**DISTRICT OF COLUMBIA**



 **Water and Sewer Authority**

### Board of Directors

**Audit Committee**

**Thursday, February 27, 2014**

**9:30 a.m.**

**Meeting Minutes**

**COMMITTEE MEMBERS PRESENT DC WATER STAFF PRESENT**

Bradford Seamon, Chairman Randy Hayman, General Counsel

Robert Mallett Linda Manley, Secretary to the Board

Ellen Boardman Mark Kim, Chief Financial Officer

Dawn Hawkins-Nixon Thomas Kuczynski, Chief Information

Kathleen Boucher Officer

 Charles Kiely, AGM, Customer Care &

 Operations

Carlton Ray, Director, Long Term Control

 Plan

Ayodele McClenney, Director, Occupational

 Safety & Health

**INTERNAL AUDIT STAFF PRESENT**

Joe Freiburger, SC&H Group, LLC

**Call to Order (Item 1)**

The Audit Committee meeting began at 9:35 a.m. The meeting was called to order by Mr. Seamon. Mr. Seamon then turned the meeting over to Mr. Kim.

**Update – 2013 IT Asset Inventory Reconciliation (Item 2)**

Mr. Kim presented the final results of the 2103 IT Asset Inventory Reconciliation. He highlighted the initial results for both the Desktop and the Network assets, as provided by ProBar (the 3rd-party inventory vendor), the work performed by the IT department and Internal Audit to locate the items initially identified as “missing”, and the final results of the inventory process, including the average age and value of the IT assets that could not be located.

Mr. Kim stated that the dollar value of the missing IT assets would be written off, and pointed to changes that were being implemented in the IT asset management process.

Mr. Seamon and Mr. Mallet both had questions regarding the graphics presented on slide three. Mr. Kim clarified that the “Initial Found” line represented the number of items found by ProBar, and that the “Reconciliation” line represented the number of items found by the IT department and Internal Audit following the results of the initial count.

Mr. Seamon asked why the IT department and Internal Audit were able to find items that ProBar wasn’t able to locate. Mr. Kuczynski responded that the reasons included discrepancies with the asset tag and serial number records provided to ProBar compared to what were on the assets, and ProBar’s inability to access secured locations. Mr. Seamon then asked for clarification regarding the definition of “Network” and “Desktop” assets. Mr. Kuczynski defined Network assets as the servers located in the Data Centers and Desktop assets as PCs, monitors, iPads, laptops, etc.

Mr. Seamon asked if the changes to the IT asset management that were being implemented included the increased frequency of asset counts. Mr. Kuczynski explained that on a quarterly basis, IT would perform a query of the IT network that would identify all active devices on the network. IT would then follow up on any devices that didn’t show up in this query. Additionally, a report would be generated that would identify any laptops that hadn’t been logged into within the last 30 days. IT would follow up on this list of laptops to verify their presence. Mr. Kuczynski also stated that the IT assets in different areas within DC Water would be inventoried periodically. Mr. Seamon asked if there would be another full IT asset inventory. Mr. Kuczynski responded that the next planned full IT asset inventory was scheduled for early 2015.

Ms. Boardman asked about the variance of 14 assets between the numbers provided on slides two and three. Mr. Kim pointed to the bullet on the bottom of slide two that mentioned “14 non-hardware IT assets”. He indicated that these items were software that had been installed that was inadvertently included on the asset listing and was never intended to be inventoried.

Ms. Hawkins-Nixon asked if the missing IT assets could be categorized into similar asset types. Mr. Kuczynski explained that these items were generally aged desktops and monitors that had been previously disposed, or exchanged with the vendor.

**Review of Internal Audit Status (Item 3)**

Mr. Seamon then indicated that, due to time restrictions, Mr. Freiburger should quickly provide the internal audit status update. Mr. Freiburger stated that he would provide the summaries of each audit report included in the update, and that each committee member had the full audit reports if they would like additional details.

Mr. Freiburger began by noting that Internal Audit performed audit work in eight separate audit areas since the last Audit Committee meeting. He noted that four final reports were issued related to the FY2014 Internal Audit Plan (Legal Operations, Disposal of Assets, Clean Rivers Project Management,

and OSHA Compliance).

Additionally, four audits from the FY2014 Internal Audit Plan (Employee Benefit Plans, Sewer Services – Distribution, Outside Contractor Management, and Business Continuity) are in progress.

Mr. Freiburger outlined the information contained on the charts provided in the internal audit status report that show the status of the FY2014 budgeted internal audit hours, and also the status of all audits included in the FY2014 Audit Plan. He indicated that based on the status of the current outstanding audits and the number of hours used, Internal Audit was on track compared to the annual audit plan.

Mr. Freiburger then reviewed the objectives and findings from the Legal Operations audit report, and asked the Committee if there were any questions:

Regarding the discontinuation of the quarterly reports provided by external counsel, Mr. Mallett asked a) how many firms this encompassed, b) how often these firms were paid, and c) if they provided time sheets or other support for the invoices they submitted. Mr. Hayman responded that there were approximately six external firms used by the OGC on a recurring basis, and that their use was dependent on specific legal items that arose. Mr. Hayman explained that each external counsel was assigned to an in-house attorney who provided oversight and worked directly with them throughout the issues on which they were providing assistance. He further explained that the external firms provided invoices, along with timesheets used for invoice validation and approval for payment. Mr. Seamon asked Mr. Hayman to update a previous OGC overview presentation and distribute it to all Audit Committee members.

