



**DISTRICT OF COLUMBIA
Water and Sewer Authority**

Audit Committee

**Thursday, May 30, 2013
9:30 a.m.**

Meeting Minutes

COMMITTEE MEMBERS PRESENT

Bradford Seamon, Chairman

SC& H Group, LLC

Joseph Freiburger

STAFF MEMBERS PRESENT

George Hawkins, General Manager

Randy Hayman, General Counsel

Katrina Wiggins, Chief of Staff

Mark Kim, Chief Financial Officer

Joe Edwards, Acting Chief Information Officer

John Madrid, Controller

Linda R. Manley, Board Secretary

Rosalyn Inge, Acting Assistant GM for Support
Services

Call to Order

The Audit Committee meeting began at 9:35 a.m. The meeting was called to order by Mr. Seamon. Mr. Seamon indicated that the follow-up discussion on items from the February Committee meeting would be incorporated into the Internal Audit update. Mr. Seamon then turned the meeting over to Mr. Freiburger.

Review of Internal Audit Status

Mr. Freiburger began by noting that ten of the audits specified in the FY13 audit plan were in various stages of completion, including six audits for which the final reports had been issued. Mr. Freiburger stated that three audits had been completed, and audit reports issued, since the February Committee meeting: P-Card, Investment & Cash Management and Fleet Management. Mr. Freiburger added that the IT Network Security, Sewer – Emergency Maintenance and PCS audits were nearing completion. Mr. Freiburger further added that work was beginning for the Engineering – High Priority audit.

Mr. Freiburger reviewed the status of the FY13 budgeted Internal Audit hours and identified the number of budgeted hours used for the year to date, as well as the number of budgeted hours remaining for the year. The information shows that the actual hours used through April 30, 2013 were slightly behind (by approximately 200 hours) the projected number of

hours for the same period. Mr. Freiburger also reviewed the status of the FY2013 Audit Plan and showed that the number of projects completed and in-progress was in line with the Audit Plan expectations for the year.

Mr. Freiburger then reviewed the objectives and findings from the P-Card, Investment & Cash Management and Fleet Management audit reports, and asked the Committee if there were any questions:

Regarding the P-Card report – Mr. Seamon asked Mr. Madrid and Ms. Chang whether staffing challenges that were referenced on page 4 of the P-Card audit report could potentially get in the way of P-Card process improvement efforts. Mr. Madrid responded that staffing changes are being incorporated into the process improvement plan, and that they intend to bring representatives from Concur back in to present their information to the new CFO (Mr. Kim), the new Chief of Staff (Ms. Wiggins) and the new Acting Director of Procurement (Ms. Chang). Mr. Seamon asked if there was a timeline for asking Concur in to present and potentially implementing their P-Card platform. Mr. Madrid responded that there was not currently a timeline in place, as this activity was being considered for consolidation into the Revenue Generation initiative as part of the Strategic Plan. Mr. Freiburger added that management previously indicated this was scheduled for a September 30th decision. Ms. Chang agreed with this implementation date.

In reference to a recommendation to increase the knowledge of the reviewing employees on the front-end of the P-Card review process, Ms. Chang noted that the P-Card Administrator was speaking to each of the departments to identify key points of contact within each department for additional training. She estimated completion of this activity as Q1 of FY2014.

In reference to a recommendation to implement a threshold above which employees must provide descriptions justifying purchases as allowable business expenses, Mr. Seamon asked if the standard Citibank P-Card application would overlap at all with Concur's P-Card application.

Mr. Madrid stated that Citibank's application was a standard application used by all customers, whereas Concur's application would be customized to the specific needs of DC Water. Mr. Madrid further stated that Concur's application could incorporate DC Water's P-Card policy, and that there would not be much overlap with Citibank's application.

Regarding the Investment & Cash Management report – In reference to the audit observation regarding the timeliness of bank reconciliations, Mr. Seamon asked if this observation has shown up in other audit reports. Mr. Freiburger noted that a similar observation was noted by the external auditor. Regarding the cause of the observation and the subsequent remediation, Mr. Madrid noted that the delay in completing bank reconciliations was largely the result of the number of accounts to reconcile, and associated staffing limitations. Mr. Madrid added that Finance was working with a Business Process Improvement Consultant to implement Lawson's Cash Management module, which should allow for timelier bank reconciliations.

