**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, July 23, 2015*

*9:30 a.m.*

*Meeting Minutes*

**COMMITTEE MEMBERS PRESENT**

Nicholas Majett, Chairman

Matthew Brown, Chairman of the Board

Ellen Boardman, Committee Member

**INTERNAL AUDIT STAFF PRESENT**

Dan Whelan, McGladrey LLP

Charles Barley Jr., McGladrey LLP

Jill Reyes, McGladrey LLP

David Luker, McGladrey LLP

Kelly Johnson, McGladrey LLP

**DC WATER STAFF PRESENT**

Biju George, Chief Operational Officer

Mark Kim, Chief Financial Officer

Randy Hayman, General Counsel

Linda Manley, Secretary to the Board

**Call to Order (Item 1)**

Mr. Nicholas Majett called the Audit Committee meeting to order at 9:30am. Mr. Majett then turned the proceedings over to Mr. Mark Kim.

**Introductory Remarks from KMPG Regarding the Financial Statement Audit (Item 2)**

Paul Geraty, engagement partner from KPMG, presented an overview of the Fiscal Year 2015 Financial Statement Audit and OMB Circular A-133 Single Audit. This included an overview of the scope, engagement team, approach and timeline. Mr. Geraty confirmed that Bert Smith, the subcontractor, and KPMG will work together to meet the Agency's MBE requirements and provide as efficient an audit as possible.

The scope of the work will include auditing the financial statements, as well as the compliance with laws and regulations throughout the organization. As a part of the audit of financial statements, performed in accordance with government auditing standards, the team will issue a report on internal controls and compliance at the financial statement level. The report will include any noted significant deficiencies or material weaknesses.

The team's objective throughout the single audit process is to provide an opinion on compliance for the organization’s three major programs. Given the size of the programs, they would be reviewed once every two years, but no less than once every three years. The presented timeline for the entire audit extends from August 2015 thru to January 2016.

Upon the conclusion of the audit, any additional findings or recommendations that do not rise to the level of significance to be included in the reports, will be included in a management letter similar to what the team has provided for the past two years.

The new accounting standards for Fiscal Year 2015 are not expected to have any effect on the audit for this year. An update will be provided as to the status of the audit at the next Audit Committee Meeting in October.

**Internal Audit Update (Item 3)**

Mr. Whelan announced that effective October 26, 2015, in an effort to maintain the global consistency of representation seen by its counterparts, McGladrey LLP will be rebranded from McGladrey to RSM.

Mrs. Reyes reviewed the Internal Audit Matrix and reported that to date, the Internal Audit team has issued seven of the audits on the initial plan and there are three remaining audits in progress, to be issued at the next meeting in October.

The Internal Audit Team is in the planning stages for several other tasks, and has begun the risk assessment process for the next fiscal year. A three-year plan was initially proposed, however, each year the team will review the proposed plan to ensure that the data remains relevant to the organization.

Ms. Johnson then reported the status of the prior audit findings. Ms. Johnson reported that to date, 37 prior audit items remain open. Since the last audit committee meeting, the Internal Audit team has been able to close three more items and reduce the number of pending testing items from twelve to six.

A point of clarification was offered regarding the corrective action themes, to state that most of the policies and procedures affecting 19 of the 37 items, have been drafted and presented to the General Manager. Those policies will then be passed forward to the Union for discussion and approval; until that time, the items will remain open.

**Internal Audit Update (Item 3) - continued**

Ms. Johnson also reported on the implementation of an automated Issue Tracker, a web-based tool that allows process owners to monitor their findings and to provide real time updates and documentation. The tool also allows process owner to request extensions and closure and thus far has been used across the Agency.

Mrs. Reyes introduced the Procurement report and reminded the committee that a memo was presented at the last meeting to request a change for the internal audit plan to include procurement in the plan. The scope of the audit was narrowed to pre-award and selection processes. Mrs. Reyes noted that once the contract has been executed, the next phase will be the contract management portion of the process, which is on the audit plan for Fiscal Year 2016.

Ms. Johnson presented the two observations from the report and an opportunity for improvement. Upon inquiry from Mrs. Boardman, it was clarified that that the observations did not impact the selection of the vendors in those instances.

Mrs. Reyes provided an update on the status of the Prior Observations and Recommendations from Procurement reports issued by Consultants and the prior Internal Auditor. The Audit Committee requested that the Internal Audit team review the observations that are still in-process and note if it is process improvement or an internal control finding, provide a risk rating for the internal control findings and document management’s response to the internal control findings. Mr. Dan Bae, Director of Procurement, discussed the Agency’s Business Process Improvement Plan (BPI) for Procurement and agreed, along with Mr. Kim, to review the Prior Observations and Recommendations from Procurement-related reports with the Internal Audit team and provide an email update to the Audit Committee by the end of August, for potential action and discussion as determined necessary at the October 22, 2015, meeting.

Mr. Luker presented the Engineering – Contractor Management report. Mr. Luker indicated that, due to the size and complexity of various the third-party arrangements at the Authority, this was the first phase of a three-phased audit plan for Engineering – Contractor Management, and the scope of this audit was to gain an understanding of the design of controls. Mr. Luker stated that the Internal Audit team was comfortable with the design of the controls in place. Throughout the assessment of the controls, the team did not identify any specific findings that rose to the level of having a risk level assigned or that required a response to management. The testing of the controls will take place during the next phase of the project. Mr. Luker presented two process improvement opportunities.

**Internal Audit Update (Item 3) - continued**

Ms. Johnson gave a brief update on the hotline calls. Ms. Johnson reported that since the last audit committee meeting the Hotline has received six additional calls; three were claims of fraud, three were classified as other. To date, the IA team has closed four cases and currently have five open.

Ms. Johnson also reported that a web-reporting tool has been implemented to allow DC Water employees to report claims online. The tool will be operated by the same vendor that presently receives the calls for the hotline and dispatches them to the Internal Audit team. Through the new tool, a caller will be able to submit their report online and it will reach the Internal Audit team directly, as opposed to the operation of a call center. Mrs. Boardman asked for clarification on who receives the calls and information, and Ms. Johnson clarified that the calls are monitored by The Network, a third-party vendor, and the web-tool is also managed by them. All claims are forwarded to the Internal Auditors rather than management.

The Internal Audit team had a quarterly joint meeting on Wednesday July 22 with General Counsel, Labor Relations and Security to discuss ongoing investigations, the open cases and the hotline standard operating procedures, which are currently in draft form.

Per inquiry from the Audit Committee, all hotline claims are taken very seriously. Once a report is received by the Internal Auditors, claims are discussed internally and distributed to the appropriate party for investigation. Based on the volume of calls, the Internal Audit team has not had a need to formally prioritize the calls.

**Executive Session (Item 4)**

Mr. Hayman asked for a motion to move into Executive Session to discuss legal, confidential, and privileged matters pursuant to Section 2-575(b)(8) of the D.C. Official Code. It was so moved and seconded. Ms. Manley conducted a roll call vote and the motion was approved. The Audit Committee went into Executive Session at 10:38 a.m.

**Adjournment (Item 5)**

The Board moved back into public session. The Audit Committee meeting adjourned at 10:53 a.m.