



# **DC WATER AND SEWER AUTHORITY BOARD OF DIRECTORS**

## **Audit Committee**

**Thursday, July 26, 2007  
8:00 a.m.**

## **Meeting Minutes**

### **COMMITTEE MEMBER(S) PRESENT**

Timothy Firestine, Chairman  
Kenneth Davis  
Robert Martin

### **WASA STAFF PRESENT**

Jerry Johnson, General Manager  
Avis Russell, General Counsel  
Michael Hunter, Director, Internal Audit  
Linda Manley, Secretary to the Board

### **Call to Order**

Mr. Firestine called the meeting to order at 8:00 am.

### **Chairman Opening Comments**

Mr. Firestine noted that Agenda Item 5 (Audit Committee Charter) was being removed from this meeting's agenda. He also reminded staff that during the last Audit Committee Meeting there were questions raised by the Committee as to how the Internal Audit Office prioritizes its audits during the work plan year.

### **Internal Auditor's Report**

Mr. Hunter explained how audits are placed on the audit plan and pointed out that the Committee approved the methodology used a few years ago. He noted the process involves looking at different service areas of the organization and identifying activities at a very high level. From that point the Internal Audit Office drills down and comes up with an auditable entity (Attachment 1).

Mr. Hunter stated that like the budgeting process, the auditing risk assessment is a constant process; as the business changes, modifications maybe necessary to address new operations, new systems and procedures as well as obsolete processes. Mr. Hunter requested that the Committee review the chart on page 6 of Attachment 2 and pointed out that the adopted model breaks out the risk assessment factors into two areas: 1) Business Risk and 2) Performance Risk. Mr. Hunter noted that the Committee's input gives Internal Audit guidance regarding those areas that are of higher interest to the Audit Committee and management.

Mr. Davis questioned how items from the Inspector General and external auditors fit into the assessment. Mr. Hunter explained that these items are included in the Performance Risk factor labeled "Results/Time Since Last Internal/External Review".

Mr. Martin had some concerns that there was no mention of the Board of Directors or the Audit Committee on page 3 of Attachment 2. He also expressed some concerns relative to the relationship between the external auditor and the Committee and the internal auditor and the Committee. Mr. Johnson explained that the Committee approves the Audit Plan, not the General Manager. Mr. Johnson also noted that the Committee meets exclusively with the external auditors to address any questions the Committee may have as well as to ensure that all parties have a clear understanding of the external auditor's role and reporting relationship.

Mr. Martin had questions relative to the weighted percentages and he expressed concern that there should be an overall ranking, so that the universe would be reflective of what is more critical. Mr. Hunter explained to the Committee how the weights are calculated. Mr. Martin stated that he would like to see more details that would allow the Committee to determine if the critical areas are covered and if the staffing is adequate to accomplish the more critical tasks.

Mr. Martin asked how the Audit Universe list in Attachment 1 was developed. Mr. Hunter explained that the listing was originated from organization charts, budget documents, and the departments and functions performed by the departments. The list was then grouped by service areas and broken out into another tier below the service area. Mr. Martin noted that he was concerned that the Internal Audit Office may be missing some of the bigger issues, such as succession planning which was mentioned at the Board Retreat. Additional discussion ensued on how best to capture the major issues to be reviewed.

Mr. Firestine stated that in his experience some of these issues are captured as they occur and then are added to the universe. Mr. Johnson stated that an effort was made to use a state of the art tool to develop this universe. He noted that since the universe has been developed, WASA has made some additions and deletions. As an example, Mr. Johnson noted the addition of the review of the lead service line replacement. He stated that he requested the Internal Auditor to review the process to ensure WASA was operating efficiently. Mr. Johnson agreed that staff could look at other methodologies to ensure optimum results.

Mr. Martin stated that he would look into obtaining a copy of a Risk Assessment from one of Audit Committees that he is a member of and that is comparable to WASA. Mr. Hunter indicated that the Internal Audit Office would be happy to receive any input the Audit Committee might have to ensure that the Committee is receiving adequate support with their governance responsibilities. Mr. Firestine stated that it appeared to be a good approach and a very comprehensive list. He also noted that the Committee can look at other areas to make sure items haven't been omitted.

