.

The following is a summary of issues and findings noted at the Board. Detailed information on the issues, findings and recommendations are contained in the accompanying report.

ISSUES AND FINDINGS

Lack of Policies and Inadequate Internal Controls

The General Manager is responsible for recommending policies to the Board for their approval or disapproval. The Board did not have adopted policies in the place to address property management or purchasing card usage.

Unapproved Sick Leave Payout

The Board’s policy for sick leave stipulates that upon separation of employment, whether voluntary or involuntary, the employee forfeits unused leave accruals and no payment is made in lieu of forfeited sick leave. The former General Manager retired effective June 30, 2024 and received payment on July 4, 2024 for all leave accrued.

Executive Summary

Noncompliance with Alabama Competitive Bid Law

The Board did not comply with the Alabama Competitive Bid Law by maintaining documentation that bids were awarded to the lowest responsible bidder.

Improper Payment of Director Expense Allowance

The *Code of Alabama 1975*, Section 11-50-234.1 states that a reasonable meeting expense allowance may be authorized by resolution adopted by the Board. The Board approved a resolution that amended the expense allowance to be paid at \$500 for each event, with a cap of \$1,000 per month. Several directors were paid the full \$1,000 per month even though they did not attend a Board meeting or committee meeting during the month.

CONCLUSION

While the Board has adopted certain policies, there was not always proper oversight by management to ensure compliance with and adherence to policies in place. In addition, the Board did not establish and implement effective internal control policies and procedures, nor did they provide effective oversight of the operations to provide accountability. The absence of controls exposed the Board to losses from theft and misappropriation of assets and prevented the Board from complying with applicable laws and regulations.

EXIT CONFERENCE

Board of Directors and Executive Management Team members, as shown on Exhibit 1, were invited to discuss the results of this report at an exit conference. The following individuals attended the exit conference: Directors Jeffery Brumlow, Thomas Hudson Jr., Bill Morris, Jarvis Patton, Sr., David Standridge, Sheila Tyson and Phillip Wiedmeyer; and General Managers Macaroy Underwood and Darryl Jones. Representing the Department of Examiners of Public Accounts were Chief Examiner Rachel Laurie Riddle, Chief Legal Counsel Jason Paulk, and Examiners Laura Madison and Kalandria Morris.

Special Report on the Water Works Board of the City of Birmingham May 1, 2023 through May 31, 2025

OVERVIEW

Authority

The Department of Examiners of Public Accounts (the “Department”) performed a review of the Water Works Board of the City of Birmingham, Alabama (the “Board”) under the authority of a Board resolution approved on June 2, 2025, authorizing the Chair to request the Department to examine the financial transactions and records of the Board and staff to comply with the request of the Chief Examiner.

Scope of Review

The scope of the Department’s review was limited to books, accounts, transactions and records deemed advisable and necessary to report on expenditures, contracts and other findings found to be in noncompliance of the law and to take such other actions as are necessary to accomplish the duties of the Department for the period of May 1, 2023 through May 31, 2025.

Profile of the Water Works Board of the City of Birmingham

The Board is a public corporation incorporated on November 21, 1950, pursuant to a resolution adopted by the governing board of the City of Birmingham (the “City”). In accordance with Section 11-50-301 of the ***Code of Alabama 1975***, the Board was reorganized from a five member board to a nine member board, effective January 1, 2017. The Board operates and manages water filtration plants and a water distribution system (collectively referred to as the System) in Jefferson County, Alabama and portions of adjacent counties.

In accordance with Sections 11-50-300.01 through 11-50-300.10 of the ***Code of Alabama 1975***, the Board was converted to a regional board, effective May 7, 2025, and the number of Directors was changed from nine members to seven members and the terms of the existing directors were terminated. In a meeting held on June 24, 2025, the Board voted to amend the certificate of incorporation and rename the organization to City of Birmingham Regional Water Works which will do business as Central Alabama Water.

The Department noted issues at the Board related to lack of policies and inadequate internal controls; unapproved sick leave payout; noncompliance with the Alabama Competitive Bid Law and improper payment of director expense allowance. These issues and the related findings are discussed below.

Special Report on the Water Works Board of the City of Birmingham May 1, 2023 through May 31, 2025

ISSUES AND FINDINGS

Lack of Policies and Inadequate Internal Controls

Finding: At a regular bi-monthly meeting, the Water Works Board of the City of Birmingham approved Resolution 8821 which adopted new by-laws and repealed its previous by-laws. Article IV, Section 1, of the by-laws states, “the General Manager shall recommend policies to the Board for their approval or disapproval and the Board shall hold the General Manager responsible for carrying out its policies.” During the review of the Board’s internal controls, the following was identified:

- ◆ The Board did not maintain a policy manual for daily operations. Attempts to obtain such policies revealed individual departments operated under their own informal policies and often undocumented procedures.
- ◆ The Board did not have any formal policies or procedures related to tracking inventory or equipment purchases and usage of inventory or equipment. This contributed to at least two known incidents of potential employee theft.
- ◆ The Board issued over 25 purchasing cards to various departments, including purchasing, administration, executive, and information technology. Further, the Board issued over 20 purchasing cards to electrical and mechanical staff. Purchasing activity was administered by informal rules, including an unwritten \$600 per-purchase spending limit. Purchases of certain items including tools and equipment were not inventoried or tracked by the Board. Purchases of food were made with purchasing cards that could not be determined to be allowable because documentation was not maintained for the purchase(s).

