



**D.C. Water and Sewer Authority
Board of Directors
Audit Committee
Thursday, April 16, 2008
9:30 a.m.**

Meeting Minutes

COMMITTEE MEMBERS

Timothy Firestine, Chairman
Robin Martin

OTHER BOARD MEMBERS PRESENT

Daniel Tangherlini

WASA STAFF PRESENT

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

Mr. Firestine called the meeting to order at 9:30 a.m.

Internal Auditor's Report

Follow-up on Audit Recommendations

A detailed discussion for the Follow-up Audit process took place. There was an agreement that a rolling 2-year period of audit recommendations would be provided to the Committee on an ongoing basis. The Committee approved a 2-year period as long as there was comfort or assurance that the prior periods were properly addressed. Mr. Hunter offered the Committee assurance that issues prior to two years ago were addressed.

The Committee requested specific recommendation language from the issued audit report. The Internal Auditor agreed to include the specific language from the issued reports.

Status of Engagements

Mr. Hunter addressed a number of questions from the Audit Committee regarding the eight engagements conducted during the 2nd quarter of FY2008. The Audit Committee wanted assurance that they would see the recommendations from all reports. Mr. Hunter agreed that specific recommendation language from the reports would be disclosed and follow-up procedures would be applied as discussed earlier in this meeting.

Mr. Hunter reported on the office's staffing status. It was reported that both Senior Auditor positions are currently vacant. Mr. Firestine continued to express his concerns over the fact of the Internal Audit's office being understaffed. He also pointed out the associated risk of audit work being deferred because of lack of staff.

Mr. Firestine expressed his direction for additional resources to be allocated to Internal Audit to accomplish its audit plan goals. He stated that the organization needs to be moving in the direction to provide more resources to Internal Audit in order to meet industry requirements. Mr. Firestine also stated that it is clear that an overall risk assessment needs to be performed for DCWASA to ensure that the Audit Committee and Internal Audit re-focuses on high risk profile areas.

Mr. Firestine stated that the Audit Committee would need to receive a comprehensive plan detailing resource usage and expected outcomes to provide to the Board for approval.

Audit Engagements Expected for Committee Review in June 2008 Audit Committee Meeting

The Committee reviewed the engagement listing expected to be reported upon in June 2008 meeting. Questions were asked regarding how those engagements were placed on the Internal Auditor's work plan. The response included 1) Management requests and items from Governance Study initiatives as the source.

The Audit Committee stated that the objective is to move DCWASA into a full A-123 framework implementation. The Committee asked what was needed to accomplish that objective. Further it was agreed by the Committee that input from Management would be needed to accomplish this objective.

The Committee was concerned that the Internal Audit activity may be spending too much time in a reactive mode and may not be addressing areas based on risk. The Internal Auditor agreed.

The Committee inquired about the approval process in place for audit requests. The General Manager responded that all audit requests ultimately go thru him. The process has not been formal. The General Manager stated that he understands the concerns of the Committee with resource allocation.

There was discussion and agreement that more work and consideration needs to be developed for the following issues:

- Planning
- Reaction
- Resources
- Risk Assessment

Audit Committee Workplan

The draft Audit Committee Workplan was presented and discussed. The Committee concluded that the draft Audit Committee Workplan needed to be re-examined and re-worked.

This Committee Workplan would be an ongoing part of the future meetings as an agenda item.

OIG Follow-up

Mr. Hunter informed the Audit Committee that the D. C. Office of the Inspector General would be on-site during the week of April 23rd to conduct their Triennial Follow-up Audit. They are following up on some of the recommendations from their January 2005 report on "Elevated Lead in the District's Drinking Water". The Committee encouraged the Internal Audit to determine whether preliminary work for the OIG could be completed, so that their on-site work would be more efficient. The Internal Auditor agreed to reach out to the OIG.

Emerging Issues -Statement on Auditing Standard 112 (SAS 112)

The Internal Auditor provided a presentation on the American Institute of Certified Public Accountants' Statement on Auditing Standard 112. The Internal Auditor explained that this new reporting requirement for the external auditor may potentially generate more control deficiency reporting.

The Internal Auditor explained that SAS 112 expected the COSO Internal Control framework to be used (i.e. **1) Control Environment, 2) Risk Assessment, 3) Control Activities, 4) Information and Communication and 5) Monitoring.**

Mr. Hunter also explained the relationship of SAS 112 and the recent District's Yellow Book Report, which was an outcome SAS 112 reporting requirements.

The Committee discussed the relationship between SAS 112 and A-123. The Internal Auditor explained that SAS 112 is the reporting requirement whereas A-123 is the evaluation framework used to examine the components of Internal Control.

Mr. Firestine asked if A-123 was a requirement for DCWASA or the District. The answer was "no" to both entities, however, A-123 was voluntarily adopted by DC. A-123 is required for federal government and is considered "best practices".

Action Item - Independent Auditor Contract Option Year 3 Renewal

The Audit Committee approved the action item which recommended the renewal of TCBA contract for external audit services.

Executive Session

An Executive session was held with management and the Internal Auditor.

Adjournment

The meeting was adjourned at approximately 11:30 am.