Ms. Boardman and Mr. Mallett asked if Legal costs were presented as a separate line item. Mr. Kim responded that these costs were separate budget items, but that they were included with other amounts on the financial presentation, but that he could provide separate cost information for Legal costs for the Committee.

Mr. Freiburger then reviewed the objectives and findings from the Disposal of Assets audit report, and asked the Committee if there were any questions:

Regarding the disposal vendor not going through the procurement process, Mr. Mallett asked if it were a sole source arrangement. Mr. Freiburger responded that the vendor was contacted directly by the department manager. Mr. Mallett noted that it sounded like a case of the department taking necessary steps to get the work done. Mr. Freiburger indicated that would be his characterization.

Mr. Freiburger then indicated that, due to further discussions with management, the specifics of the remediation plans would be changing, but that Internal Audit was still comfortable that the identified deficiencies would be appropriately remediated. Mr. Kiely added that his preference would be to not have Meter Service and Water Services responsible for the disposal of their scrap assets. He noted that he was planning to meet with his peers to discuss the process changes.

Mr. Freiburger then reviewed the objectives and findings from the Clean Rivers Project Management audit report, and asked the Committee if there were any questions:

Ms. Boardman asked about the comment regarding the open positions that had not been filled. She questioned whether this was a problem that has lead to work not being performed.

Mr. Freiburger indicated that the work was being performed by existing personnel, but that it could become problematic as the project went on. Mr. Ray provided additional information regarding the inability to fill the open positions. He discussed the competitive environment of tunneling, noting the national and international demand for skilled personnel. He also talked about the efforts that have been tried to attract new talent.

Mr. Mallett asked if there was intent and a need to have these positions filled. Mr. Ray responded in the affirmative, that these positions were needed and that he intended to fill the positions. Mr. Ray discussed the Clean Rivers work that hasn’t yet been started.

Mr. Mallett asked if the salary offered wasn’t competitive. Mr. Ray responded that salary limitations were an issue. Ms. Boardman noted that a concern would be that existing personnel covering the additional work could burn out or decide to leave, and if salary was the issue, it needed to be addressed. Mr. Mallett stated that the need to fill the open positions needed to be properly addressed with the Human Capital Management (“HCM”) department.

Mr. Seamon asked if the stated implementation date was to have the positions filled, or for a change to the approach to filling the positions. Mr. Ray responded that the date was for the changes to the recruiting approach for the open positions. He further noted that they intended to use better professional search firms, work with HCM and look for other ways to recruit new personnel.

Mr. Seamon and Mr. Mallett asked about the use of consultants to fill the open positions. Mr. Ray responded that a lot of consultants are being used on the Clean Rivers project and that they report to DC Water personnel. He noted that consultants were used to fill the level below the project manager positions that were vacant.

Ms. Boucher noted that project status updates for the Clean Rivers project are provided to the Environmental Quality and Sewage Committee and asked if this audit report should be shared with that committee as well. Mr. Freiburger noted that the audit reports are made available to the entire Board of Directors, but that it wasn’t the standard process to distribute specific audit reports to other committees. Ms. Boucher asked if it was okay to share the audit report with other committee members. Mr. Seamon responded that it was okay to share the reports.

Mr. Mallett asked about the second audit comment, regarding inconsistencies identified in reports provided to project management. Mr. Freiburger noted that these were primarily spreadsheet filtering errors on a select few internal reports that were not presented to the General Manager or other DC Water management. Mr. Ray added that there will be increased quality control to prevent future errors such as the ones identified.

Mr. Freiburger then reviewed the objectives and findings from the OSHA Compliance audit report, and asked the Committee if there were any questions:

Ms. Boardman asked how often OSHA monitored DC Water work. Ms. McClenney responded that DC Water was not monitored by OSHA. Mr. Hayman agreed that OSHA did not monitor DC Water safety.

Ms. Boardman asked who employees could contact if they had safety issues. Mr. Hayman stated that he would follow up and provide additional information.

Mr. Freiburger then discussed the management responses to previously identified audit recommendations. Mr. Freiburger noted that there were 14 new audit recommendation responses added since the previous Audit Committee meeting. Mr. Freiburger further noted that there were a total of 38 previously added audit recommendation responses that were not yet due. Finally, Mr. Freiburger noted one Management response pertaining to the implementation of a leak detection system that was past-due and thus labeled as “expired”. Mr. Kiely provided an update on the efforts to identify and implement a leak detection solution, noting that his department had trialed several potential solutions and found one that seemed to be a good product. He purchased the product and installed it, but encountered multiple problems. Mr. Kiely added that the product had been returned and he was in the process of having the money spent on it refunded to DC Water. He added that they were bringing in new vendors and continuing to search for a solution, and there wasn’t a clear-cut best option. Mr. Seamon asked if the item would be remediated this year or next year. Mr. Kiely responded that it wouldn’t be completed this year.

Mr. Seamon asked if there was any update on the recurring item regarding the approval of DC Water policy & procedure documents. Mr. Kim responded that the item was still in progress.

Mr. Seamon then asked for an update on the Fraud, Waste and Abuse Hotline. Mr. Freiburger noted that, to date, a total of 14 reports of Fraud, Waste and Abuse have been received as a result of the hotline, adding that there were three open allegations that were being investigated. Mr. Freiburger noted that Internal Audit had no reason to believe that any of the open allegations were serious enough to warrant additional updating to the Committee. Ms. Boucher noted that the Hotline was a good thing for employees to have available to them.

Mr. Seamon stated that he didn’t think there was a need for an Executive Session and adjourned the meeting at 10:39AM.