Recommendation: The Board should develop a written policy manual, standardized, when possible, for all departments and make it accessible to all employees.

Special Report on the Water Works Board of the City of Birmingham May 1, 2023 through May 31, 2025

Unapproved Sick Leave Payout

Finding: In May 2024, the Board revised their Employee Handbook and Manager’s Guide, which is a summary of general human resource policies. These documents state that “upon separation of employment, whether voluntary or involuntary, employees forfeit unused sick leave accruals, and no payment is made in lieu of forfeited sick leave”. Despite this policy, the former General Manager retired on June 30, 2024 and received a payment of \$245,735.66 on July 4, 2024 for 1,256.51 hours of unused sick leave. This payment was not approved in any Board meeting, and no documentation was available to explain the departure from the established policy.

Recommendation: Management should ensure that all actions align with Board approved policies. If exceptions are made, they should be formally documented, clearly justified, and approved by the Board to maintain accountability.

Noncompliance with Alabama Competitive Bid Law

Finding: The *Code of Alabama 1975*, Section 41-16-50, as amended, commonly referred as the “Alabama Competitive Bid Law”, requires “all expenditures of funds for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving thirty thousand dollars (\$30,000) or more... shall be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible and responsive bidder”, unless a lawful exception applies. During our review of the Board’s bids, the following was noted:

- ◆ The Board did not maintain a bid tabulation sheet for a bid award, which prevented verification of whether the award was made to the lowest bidder.
- ◆ A bid was awarded to a vendor that was not the lowest bidder. However, the Board could not provide documentation to explain or justify a lawful exception from awarding to the lowest bidder.

Recommendation: The Board should ensure compliance with the *Code of Alabama 1975*, Section 41-16-50, relating to the Alabama Competitive Bid Law.

***Special Report on the Water Works Board
of the City of Birmingham
May 1, 2023 through May 31, 2025***

Improper Payment of Director Expense Allowance

Finding: The *Code of Alabama 1975*, Section 11-50-234.1, provides authority for the Board to adopt a resolution for the payment of a reasonable expense allowance for expenses in attendance at meetings of the board of directors and attending to and supervising the business of the Board.

In the March 25, 2020 minutes, the Board of Directors approved Resolution 8330, which amended the expense allowance to be paid for each event to \$500, with a cap of \$1,000 per month. During the examination period, the following was noted:

- ◆ A director received the full monthly expense allowance despite attending only one meeting in July 2024.
- ◆ A director received the full monthly amount without attending any meetings in December 2023.
- ◆ A director received the full monthly allowance for five months but only attended three of the eight total meetings between March 2024 through July 2024.

Recommendation: The Board should ensure compliance with the *Code of Alabama 1975*, Section 11-50-234.1, by issuing director expense allowances only for meetings attended, as required by law and the terms of Resolution 8330.

Additional Information

Board of Directors and Executive Management Team
May 1, 2023 through May 31, 2025

Board of Directors		Term Expires
Jeffery Brumlow	Director	May 2030
Thomas Hudson, Jr.	Director	May 2028
Bill Morris	Director	May 2027
Jarvis Patton, Sr.	Director	May 2026
David Standridge	Director	May 2029
Sheila Tyson	Director	May 2029
Phillip Wiedmeyer	Director	May 2028
William Burbage	Director	May 6, 2025
Jonathan Harris	Director	May 6, 2025
Tom Henderson	Director	May 6, 2025
Ivan Holloway	Director	May 6, 2025
Tereshia Huffman	Director	May 6, 2025
Dr. Andre McShan	Director	May 6, 2025
Dalton NeSmith, Jr.	Director	May 6, 2025
Larry Ward	Director	May 6, 2025

Board of Directors and Executive Management Team
May 1, 2023 through May 31, 2025

Board of Directors		Term Expires
Dr. Monique Witherspoon	Director	May 6, 2025
Lucien Blankenship	Director	December 2024
Ronald Mims	Director	Deceased
George Munchus	Director	December 2024
MaShonda Taylor	Director	December 2024
<u>Executive Management Team</u>		<u>Term</u>
Macaroy Underwood	General Manager	March 2025 – December 2030
Darryl Jones	Interim General Manager	July 2024 – February 2025
Michael Johnson	General Manager	March 2019 – June 2024