**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Tuesday, February 14, 2017*

*9:30 a.m.*

*Meeting Minutes*

**COMMITTEE MEMBERS PRESENT**

Nicholas Majett, Chairman

Matthew Brown, Board Chairman

Elisabeth Feldt,

Bonnie Kirkland

Sarah Motsch

Howard Gibbs

Rachna Butani Bhatt

**INTERNAL AUDIT STAFF PRESENT**

Dan Whelan, RSM US LLP

Jill Reyes, RSM US LLP

Duffy Leidner, RSM US LLP

Sophie Tomeo, RSM US LLP

**DC WATER STAFF PRESENT**

Biju George, Chief Operating Officer

Mustaafa Dozier, Chief of Staff

Henderson Brown, General Counsel

Leonard Benson, Chief Engineer

Korey Gray, Contract Compliance Officer

Linda R. Manley, Board Secretary

Liliana Maldonado, Director DETS

Genes Malasy, Program Manager Finance

**EXTERNAL AUDIT STAFF PRESENT**

Paul Geraty, KPMG

Richard McLean, KPMG

**Call to Order (Item 1)**

Mr. Nicholas Majett called the Audit Committee meeting to order at 9:30am.

**Executive Session (Item 2)**

There was a motion to move into Executive Session by Chairman Majett to discuss legal, confidential, and privileged matters pursuant to Section 2-575(b)(8) of the D.C. Official Code. It was so moved and seconded and motion carried. The room was cleared of non-Executive members and all public individuals. The Audit Committee went into Executive Section at approximately 9:30am. The Board moved back into public session at approximately 11:03am.

**FY 2016 Financial Statements (Item 3)**

Mr. Genes Malasy shared that the Authority’s balance sheet remains strong with noticeable growth. The total net position of $1.7 billion, which is an increase of $173 million, resulted in approximately an 11.3% increase over the prior year. Operating revenue increased by 8.3%, while operating expenses increased by 2.6% over the prior year.

Mr. Malasy mentioned that Standard and Poor’s Investors Service (S&P) upgraded DC Water’s credit rating in FY16 from AA+ to AAA status.

Mr. Malasy reported that the Authority’s operating revenue remains well diversified and stable. Operating expenses were reasonably controlled experiencing an increase of 2.6%. Primary drivers of this increase were personnel, depreciation and contractual services expenditures, which were offset by a decrease in chemicals and supplies, utilities, and water purchases this fiscal year. The Authority’s net capital assets increased by 9.5% from FY 2015 to 2016.

**External Auditor’s Report (Item 4)**

Mr. Richard McLean gave an overview of the Authority’s FY 2016 financial statements and single audit. He presented the responsibilities of management, the Audit Committee, and KPMG in regards to financial reporting.

Mr. McLean informed the Board that KPMG issued a clean, unmodified opinion on the Authority’s FY 2016 financial statements. He stated that no material weaknesses or significant deficiencies were identified regarding internal controls over financial reporting. There were no instances of non-compliance noted as it relates to report on compliance with laws, regulations, contracts, and grants. Mr. McLean shared that a Management Letter was issued consisting of control deficiencies that did not rise to the level of significant deficiencies or material weaknesses. Mr. McLean added that significant accounting policies were described in the notes of the financial statements, and noted that there were no significant changes to the Authority’s policies in FY 2016.

Mr. McLean reported that there were a few immaterial misstatements that were not ultimately corrected in the financial statements, as individually and in the aggregate the misstatements had no material effect. DC Water chose to correct two misstatements.

Pertinent to the single audit results, Mr. McLean reported that KPMG tested CFDA#99.UNK Combined Sewer Overflow in FY 2016. KPMG issued a clean opinion for this single audit and no material weaknesses or significant deficiencies were identified.

**Internal Audit Update (Item 5)**

RSM Partner, Mr. Dan Whelan, presented the FY 2017 audit plan status update.