Mr. Firestine inquired about the number of staff members in the Internal Audit Office. Mr. Hunter stated that there are four approved positions of which three are filled. Mr. Firestine asked if contractors would be used to address such an aggressive Audit Plan. Mr. Hunter responded that contractors have been used in the past, but not this year. Mr. Firestine asked

if there was a budget for hiring outside firms. Mr. Hunter stated that there is a small budget for contract work.

Mr. Davis asked about the status of the proposal for the Internal Auditor to report directly to the Board. Mr. Johnson stated that this was one of the recommendations that came out of the governance study that has not been addressed by the Board primarily because of the recent Board transitions. He noted that the Board has not formerly embraced the recommendation, nor have they rejected it.

There was further discussion regarding the reporting relationship of the external auditors. It was decided that the Audit Committee would meet with the external auditors regarding the reporting relationship and their respective duties.

In reviewing the approved Audit Plan, Mr. Hunter pointed out that page 1 of Attachment 1 was intended to be a bulleted summary. He explained that pages 1 through 4, gives a synopsis of the purpose and the scope of the area. Mr. Firestine asked if the Audit Committee has seen a detail follow-up report. Mr. Hunter described the various follow-up activities. Mr. Firestine asked staff to provide a more comprehensive list with current status of each item at the next meeting.

Mr. Martin express concern regarding the listed audits and current staffing in the Internal Audit Office and asked the Internal Auditor if the Internal Audit Office would be better served by putting more depth into fewer audits or by putting more funds into staffing. Mr. Hunter stated that the goal is to complete the audits in the plan year, but noted that this does not always occur. Mr. Martin pointed out that it's difficult for the Committee to determine if there is adequate staff and resources to complete the audits and that he wants to make sure that there is adequate staff to produce quality audit results. Mr. Johnson stated that management has done studies to determine whether the Authority has adequate staff to get the work done. He also noted that the Internal Audit Office has had vacancies that have lingered for long periods of time and that during that time WASA has supplemented staff with external resources to assist in getting the work done.

Mr. Martin said he had two suggestions, one, the Committee needs to look at the start and end dates, but secondly for the Committee to understand whether or not the audits are cost efficient the Committee needs to see the actual reports, not just the recommendations which show how much depth staff is actually able to go into. Mr. Firestine said he agreed. Mr. Firestine noted that it would also be helpful to indicate how many audits will be completed. Mr. Hunter stated that all of the engagements listed are expected to be completed except for the Construction Billings Expenditures, Change Control Review, Review of Capital Projects and possibly Local Area Network (LAN) Review. It was agreed that staff would provide the Committee with a sample summary, not the entire report.

### **Emerging Issues**

Mr. Hunter stated that SAS 112 is essentially a new reporting requirement for the external auditors that provides guidelines and determines what type of communications is needed to Board. The old definitions that were in place were material weakness, reportable conditions, and Management letter comments.

The new definitions include material weakness, significant deficiencies and other matters related to internal control. This lowers the bar on the threshold for what is believed to be reportable and therefore the Committee may see more items that are typical management reporting. The external auditors now look at potential, not just actual.

Mr. Martin asked if the external auditors were moving toward Sarbanes Oxley (SOX). Mr. Hunter said that the current documents are influenced by SOX. Mr. Firestine stated that external auditors are applying SOX to the public sector.

Mr. Davis asked if the Audit Committee accepted SOX as the standard. Mr. Hunter stated that he did not believe this is a hard decision made. Mr. Johnson stated that when the Board met with the external auditor there was discussion around SOX and which of those provisions the external auditor would recommend that the Board embrace or adopt. There was some follow-up on a limited basis and to some extent some of the principles were adopted.

Mr. Firestine noted that he talked to Mr. Hunter about the possibility of going over the list of Best Practices for an Audit Committee before the next Audit Committee meeting to determine what the Committee needs to consider adding to its responsibilities.

Mr. Firestine recapped that the follow-up items will include further discussion on the reporting relationship with the external auditors in terms of procurement (possibly before the next meeting), including more definition to the status report of the audit plan—start date, end date, projected hours for each audit; a sample of several audit reports; and Best Practices of an Audit Committee.

### **Adjournment**

The meeting was adjourned at approximately 9:05 a.m.