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**DISTRICT OF COLUMBIA**

**WATER AND SEWER AUTHORITY**

# Board of Directors

Audit Committee

## Thursday, October 2, 2014

*10:30 a.m.*

*Meeting Minutes*

**COMMITTEE MEMBERS PRESENT**

Nicholas Majett, Chairman

Edward Long, Jr.

Ellen Boardman

Shirley Branch

**INTERNAL AUDIT STAFF PRESENT**

Dan Whelan, McGladrey LLP (by telephone)

Pat Hagan, McGladrey LLP (by telephone)

Jennifer Murtha, McGladrey LLP

Charles Barley Jr., McGladrey LLP

Jill Reyes, McGladrey LLP

Kelly Johnson, McGladrey LLP

**DC WATER STAFF PRESENT**

George Hawkins, General Manager

Mark Kim, Chief Financial Officer

Gregory Hope, Principal Counsel

Linda Manley, Secretary to the Board

**Call to Order (Item 1)**

The audit committee meeting began at 10:38 a.m. The meeting was called to order by Mr. Majett. Mr. Majett then turned the meeting over to Mr. Kim.

**Internal Audit Activities (Item 2)**

Mr. Kim turned the meeting over to Mrs. Murtha from McGladrey LLP to review the FY15 audit plan. Mrs. Murtha indicated that Mr. Dan Whelan and Mr. Pat Hagan were attending via conference call and introduced the additional McGladrey team members. Mrs. Murtha indicated that this was the core team that would be serving DC Water but as needed, subject matter experts would be utilized.

Mrs. Murtha provided a brief overview of McGladrey. She then began to discuss the internal audit methodology, informing the audit committee that a diagram of this methodology was also included on the back of the laminated handout. Mrs. Murtha stated the risk assessment and brainstorming step and the planning and scoping step have been completed and upon review and approval of the audit plan today, McGladrey would be able to begin the execution of the audits.

Mrs. Murtha communicated that there are currently 75 open audit items from previous firm from the last five years. She indicated that these open items and corrective actions will be reviewed and McGladrey will conduct the appropriate follow-up procedures.

Mrs. Murtha reviewed the risk assessment process which began during the proposal phase. When the RFP was issued, McGladrey reviewed the website and strategic plan and began to understand DC Water’s risks and needs. She then stated the team then conducted interviews of key process owners.

Mrs. Murtha then presented the risk-based audit plan, which was detailed on the laminated handout. Mr. Majett asked if McGladrey was asking the committee to approve the methodology. Mr. Kim clarified that the overview was to brief the committee and that approval was needed for the fiscal year 2015 audit plan.

Mrs. Murtha continued to review the laminated schematic explaining that it continued the proposed plan for FY15, FY16 and FY17 and highlighted that the plan was a real-time document that can change as risks are further assessed, such as review of the 75 open items.

Mrs. Boardman asked for clarification of how the 75 open items are indicated on the schematic. Mrs. Murtha clarified that the yellow boxes, relating to a specific report, contains open audit items. She also highlighted that this will change moving forward and will contain the number of open items or could be closed upon completion of follow-up activity. Mr. Majett asked for confirmation if the two delayed audits were included in the audit plan. Mrs. Murtha confirmed that they had been considered in the process of developing the audit plan.

Mrs. Murtha directed the audit committee to review the plan for FY15 and discussed each proposed audit. Mrs. Murtha turned the meeting over to Mr. Charles Barley to discuss the four proposed information technology audits which were also reviewed and agreed upon with DC Water’s CIO.

Mrs. Boardman asked how McGladrey prioritized which audits we are starting and the open items, including the procurement report and issues from FY14. Mrs. Murtha explained that we will be reviewing the 75 open items and will come to the next audit committee meeting with our analysis of those open items. She also indicated the new audits were prioritized using a risk-based approach. Mr. Long expressed the importance of the procurement area and his concern that the 75 open items might cause more work in FY15. Mrs. Murtha indicated that re-conducting an audit of procurement would not be the best course until the full reports and the currently unresolved action items were reviewed and understood, allowing McGladrey to better assess whether a full-scope audit of procurement would replace / complement another audit from the proposed annual audit plan.

Mr. Kim added that management is trying to balance remediating 75 outstanding audit findings which are at various stages of remediation and allowing McGladrey to conduct their own independent assessment of the risks of DC Water. He clarified that a lack of initiation of a new audit of procurement does not mean that McGladrey will not be focusing on that area. Additionally, he stated that if the audit plan needs to be re-adjusted to open an independent new audit of procurement, McGladrey will do so.

Mrs. Boardman asked if the FY15 plan contained high significance, high risk audits. Mrs. Murtha confirmed that they were. Mr. Kim added that all the open audit items from the last 5 year spanned the spectrum of risk.

Mrs. Murtha continued to discuss the FY15 audit plan. She clarified that FY16 and FY17 were also a proposed preliminary plan and that they could change. Mr. Kim directed the committee to the last line in the audit plan, Contingency and requested audits and projects, noting that it was a reserve in McGladrey’s time to complete any special requests from the Board, Audit Committee or management.

Mr. Hagan notified the committee that McGladrey considered major compliance subject areas as well as DC Water’s strategic initiatives.

Mrs. Murtha clarified that the naming convention of the procurement-related audit reports remained the same from the prior auditor for Mrs. Boardman.

Mrs. Murtha reviewed the next steps for the internal audit function and Mr. Long clarified that the specific issues that arise from the fraud hotline need to go to the appropriate committee.

Mrs. Boardman requested clarification on the internal audit methodology diagram on the back of the audit plan schematic. Mrs. Murtha reviewed the process explaining the assessment of design effectiveness and operational effectiveness.

Mr. Kim indicated that McGladrey has already added value by suggesting that IT reports and related findings should not be published, as that poses certain security-related risks for the organization. He also suggested that IT issues should be discussed during executive session, and the suggestion has been discussed with the attorney.

Mr. Kim also recommended that the audit committee meeting schedule be moved to quarterly, at the committee’s pleasure. Mr. Long was in agreement with quarterly meetings as long as audit reports were provided as completed. The next quarterly meeting would occur during January. The remaining committee members confirmed their agreement.

**Executive Session (Item 3)**

Mr. Majett asked Mr. Kim to confirm that there were no other items on the agenda. Mr. Kim confirmed that there were no other items, and that there was no need for an executive session.

**Adjournment (Item 4)**

At 11:20a.m., the meeting was adjourned by Mr. Majett.