



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Audit Committee

Thursday, October 22, 2015

9:30 a.m.

Meeting Minutes

COMMITTEE MEMBERS PRESENT

Nicholas Majett, Chairman
Matthew Brown, Chairman of the Board
Elisabeth Feldt, Committee Member
Bonnie Kirkland, Committee Member
Shirley Branch, Committee Member
Sarah Motsch, Committee Member

INTERNAL AUDIT STAFF PRESENT

Dan Whelan, McGladrey LLP
Jennifer Murtha, McGladrey LLP
Jill Reyes, McGladrey LLP
Kelly Johnson, McGladrey LLP

DC WATER STAFF PRESENT

Biju George, Chief Operational Officer
Randy Hayman, General Counsel
Linda Manley, Secretary to the Board
John Madrid, Controller

EXTERNAL AUDIT STAFF PRESENT

Richard McLean, KPMG
Paul Geraty, KPMG

Call to Order (Item 1)

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

KPMG Audit Status Update (Item 2)

Mr. McLean, engagement manager from KPMG, presented a status update for the external audit procedures. KPMG was in the field for interim testing procedures in August, and the external audit team is back in the field for final procedures now. Control walkthroughs have been performed for significant process areas. Interim testing has been completed in some process areas. KPMG is currently planning and analyzing audit and risk procedures and the team is reviewing audit documentation. Additionally, KPMG is currently testing general IT controls in the Lawson and Vertex systems. No significant findings or issues have been noted to date.

Review of Internal Audit Status (Item 3)

Mr. Whelan announced that effective October 26, 2015, in an effort to maintain the global consistency of representation seen by its counterparts, McGladrey LLP will be rebranded from McGladrey to RSM.

Mrs. Murtha provided a status update for the Internal Audit Team. Internal audits for FY2015 have been completed except for the IT Vendor Management Audit which is still in progress. The Internal Audit Team has begun overtime and retail rates post-implementation audits.

Ms. Johnson then reported the status of the prior audit findings. Since the last Audit Committee meeting, four additional audit items have been closed, ten have been moved into pending testing status, and five items are still action deferred. Of the action deferred items, three are policy and procedure related and two are business process improvements. 32 prior audit items remain open, which includes pending testing and action deferred items.

Mrs. Reyes presented a progress report for the retail rates pre-implementation internal audit. As of October 1, 2015, the Authority went live with the new retail rates structure. Prior to October 1, all rates were the same across property classifications. Thus, a bigger risk exists related to classification now that the new rate structure has been rolled out. Mrs. Reyes reported that management identified the highest risk category for revenue impact by premise type. 9,000 properties were identified, with a high concentration of Multi-Family premises. The Internal Audit Team reviewed accounts for proper classification in order to validate correct categorization in the Authority's records. 1,300 accounts were reclassified as a result of the work performed by management. Validation efforts will be continued in the post-implementation phase. The Internal Audit Team also reviewed management's validation of meter sizes, which drive the new WSRF fee billed to customers. Additionally, the Internal Audit Team reviewed existing business rules and made recommendations where applicable. The team will continue to review as the Customer Care division continues to update rules.

Mrs. Reyes reported that McGladrey had an IT Team observe pre-live testing to confirm that the User Acceptance Testing was done correctly. There were no material exceptions to this testing. Recommendations for changes to operating procedures and additional data clean-up items were addressed.

Ms. Johnson introduced the retail rates post-implementation internal audit work. Invoice mailings were all suspended by one day as Finance, Customer Service and Internal Audit all conducted testing to verify the accuracy of customer bills. Ms. Lauren Preston, Customer Service Director, stated that no material exceptions were noted during the testing of well over 500 invoices. An analysis of Accounts Receivable collection and aging as a result of the rate change as well a revenue impact assessment related to the data

Review of Internal Audit Status (Item 3) - continued

clean-up efforts and potential impact of meter downsizing will be performed now that retail rates are in the post-implementation phase. The Internal Audit Team will also conduct a phase II review of the retail rates implementation plan with continued invoice testing after a full 30 days of implementation, and an analysis of billing adjustments made during October. A customer billing and collections internal audit will occur in the spring.

Ms. Johnson then gave a brief update on hotline calls. Since the last Audit Committee meeting there have been two additional calls, four cases have been closed, and three cases remain open. In FY2015 overall, 16 calls were received, seven of which were identified as fraud claims, and 13 cases were closed.

Mr. Whelan spoke to the Internal Audit Team accomplishments during FY2015. Mr. Whelan also walked through the Internal Audit methodology and risk assessment process that determines the proposed audit plan going forward.

Mrs. Reyes highlighted the FY2016 proposed Internal Audit plan.

Blue Horizon 2020 Strategic Plan Update (Item 4)

Ms. Sarah Neiderer gave an overview of the Blue Horizon 2020 Strategic Plan, which was implemented in May 2013. Ms. Neiderer reported specifically on the implementation progress and proposed revision of Goal 9. Goal 9 states that the Authority aims to “enhance operating excellence through innovation, sustainability and adoption of best practices”. There is a proposal to change some objectives for this goal, focusing on innovation and how best practices are adopted. These revisions will be proposed at the next Board Meeting. Currently, progress for Blue Horizon is based on percentage of tasks complete. Moving forward, progress will instead be measured by performance outcome metrics.

Executive Session (Item 5)

There was no motion to move into Executive Session.

Adjournment (Item 6)

The Audit Committee meeting adjourned at 10:13 a.m.