Regarding the Fleet Management report – Mr. Freiburger began by recognizing Mr. Fitzgerald as the new Fleet Director and acknowledging the changes and initiatives that have been implemented since he assumed that position.

In reference to an audit observation noting that periodic driver record checks were no longer being performed, Mr. Seamon asked if DC Water knows that no drivers are operating company vehicles on suspended licenses. Mr. Fitzgerald responded that the Fleet department knows there are no drivers operating company equipment on suspended licenses because he's worked with HCM to manually check DMV records to assure that all drivers have valid drivers' licenses.

Mr. Hawkins recognized Mr. Fitzgerald for the work that he's done with the Fleet department, noting that because of the high percentage of DC Water vehicles available for use (stated by Mr. Fitzgerald to be 97.5% availability), they have been working with DC FEMS (the District's Fire and EMS department) to provide short-term assistance with their emergency vehicle maintenance.

In reference to an audit observation noting the need for the Fleet department to update policy and procedures documents, Mr. Seamon asked if DC Water should ask all departments to review their policy and procedures documents, identify outdated documents, and make the required updates. Ms. Wiggins responded that this activity was already occurring. Ms. Wiggins stated that they were following the law, and that all policy and procedures documents that could be updated, were being updated. Mr. Freiburger suggested differentiating between corporate policies that would still be subject to GM approval, versus departmental procedure documents that could be updated and implemented at the departmental level, without GM involvement. Mr. Hawkins stated that many departmental procedure documents have been referred to as "policy" documents and have made it to his office for approval. In these instances, he noted that his approval is not needed, and that he often (such as with updated IT documents) is not sure what the documents are referencing. Mr. Hawkins then noted the amount of time that a policy update takes to go through labor negotiations prior to approval and implementation, stating that it took four months for one policy document. Mr. Hawkins noted that they were working to reduce the amount of time that it took to gain approval for updated policy documents.

Mr. Hawkins stated that an effort is being made to reduce the number of "policy" documents down to the documents that need his approval, and to elevate the importance of these documents so they can be reviewed and approved more timely.

In reference to an audit observation recommending the implementation of industry-standard repair times, Mr. Fitzgerald noted that his department had these standards, and they were being integrated into the Fleetwave system so they could be used to assist in workload planning and scheduling. Mr. Seamon asked how the fleet maintenance contractor billed DC Water. Mr. Fitzgerald responded that there were two contracts – one that billed on an hourly basis for labor, and another contract for the purchase of parts.

In reference to an audit observation noting that fuel reports were not always accurate, Mr. Fitzgerald noted that an update to the “ring” technology used to capture fuel information should prevent the need for any driver intervention, and assure greater reporting accuracy. Mr. Fitzgerald stated that this should be completed by the end of the calendar year. Mr. Fitzgerald added that DC Water installs their own Fuel Ring equipment, whereas other fleet departments within the District use outside contractors for equipment installation. As such, there is a delay in the implementation of the new Fuel Ring upgrades. Mr. Seamon asked if the end of year deadline could still be met with the District delays. Mr. Fitzgerald responded that the deadline would still be met.

Mr. Freiburger then discussed the Management responses to previously identified audit recommendations. Mr. Freiburger noted that there were nine new audit recommendation responses added since the February Audit Committee meeting: Four items resulted from the P-Card audit, four items resulted from the Fleet Management audit, and one item resulted from the Investment and Cash Management audit. Mr. Freiburger further noted that there were a total of 24 previously added audit recommendation responses that were not yet due. Finally, Mr. Freiburger noted nine Management responses that were past-due and thus labeled as “expired”.

Ms. Wiggins noted that the past-due update of a spare parts inventory is being rolled into a larger Asset Management process re-engineering effort. Mr. Seamon asked if there was an updated timeframe for remediation of the observation. Mr. Hawkins stated that they would follow-up to determine an updated timeframe.

Mr. Freiburger noted that the remediation of the past due implementation of a project management methodology had been completed. Mr. Seamon asked if the methodology had been implemented. Mr. Freiburger answered in the affirmative.

Mr. Edwards stated that the bulk of the IT policy and procedure documents have been updated and approved by the IT Governance Committee. Mr. Seamon asked if the next step was to complete the remainder of the document updates. Mr. Edwards answered in the affirmative.