Ms. Sophie Tomeo presented the status of prior audit findings. For audit findings prior to FY 2015, there are five action deferred items related to union approval of policy, as well as six open items including maintenance services, GIS mapping, and warehouse operations which are all tied to the Asset Reliability Program. For FY 2015 audit findings, there is one action deferred item also related to union approval of policy as well as three IT follow-up items. FY 2016 follow-up testing is in process, with seven items closed and six pending testing. 22 items remain open. Ms. Jill Reyes added that RSM is transitioning to a new follow-up system, and there will be a push to close many more open items prior to the next Committee meeting.

Ms. Reyes followed with an update on the COR/COTR training and compliance monitoring implementation by management per the Contract Monitoring & Compliance Audit Part II findings. These findings were presented to the Committee at the previous Committee meeting in July and it was requested to have periodic updates on the management action plan. The action plan consists of three phases. Phase one has been completed. Phase two is providing COTR Training, which is still in process. Market research has been completed and management is working to select a training program. Phase three will be to implement the automated vendor performance and compliance monitoring application.

Mr. Duffy Leidner presented the Billings and Collections Internal Audit report. The scope of the internal audit aimed to assess and document the billing process surrounding Federal and Municipal customers, as well as assess the collections process with respect to liens, bankruptcy, receivership, and tax sale. The internal audit resulted in one reportable observation of moderate risk. The observation is that there is not a sufficient SOP for the federal group bill process, which accounts for 10% of DC Water’s revenue. Internal Audit recommended that roles and responsibilities be evaluated and a comprehensive SOP developed to detail the federal group bill process. Ms. Reyes added that RSM looked at the Federal process because internal audit assisted management in the retail rates implementation last year, so chose to audit an area within billings and collections that had not been recently audited.

Ms. Reyes then presented the Business Development Plan Internal Audit report. The scope of the audit was to evaluate management’s monitoring and compliance with EPA Fair Share Objectives, Good Faith Efforts, Local Business Enterprise/Local Small Business Enterprise (LBE/LSBE) guidelines, and to look at the database used to track certified firm usage. Ms. Reyes noted that the Engineering Management Information System (EMIS) is the database that was inspected. EMIS is staying in place, but an additional compliance database is now being engaged as the new system of record for certified firm participation. Ten total findings and four high risk issues were identified during the course of the audit. All four high-risk items were related to inconsistent monitoring of the M/WBE program. Specifically, inconsistent monitoring was identified related to documentation of Good Faith Efforts, utilization of EPA certified firms, compliance monitoring and reporting procedures, and documentation of a related party. Management has already begun implementing the management action plans to address these findings. Management has developed an SOP to address these items, and has conducted trainings for staff that will continue on at least a quarterly basis.

Ms. Reyes presented the Engineering – Contractor Management Phase 2 internal audit, which she explained had some similar processes and scope of work to the Business Development Plan audit. This Phase 2 report focused on testing the controls that management had identified during the Phase 1 audit. Controls revolved around the processes for status reporting, M/WBE reporting and monitoring, Davis Bacon Act regulatory compliance, and invoice and change order review and approval processes. Both EPA-funded and non-EPA-funded contracts were examined, as well as a mix of professional and construction services contracts. Three high-risk findings were identified, with similar themes to the Business Development Plan audit. These three items were inconsistent monitoring of M/WBE requirements, inconsistent documentation of invoice review by Project Managers, and inconsistent documentation of Davis Bacon requirements. The Business Development Plan management action plan addresses these findings. Ms. Reyes added that all of these findings will be revisited during Internal Audit’s routine follow-up procedures.

Ms. Reyes provided an update on the Hotline. She informed the Board that two calls have been received since the last Audit Committee meeting in November, one being a fraud claim. Nine cases are currently open, and there have been four total calls this fiscal year.

**Adjournment (Item 6)**

The Audit Committee meeting adjourned at 11:38am.