



DISTRICT OF COLUMBIA BOARD OF DIRECTORS

Audit Committee

**Thursday, May 24, 2007
8:00 a.m.**

Meeting Minutes

BOARD MEMBER(S) PRESENT

Timothy Firestine, Chairman
Kenneth Davis
Paul Folkers
Robin Martin
Keith Stone

WASA STAFF PRESENT

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

Call to Order

Mr. Firestine called the meeting to order at 8:10 am. He expressed his appreciation for having the responsibility of chairing the Audit Committee. Mr. Firestine also noted that he has twenty-seven years on the financial side and that he looks forward to working with Staff and the Audit Committee. Mr. Firestine informed the Committee that the General Manager would be discussing a non-agenda item prior to addressing the agenda items.

Non-Agenda Item – Fire Hydrants

Mr. Johnson reported that he and Mr. Robin Martin, Board Chairman have been in consultation over the last few days regarding the media coverage on the fire hydrant issue. Mr. Johnson stated that in light of the discrepancies in the reporting status of the fire hydrants, coupled with the Council Hearing on May 23rd regarding the same, he would like to suggest a third party review of the issue. He noted that he would prefer a reputable independent audit firm who is not currently doing business with either the Authority or the District of Columbia and that the review should be done jointly with the Fire Department. He also indicated that he will continue his attempts to schedule a meeting with the Fire Chief to discuss the reporting discrepancies and as well as the third party review.

Mr. Johnson welcomed comments from the Committee relative to his suggestion of a third party review and indicated that he would like to make a public announcement at some point today, if the Committee concurs.

The Committee asked what the scope of the review would entail. Mr. Johnson stated that the scope should go beyond the reconciliation of numbers, as this is only one issue. He noted that the scope should also address how the Authority is approaching the inspection and repair process, the resources being utilized to address the issue, how the Authority obtains and maintains the numbers, how staff is applying the technology that is being developed, as well as the exchange of information and technology. He also noted that staff is opened to the Committee's input on any other information that it deems necessary to be covered.

Mr. Firestine noted that the Authority should also to be able to ascertain if there was a problem with any of the hydrants once the review is completed. In addition, the Committee would like to know how the District's hydrant issue compares with other jurisdictions. Mr. Firestine inquired as to whether the

Authority would expect the third party to do their own investigations. Mr. Johnson stated that he would expect them to look at WASA's approach and give some sort of validation as to the appropriate method of addressing the issue.

Mr. Johnson indicated that he would like to initiate this proposal immediately and to have staff look at an appropriate procurement vehicle – possibly a GSA schedule would get a third party auditor on board quickly. He indicated that he has not talked to the General Counsel or the procurement staff regarding this proposed review, however, he has had a brief conversation with Mr. Martin. He also noted that he would need to confer with the third party auditor to determine the estimated duration for such a review.

Mr. Davis stated that one of the things Councilmember Mendelson requested was for Mr. Johnson to provide a report on the Park Service and other hydrants around. He stated that Mr. Johnson could request that DC Council conduct an independent review as part of his recommendation. Mr. Johnson agreed.

Board Chairman Martin stated that the Authority's primary focus is public safety and that he believes the auditor should determine the scope, once all of the information has been shared. He also believes that WASA should pay for the audit and if the Fire Department decides not to participate, WASA should go forward as soon as possible. Chairman Martin noted that he does not think the Council needs to be involved. He also noted that definitions should be qualified relative to fire hydrant repair/out of service conditions, so that everyone has the same understanding. Relative to duration, Mr. Martin expressed that he wants a credible job; therefore an appropriate amount of time should be allotted. Chairman Martin believes that the core value is having the most fire hydrants working as possible to everyone's agreement and technical satisfaction.

Chairman Martin preference was to make the announcement today that Authority is beginning the audit, whether the Authority is able to reach the Fire Chief today or not. Mr. Firestine stated that he concurs with Chairman Martin's statements, but believes it would add tremendous value if WASA had the Fire Chief's involvement.

Mr. Johnson asked the Committee if this would be an activity that would be overseen by them, an ad-hoc committee, or the entire Board. Mr. Firestine stated it could be initiated in this Committee, but would need to be handled by the full Board.