Mr. Edwards stated that an existing risk assessment document was in place and that IT has hired a security officer to create an updated risk assessment document.

In the interim, Mr. Edwards stated that they were using the recommendations from recently completed external reviews – such as from Homeland Security – as the basis for their risk mitigation. Mr. Seamon asked for an updated timeline for completion. Mr. Edwards answered that it would be at least six months.

Mr. Edwards stated that IT had obtained a listing of all employees with key card access to data centers and was working with DC Water Security to assure appropriate access to each facility. Additionally, Mr. Edwards noted that IT was in the process of re-keying each door that depended on keyed access, as these locks have not been changed in 10 years.

Mr. Seamon asked if the updates to the access listings for the data centers had been completed. Mr. Edwards responded that the effort was still in progress.

Ms. Inge stated that they had applied for, and received, funds for the cost of providing training to employees for the Disaster Response Plan. Ms. Inge further stated that the past-due training would be completed by the end of the calendar year.

Mr. Freiburger noted that the remediation of the past-due implementation of an updated Safety Program document had been completed at the department level, and had been provided to the Chief of Staff for the GM's approval.

Ms. Inge stated that a new system had been identified for tracking and monitoring safety violations and was awaiting implementation. Mr. Seamon asked if there was an updated timeline for implementation. Ms. Inge responded that implementation would be complete by the end of the calendar year.

Mr. Hawkins noted that they had previously discussed the past-due item regarding the GM approval of updated policy and procedure documents.

Mr. Seamon asked if there were other topics to discuss.

Update on Establishing Fraud Hotline

Mr. Freiburger informed the Committee that Fraud Hotline awareness training had been presented to some employees, and that training would continue. Mr. Freiburger stated that, to date, three calls had been received into the Fraud Hotline. Mr. Freiburger further noted that all three calls were related to HCM policies, and that Internal Audit was working to resolve and close the issues. Ms. Wiggins asked if it was true that two of the calls were for the same issue. Mr. Freiburger answered in the affirmative. Mr. Hawkins stated that there was an initial anticipation that the Fraud Hotline would receive a large number of calls. Mr. Freiburger noted that a larger number of calls were expected, but that Internal Audit had not seen the larger volume so far.

Mr. Kim requested time to present a financial update to the Committee. Mr. Kim noted that there were three different groups providing audit activities for the Finance department: the internal Financial Controls staff, the Internal Audit group, and the External Auditors.

Mr. Kim stated that the information presented represented the unaudited quarterly financials for Q2 of FY2013, which is the period ended March 31, 2013. Mr. Madrid asked to introduce the presentation of the quarterly financials briefing as a new agenda item to the Audit Committee Presentation.

Q2 of FY2013 Quarterly Financial Results Briefing

Mr. Madrid presented the Q2 quarterly financial results, noting revenues of \$230.8M for the period, compared to \$230.5M in revenues for the same period of the previous year. Mr. Madrid then presented examples that contributed to changes in the revenue. Mr. Madrid also noted expenses of \$198.8M for the period, compared to \$192.5M in expenses for the same period of the previous year. Mr. Madrid then presented examples that contributed to changes in the expenses. Mr. Madrid further noted assets of \$456.6M in cash and investments for the period, including funds restricted for capital projects, which represents a decrease of \$117.8M from the year-end total, due to capital spending. Mr. Madrid noted \$198.2M in non-restricted cash and investments, compared to \$195.0M at year-end 2012, and indicated that this is well above the Board-mandated requirement of \$125.5M. Finally, Mr. Madrid noted that Construction in Progress increased by \$207.4M to a total of \$1.014B compared to year-end 2012 due to an increase in capital spending. Mr. Seamon asked if the totals on pages 1 and 2 of the presentation matched the totals on pages 3 and 4 of the presentation. Mr. Madrid responded that they did match, and that differences in presentation were due to the aggregation of different categories within the presentation. Mr. Freiburger asked about the role of the DC Auditor in the bond issuance process. Mr. Kim responded that the DC Auditor conducts audits of DC Water operations as part of their due diligence process, and that the audits are fairly extensive in the number of interviews they conduct and documents that they request.

At 10:50AM, Mr. Seamon noted that there was no Executive Session and the meeting was adjourned.