



# **DISTRICT OF COLUMBIA BOARD OF DIRECTORS**

## ***Audit Committee***

**Thursday, September 28, 2006  
8:00 am**

## **Meeting Minutes**

### **COMMITTEE MEMBERS PRESENT**

Anthony Griffin, Chairman  
Kenneth Davis  
Paul Folkers

### **WASA STAFF PRESENT**

Michael Hunter, Director, Internal Audit  
Olu Adebo, Acting Chief Financial Officer  
Webster Barnes, Principal Counsel  
Debra Mathis, Executive Assistant

### **Call to Order**

Mr. Griffin called the meeting to order at 8:17 am.

### **Committee's Work Plan and Goals/Measures**

Mr. Griffin asked Mr. Hunter to comment on agenda item 2 (Committee's Work Plan), specifically on the objectives, which were labeled as "pending". Mr. Hunter explained that other Committee's objectives were tied to the completion of this Committee's goals.

Mr. Hunter pointed out that the Internal Audit Office's goals are captured in the Board's strategic goal area, number 2.3. He also reported on the following five areas:

1. **Review of the code of conduct** - As discussed last time, WASA do not have a code of conduct or code of ethics at this point. Therefore, this is pending until such time that management completes that policy. Internal Audit has audit procedures based on best practices on what is expected from an audit function and the review of a code of conduct on an ongoing basis.
2. **Conduct the annual external audit** – Currently underway and will be discussed later by the Acting CFO. WASA traditionally receive management letter comments in the spring after the audit is completed. The comments and recommendations are added to the issues tracking database at that time. In the past Internal Audit had provided a staff person to the external auditors to perform some of the test work. However, because of turnover this was not possible this year. The issues tracking report will be provided at the quarterly meeting.
3. **The annual internal audit plan** – The work plan is scheduled for completion in October, after receiving General Manager review and comment.

4. **Follow-up** – This is a standard on-going process. We expect to prepare and go over the open audit issues, not in granular detail, but give a percentage to the Audit Committee in terms of completion and how we are moving forward as an organization.
5. **Governance Study recommendation** - Training presentation is scheduled for later in the meeting regarding the voluntary adoption of the applicable portion of the Sarbanes-Oxley Act (SOX)

Mr. Griffin stated that if we do a good job on the Conduct/Code of Ethics, this would take care of SOX because it sets a standard. He asked if anyone from management is working on the Code of Ethics. Mr. Hunter stated that it is listed on the HR/Labor Relations Committee Work Plan for year-end.

Mr. Griffin asked Mr. Hunter if the proposed Audit Plan would be ready for review at the next Audit Committee Meeting. Mr. Hunter indicated that he could provide the plan for the Committee's review at the next meeting.

Mr. Davis asked if there were any outstanding issues on the 2005 external audit. Ms. Yvonne Reid, Acting Controller stated that there were none. Mr. Davis asked if the Internal Auditor had acted on the recommendations of the external auditors. Mr. Hunter stated that his office followed up on the status of the comments from the management letter and had not received final actions procedures to close the items.

Mr. Folkers asked if there would be a report to the Committee on the status of the audits. Mr. Hunter stated that WASA normally don't have that many management letter comments to sustain a follow-up program. Follow-up will include issues and recommendations from external and internal audit reports, and various other organizations that perform audits within our realm.

Mr. Folkers asked what the process would be, once a Code of Conduct Policy (Code) was decided upon by management. Mr. Hunter stated that Human Resources would develop the proposed process and submit it to the General Manager. The General Manager has to review the Code and present it to the HR/Labor Relations Committee and the Audit Committee.

Mr. Griffin asked if there were any front line managers involved in the process and if not, that he thought it would be helpful to have focus groups and to get the employees involved. He stated that the implementation of the policy would probably be more successful if it was something that the employees help to create. Mr. Hunter said we would forward that recommendation.

Mr. Folkers asked what the Internal Audit Annual Plan is based on. Mr. Hunter stated it was based on a fiscal year and the dollars and staff that we have available. Mr. Folkers asked Mr. Hunter if he felt he had all the skill sets needed for the office. Mr. Hunter stated yes, with the exception of the vacancy. The vacancy needs to be filled with a person with technology auditing experience.

### **Internal Auditor's Report**

Mr. Hunter reported on the following:

- Bio-solids Management Program Review – Internal Audit office participated in assisting Wastewater Treatment in reviewing all of their elements. The Program is structured in the ISO-14000 series, a Quality Management Program. We also participated in the entrance and exit conferences with the Third Party Auditor, who makes the recommendation for

recertification. The meetings occurred a few weeks ago and we were heavily involved with that.