Mr. Firestine asked if a motion was needed from the Committee. Mr. Johnson noted that this proposal is within the spending authorization of the General Manager and that he wanted to make sure there were no objections from the Committee, prior to proceeding. Mr. Johnson requested that the record reflect the discussion on the issue and he indicated that staff would send a notice to the rest of the Board regarding the same. Mr. Martin requested that the full Board be notified before the announcement.

Internal Auditor's Report

Mr. Hunter welcomed the Audit Committee Chairman and stated that staff looked forward to working with him and understanding his style, philosophy and guidance for this activity.

Mr. Hunter distributed and reviewed the Activity Summary schedule for the last quarter. He stated that the Internal Audit's office (IAO) vision is to add value wherever possible. The IAO mission is to work with management, the Audit Committee and the Board of Directors in support of their corporate governance and other initiatives. Internal Audit also provides independent analyses and assurances on operations.

During the past quarter, the audit function has been involved in five engagements that are in-progress including, The Lead Service Program, Environmental Management System Audits, Labor Law Compliance Reviews, Accounts Payable and Sarbanes-Oxley Act (SOX) Testing. The IAO also have a number of engagements scheduled for the rest of the year, as reflected on the Activity Summary.

The IAO has provided assistance to the Authority by reviewing several policies and procedures and providing comments and/or recommendations to management. Internal Audit has participated in a vulnerability assessment of WASA facilities and issued a final document, which included touring facilities and commenting on the documentation provided by consultants for those activities. IAO developed a presentation to management called COMMON, which deals with the development of control objectives that management needs to consider for all operations.

The IAO is working with the CFO Staff in planning some of the A-123 (government's version of SOX) strategies. Mr. Hunter stated that he believes that the direction that this Committee has taken is not adopt SOX by itself, but to implement some version of OMB Circular A-123 (the Federal Government equivalent), which is in the planning stage.

With the implementation of Microsoft Outlook, IAO now has the ability to utilize Web based issues tracking database, which allow Internal Audit to work with different departments in producing our roll-up reports. A pilot project for this process has been undertaken and Internal Audit plans to have reports ready for the next Audit Committee meeting.

Regarding the Management Letter Comments from the external Auditor, Mr. Hunter pointed out that the comments will be rolled into the Web based tool mentioned earlier and that the product will be shared with the Committee at the next meeting. Mr. Firestine asked if the findings were discussed at all. Mr. Hunter noted that the findings were discussed and asked the Partners from TCBA to address Mr. Firestine's inquiry. Mr. Lucas-TCBA discussed each of the three findings in detail. Mr. Johnson pointed out that there was also a closed meeting in which staff was excused so that the External Auditors could meet with the Committee independently.

The Committee requested that Mr. Hunter provide more detailed information relative to the audits planned and the associated status so that the Committee can have a better sense of where the IAO stands with its projects in terms of resources, statuses, etc.

Emerging Issues

Mr. Hunter noted that the DC Auditor Letter Report was provided to the Committee for their information. He stated that the DC Auditor has statutory obligations when they perform sufficiency reviews, which are not include in the Committee packets. Mr. Firestine stated that he thought WASA's responses were appropriate.

Action Item

Ms. Reid discussed the TCBA Contract Year 2 Renewal. Mr. Johnson pointed out that the contract amount was within the budget and spending authorization of the General Manager. However, this contract has been brought to the Board for approval because of the nature and scope of the contract and the relationship ties back to the Audit Committee and the Board. There was discussion at the last contract renewal regarding the five year rule and the provision in SOX. It was decided that if the contractor was performing appropriately and not involved in any other activities within the organization, that the changeover in both engagement and managing partners for the engagement was an adequate change to support the turnover that was required. .

Finally, Mr. Hunter inquired if the Committee's meeting frequency and standard meeting time was amenable. The Committee agreed to keep the standard meeting frequency and time. Mr. Johnson noted that he would like to have a conversation before the next scheduled Committee meeting to determine the formatting of the information for the next meeting. Mr. Firestine agreed.

Adjournment

The meeting was adjourned at 9:08 a.m.