



DISTRICT OF COLUMBIA BOARD OF DIRECTORS

Audit Committee

**Thursday, February 22, 2007
8:00 am**

Meeting Minutes

COMMITTEE MEMBER(S) PRESENT

Anthony Griffin, Chairman
Kenneth Davis
Paul Folkers
Joseph Cotruvo

WASA STAFF PRESENT

Jerry Johnson, General Manager
Avis Russell, General Counsel
Olu Adebo, Acting Financial Officer
Michael Hunter, Director, Internal Audit
Yvonne Reid, Acting Controller
Linda Manley, Secretary to the Board

Call to Order

Mr. Griffin called the meeting to order at approximately 8:10 am.

Internal Auditor's Report

Mr. Hunter started with a review of the Annual Audit Plan for FY2007. He noted that the Audit Plan is comprised of Operational Audits, Compliance Audits, Information Technology Audits, Follow-up Audits and other WASA initiatives. Mr. Hunter discussed the composition of the planned audit engagements along with the associated phase and the current statuses.

Mr. Hunter noted that the audits of the Lead Service Line and Accounts Payable programs are ongoing activities, which includes knowledge capture and vulnerability assessment. These projects have been the focus of the Internal Audit Office over the last quarter.

The Internal Audit Office has an approved staff of four positions of which three are currently filled. WASA is recruiting for one position and is seeking a candidate with an audit/technology background, which would benefit the Internal Audit Office as well as the Board with its oversight role for technology.

Mr. Griffin asked if the audit plan was achievable if all four staff positions were filled in addition to the Internal Audit consultant. Mr. Hunter indicated that if he had a full staff by mid spring the audit plan would likely be achievable. He also noted that it may become necessary to pare down some of the review.

Mr. Davis noted that relative to the Biosolids Audit, there were significant findings during the last meeting and asked if there were any additional findings and if so how they are being tracked? Mr. Hunter stated that there was a significant finding and that it was cleared up before the Third Party Review, so it was removed from the exception list. There are about six areas that are called non-conformances, which are all minor and the Internal Audit Office is working to resolve them. These areas are being tracked through our internal database. They were primarily efficiencies or business improvements, but no major non-conformances, otherwise we would not have received our certification.

Mr. Davis asked if Internal Audit generally track findings from various audits throughout the Authority. Mr. Hunter responded that in the past Internal Audit Office track the Management Letter findings, the items of which Management makes us aware, including GAO, OIG, or Federal Audits and where WASA stands with a particular recommendation. Periodically the external auditors will come back to Internal Audit to determine if WASA has taken the recommended action. Internal Audit Office only includes those items that Management has communicated that they agreed to and plans to take action on the recommendation.

Mr. Davis asked if IT has a standard that it follows, i.e., CMI or some of the software standards. Mr. Hunter responded that in terms of their security standard they follow the NIST very closely. However, in terms of their control standards, he's not sure which standard IT has adopted.

Mr. Folkers stated that it looked like a good diverse list of projects in terms of the work plan and wanted to know which projects would Internal Audit need to seek outside assistance. Mr. Hunter stated that outside resources would likely be used for the IT related projects - all other initiatives can be accomplished with existing staff. The Internal Auditor Office has a very limited budget in terms of contracting resources, therefore our scope pretty refined. He also noted that the Internal Audit Office has only done two engagements in the last two years with outside resources.

Mr. Griffin stated that it looks like an ambitious work schedule and suggested that Mr. Hunter do a progress chart for the Audit Committee, so that the Committee can track Internal Audit's progress.

Emerging Issues

Mr. Hunter reviewed Attachment D – The Role of Auditing in Public Sector Governance. He indicated that the point of this document is to re-enforce initiatives with the Governance Study and to give the Committee an idea of what Internal Auditors look at in this profession with regards to governance and the Internal Audit's role in the process. Mr. Hunter pointed out the following three points:

- Oversight – Cyclical reviews, reviews of conflicts of interest, and other requested reviews.
- Insight – Assist decision makers by making independent assessments on programs and policies and deciding if the results are what management wants—not Internal Audit wants to achieve. This is done by looking across the organization at comparable practices, standards, etc.
- Foresight – Assist by identifying trends and emerging challenges. Dealing with everything from risks in the wastewater industry, or risks with a particular product—bring it to the attention of the organization that we may need to pay particular attention to this product or process.

Mr. Griffin stated that based on the information in his package, he thought there was another issue to be discussed but it is not listed as an agenda item. Mr. Hunter explained that during the last Audit Committee Meeting, the question was asked how SOX relates to OMB Circular A-123. Mr. Hunter reviewed the Mapping of the A-123 Requirement to SOX in a slide presentation, which reflected the comparison of A-123, Appendix A for Management Responsibility to Corporate Responsibility -SOX 302 and Enhanced Financial Disclosures-SOX 404. Specially, the “what” for A-123 is that it establishes and maintains internal controls over financial reporting and provides reasonable assurance through a statement of internal controls over financial reporting. Internal Audit concludes that everything that SOX propose can be accomplished by doing A-123. Mr. Hunter also pointed out that currently local governments do not have any requirements relative to SOX, but that may change.

Mr. Griffin stated that, although we are not required, the Authority should have a Code of Ethics policy in place and that as we continue to have turnover with employees and as we continue to build the culture of this organization, it is very important that we identify high and appropriate standards—which can be tested.