- ❑ Labor Compliance Programs – Continuing to review contractor compliance, listing applicable laws that WASA have to comply with.
- ❑ Follow-up Activity – This activity includes the follow-up from various audits from other organizations, as well as our internal audits.
- ❑ Change Order Process Review – Staffing turnover and vacancies have caused us to postpone this review. We plan to re-engage this process.
- ❑ Training – No dollars have been spent on formal training this past couple of months. There are dollars allocated in the 2007 Budget for training of the Audit Committee members to keep them abreast of audit committee related topics, best practices, etc.
- ❑ Sarbanes-Oxley Act (SOX) – Will be discussed later in the meeting in detail, as to what in our opinion it means to WASA.

Mr. Hunter introduced the new Senior Auditor, Ms. Petra Wesley. Ms Wesley comes from Louisville Water, has utility experience and experience with quality management systems.

Mr. Davis asked for clarification on the date for the National Biosolids Partnership (NBP) recertification process, he thought it was due in 2005. Mr. Hunter stated that he was correct. However, changes by NBP for guidance/schedules had been readjusted/re-explained in March 2006. This action caused the schedule to be moved.

Mr. Hunter reviewed the Sarbanes-Oxley Act and summarized the relevant sections that Internal Audit recommends management and the Committee consider for adoption.

Mr. Griffin pointed out the importance of having a code of ethics in place. He also stated that once we get that in place, it would be useful to have a small document, with appropriate appendices, that set out how DC WASA meets each of these criteria. Mr. Griffin asked that the SOX overhead presentation be attached to the minutes so that the entire Board gets to see the document. He feels it is a very good summary of the expectations and will be useful in terms of discussing responsibilities.

Mr. Folkers agreed, and asked what the external auditors response was to SOX and if they were incorporated in the SOX summarization. Mr. Hunter said their review included fewer sections than Internal Audits recommendation.

### **TCBA's Recommendations to the Board of Director's re: SOX**

Internal Audit's recommendations addressed external auditor relations and more ethical and code of conduct items than they listed.

Mr. Folkers asked if we were moving forward on the certification of the CEO and CFO. Mr. Adebo stated that the CFO issues two equivalent certifications – Management Representation Letter required by the external Auditors and certification of the Comprehensive Annual Financial Report as required by GFOA.

Mr. Davis noted that he would like to see a recommendation to implement Section 404 and asked if it would be implemented next year? Mr. Hunter stated we wanted to be fair with the organization. When the law came out in July 2002, it gave public companies two years for implementation of 302 and 404. The Internal Auditor does not feel that the Acting CFO should be burdened with the sole responsibility of implementation, it should be a cross functional team. Since SOX is not just financial reporting, it's the organization's activities and the controls behind those financial entries. The organization as a whole, as suggested by the externals as well, should have time to plan and budget as a corporate goal. Mr. Griffin stated that he thought our original objective was for the end of the year.

Mr. Davis wanted to see a mapping of the A-123 requirement to the SOX requirements for the next meeting.

Mr. Davis stated that there are substantial non-financial implications of adopting SOX and the rest of the organization needs to understand that. Mr. Folkers asked if the General Manager has weighed in on the recommendations of the Internal Audit Office. Mr. Hunter stated that we have discussed the concept and he thought he was still considering certain areas.

#### **FY2006 Independent Financial Statement Audit Status**

Mr. Adebo gave a status on the FY2006 Independent Financial Statement Audit status. He reviewed the closing schedule and stated that we were on track. He said that December 24, 2006 was our goal for receiving our Audit opinion. WASA plans to have the Management Letter comments in January 2007 and the Grants Audit Report in February 2007. Mr. Adebo also stated that Ms. Yvonne Reid, Acting Controller has the responsibility of the external audit and handling the day-to-day external audit functions.

Mr. Adebo also stated that WASA had two Management letter comments from previous year, one was the operating IMA settlement and the other was the outstanding WSSC receivable, both have been resolved in current year and are now closed.

Mr. Adebo stated that relative to SOX, he would be glad to work with Internal Audit to provide the framework for 2007 to identify any gaps and determine the process needed to fill those in order to comply with the substance of the regulation.

There was no other business; Mr. Folkers adjourned the meeting at 9:12 a.m.