



**D.C. Water and Sewer Authority
Board of Directors
Audit Committee
Wednesday, February 18, 2009
9:30 am
Meeting Minutes**

COMMITTEE MEMBER PRESENT

Timothy Firestine, Chairman

WASA STAFF PRESENT

Jerry Johnson, General Manager
Avis Russell, General Counsel
Johnnie Hemphill, Chief of Staff
Linda R. Manley, Secretary to the Board

Call to Order

The Audit Committee meeting began at 9:30 am. The meeting was called to order by Mr. Firestine.

Chairman Opening Comments

Mr. Firestine stated that he did not have any opening comments and turned the meeting over to the External Auditors - TCBA for their report.

External Auditor's Reports

Mr. Al Lucas, Audit Partner-TCBA stated that they have completed the 2008 Independent Audit and were pleased to issue an unqualified opinion and no issues.

- A. FY2008 Financial Statement Audit Report – *Unqualified Opinion*
- B. FY2008 OMB A-133 Audit Results
 - Report on Internal Control over Financial Reporting – *Unqualified Opinion*
 - Report on Compliance with Requirements - *Unqualified Opinion on Compliance*
- C. Review Management Letter Comments
 - Current Year Comments
 - Significant Deficiencies – *None*
 - Management Comments – *None*
 - Status of Prior Year Comments
 - Three comments are resolved.

- One is partially resolved; the result of the Policy for Revenue Refunds being updated.

There was discussion on the resolution for the untimely deposit of checks from vendors, (one of the resolved prior year Management Comments). It was stated that this process has been strengthened by ongoing communication between Finance and Treasury, coupled with the installation of a manual log maintained in the Treasury Department to ensure that the deposits are made timely.

Mr. Lucas stated that TCBA has read the financial information included in the 2008 Comprehensive Annual Financial Report (CAFR) and determined that it is consistent with the audited financial statements. He further stated that TCBA had management's full co-operation and there were no disagreements with management on financial accounting and reporting matters.

Other significant items discussed with management were the impact of the current financial crisis and potential asset impairment regarding review of the Egg Digester Project. WASA had already completed an analysis of the financial crisis impact. The digester project is on hold, and the digester costs will be capitalized, so no assets were impaired.

TCBA reviewed the impact on WASA of upcoming GASBs and determined that GASB49 (Required for implementation in 2009) – "Accounting and Financial Reporting for Pollution Remediation Obligations" may impact WASA. The other GASBs to be implemented or effective in 2009 may not impact WASA.

Mr. Firestine asked about the \$71 million payment to the Washington Aqueduct. Mr. Adebo, Chief Financial Officer, explained that the amount is significantly higher this year due to the fact that WASA's contractual funding contribution/obligation is a fixed percentage. The federal government requires local government agencies to provide the full contract obligation in advance.

Mr. Firestine extended "kudos" to the staff on a job well done.

Internal Auditor's Report

Mr. Johnson stated that he has asked Mr. Hemphill, Chief of Staff, to provide general oversight of the Internal Audit Office following the recent resignation of the Internal Auditor. Mr. Johnson went on to report that current staff is comprised of two permanent employees, (one Sr. Internal Auditor and one Executive Assistant) and two contractors (Sr. Internal Auditors)

Mr. Hemphill and Mr. Thomas, the Sr. Internal Auditor, provided the following report:

- There are seven carryover projects from 2008. Two are completed; the review is complete for four of the projects, but the Final Report has not been issued. One project is in process--began in late December 2008 (Local Area Networks (LAN) Review). There were no significant findings in the four projects that have been reviewed. Staff estimates closing these four projects within the next thirty days.

- The 2009 Audit Plan includes ten projects, of which one has been started—late January 2009 (Review of WSSC’s BP Biosolids Costs). The other projects had been projected to begin in early May and beyond.

Mr. Firestine requested a brief project summary/update (attached).

Internal Auditor Office Structure

Mr. Johnson discussed his plans for transitioning the Internal Audit (IA) Office. Mr. Johnson stated that given some of the productivity issues noted and on-going challenges experienced with attempts to staff the office, he plans to outsource the IA function. He stated that other organizations around the country face similar challenges and have chosen to outsource the function. He also stated that he had discussed this matter with the former Chairman prior to his leaving.

Mr. Johnson proposed to the Committee that WASA bring in a firm that would make available to this organization a broader range and depth of resources, and in a manner that would help avoid the necessity of intermittently re-entering the market to hire these resources.

Mr. Johnson stated that we have reviewed any legal constraints, and developed a preliminary timeline for executing an agreement to initiate this different model for the internal audit function. He said one of the first things an outside firm would look at is a comprehensive risk assessment. The results of such an assessment may cause us to concentrate on different areas or processes where there is potential exposure relative to those areas that may have been previously identified within the organization. The priority going forward is to ensure that we devote the appropriate time and energy to the transition to the new model. Careful management of a comprehensive and robust risk assessment should follow, and is the prerequisite for establishing a strong basis for an effective function going forward.

Mr. Johnson’s plan is to contract with an outside resource to assist in establishing the new model, so that we do not drain existing resources within WASA. More specifically, the outside resource would assist in the RFP development and evaluation, selection, and other activities.

Mr. Firestine requested a timeline for the Committee’s report to the Board. Mr. Johnson reported that he would bring in an outside consultant to support the transition immediately. The process in contracting an outside firm would include RFP development, issuance, negotiation and the contracting process. His preliminary projection was to have an RFP prepared within 30 days, expect receipt of and begin proposal review within 60 days, and to target completion of a multi-year contract with a vendor by July 2009. Mr. Johnson would rely on the expertise of the contractor, but would like to expedite the risk assessment, perhaps completing that activity within approximately 60 days. It is Mr. Johnson’s expectation that a proposed Audit Plan would follow with the contractor undertaking work by the end of the year. A refined and more definitive timetable will be developed.

Mr. Firestine asked about the remaining staff. Mr. Johnson said there are currently two full time employees within the office, and his principal considerations are the management of contract resources and ensuring that WASA retains relevant and valuable expertise. The staff is skilled and we will need to identify and work through the various transition issues, including contract management. There are also a number of roles within the organization that we plan to explore with current staff.

Other Business

None

Executive Session

Mr. Firestine called for an Executive Session to have dialogue with the external auditors.

Adjournment

The meeting was adjourned at approximately 10:30 am.