Mr. Johnson noted that the Authority has been working on a code of conduct and would be interested in knowing the direction that the Committee would like to move in. Mr. Griffin stated that it would be appropriate to have a standard of conduct that would identify what is appropriate and inappropriate behavior for employees. This would provide guidelines to apply the appropriate and progressive discipline. He also stated that it is just a matter of stating what the values of the organization are and that it should be part of employee orientation.

Mr. Griffin stated that from a financial side, he thinks it is appropriate to have a consistent measurement. He stated that this is exactly what the Internal Audit function is all about, trying to enforce that. It would be good from a corporate sense if that was clearly articulated for the General Manager or his successor in guiding the Internal Auditor. While it is not something that should be done tomorrow, it would be helpful to do it this year. It might be a nice capstone to our tenth year anniversary. Mr. Johnson said agreed.

FY06 External Audit Result and Management Letter Comment

Ms Reid introduced several members of our external Audit firm, TCBA, Thompson, Cobb, Bazilio & Associates, and stated that they would give us a brief review of the results of the audit and the management letter. Al Lucas the Principal in charge of the audit gave the briefing. Mr. Lucas introduced the TCBA Project Team along with their associated responsibilities and expressed their pleasure in being WASA's external Auditors.

Mr. Lucas stated that they issued an unqualified opinion on the financial statements as presented by WASA management that was fairly stated in all material respects. He stated that this was the best result you can get from a Financial Statement Auditor. WASA continues to achieve that level of results and has in the past four years that he has been involved with the audit.

Mr. Lucas stated that TCBA also conducts an OMB Circular A-133 Audit, which is an audit of WASA's Federal Grants Programs. They look at major grants program expenditures, make sure they comply with the requirements of the grant, evaluate the controls of the reporting of the information, and the financial reporting. Their objective is not to issue an opinion on the internal controls, but to guide the scope of their testing. The results of this audit were no reportable conditions.

Mr. Lucas stated that they do issue an opinion on compliance. Their opinion on compliance was unqualified, again, meaning that WASA complied in all material respects with the requirements of the major programs that they maintain. Primarily in mind those being the EPA funded programs. Mr. Lucas stated that because of the results of the audit, basically unqualified A-133 opinion, WASA maintains a low risk auditee status. This means the audits in the past few years have had similar results. Mr. Griffin asked if that was the best and Mr. Lucas confirmed that it was.

Mr. Lucas stated that part of their responsibility was to review the CAFR (Consolidated Annual Financial Report), and the MD&A (Management Discussion and Analysis) for consistency with the financial statements. They did so with no problems or issues. WASA in summary had a very good year, positive increases in net assets. During 2006, there were no significant audit adjustments or transactions required. Per Mr. Lucas, this was the result of the Finance Department's timely closing of the books—thus no adjustments were needed.

Mr. Lucas said they did want to note that a significant event was the closing of the WSSC receivables issue, and the issue of timely reconciliations of operating cost settlements. He felt this set a framework for the future to avoid future disputes. Another point of discussion was the egg digester project – he understood that it was put on hold for re-evaluation. Mr. Lucas advised management if the project is terminated, the preconstruction costs that are now capitalized, at that point in time should be expensed.

Relative to Management Letter comments, there were no major findings. Mr. Lucas wanted to point out that at the request of management and the Board, they looked at the controls over the procurement process as part of the audit. This year, they tried to increase emphasis in looking at the change order process. They did not find any reportable exceptions. Their samples were not that extensive, but no exceptions were found in the items sampled.

They had three recommendations for improvement to management in the Management Letter. They were, to develop an asset impairment and retirement policy (should comply with the associated GASB); to fill vacancies in key management staff positions as quickly as possible; and to play a proactive role in ensuring that internal controls maintained by third party providers meet the minimum standards of WASA.

Mr. Lucas discussed each of the required communications that TCBA as auditors are required to make. There were no findings in any of the required communications. Mr. Lucas discussed his assessment of SOX and the things that WASA needed to do. He stated this issue was primarily addressed in the June 2006 Management letter and is consistent with the items Mr. Hunter had just discussed, i.e., disclosures, implementing control self assessment (CSA)-each department (financial and operational) takes ownership of the controls and reporting to management, etc. A-123 framework provides a real good basis for helping to outline the important elements of control and how to document the controls versus those elements.

Mr. Lucas also recommended that the "Whistle Blowing" program continue to be reviewed and evaluated to be tied more closely to a code of ethics. It's not an optional thing, but a responsibility for employees to report questionable activity to management. They recognize that there is currently a program in place, just wanted to make sure it is being evaluated and assessed for its strength.

Mr. Lucas provided a highlight of some of the upcoming GASB's (Government Accounting Standards Board pronouncements), which are applicable to WASA's financial statements. These are coming out in 2008 and of these, Mr. Lucas believes only GASB 49 applies to WASA.

Mr. Griffin asked for questions from the Committee. Mr. Folkers stated that he thought the report was very thorough and appreciated the review and the comments, and he thought we still have some work to do relative to the SOX implementation, but he appreciated the comments and reference in his report.

The Committee went into Executive Session with the External Auditors.

The Committee returned to general session and adjourned the meeting at approximately 9:10 a.m.