



**DISTRICT OF COLUMBIA
Water and Sewer Authority**

Audit Committee

**Thursday, February 28, 2013
9:30 a.m.**

Meeting Minutes

COMMITTEE MEMBERS PRESENT

Bradford Seamon, Chairman
Timothy Firestine
Dawn Hawkins-Nixon

SC& H Group, LLC

Joseph Freiburger

Bazilio Cobb Associates

Uzma Malik-Dorman

STAFF MEMBERS PRESENT

George Hawkins, General Manager
Randy Hayman, General Counsel
Joe Edwards, Acting Chief Information Officer
Yvette Downs, Acting Chief Financial Officer
John Madrid, Controller
Robert Hunt, Treasury Manager
Linda R. Manley, Board Secretary

Call to Order (Item 1)

Mr. Seamon called the meeting to order at approximately 9:30 a.m.

External Auditor Communications with the Committee (Item 2)

Ms. Malik-Dorman presented the results of the external audit of DC Water's financial statements for the year ended September 30, 2012. Ms. Malik-Dorman offered an unqualified opinion for the Financial Statement Audit and for the OMB Circular A-133 Audit. Ms. Malik-Dorman then presented the Communication of Internal Control Related Matters – also known as the “Management Letter”, which identifies deficiencies in internal control over financial reporting. The Management Letter lists control deficiencies that were identified through the audit process that did not constitute significant deficiencies or material weaknesses. Mr. Seamon asked if the lack of audit issues meant that the external auditors were able to stay within their contracted rates, to which Ms. Malik-Dorman answered in the affirmative.

Mr. Seamon also asked if the resolutions of the issues identified in the Management Letter would be tracked and monitored. Mr. Freiburger responded that these issues were similar to issues identified through internal audits and would be tracked through resolution in the same manner as the remediation of internal audit observations.

Review of Internal Audit Status (Item 3)

Mr. Freiburger began by recognizing the presence of Internal Audit staff at the Audit Committee meeting, and then outlined the items in the Internal Audit Update document. He noted that seven of the audits specified in the FY13 audit plan were in various stages of completion, including three audits for which the final reports had been issued. Mr. Freiburger added that the P-Card audit would be finalized once discussions around the audit report were completed, and the fieldwork for the Investment & Cash Management and Fleet Management audits was almost complete.

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.

Mr. Freiburger then reviewed the objectives and findings from the Regulatory Compliance, Remote Cashiering and Chemicals Purchasing audit reports, as well as the IT Asset Inventory special report, and asked the Committee if there were any questions:

Regarding the Regulatory Compliance report – There were no questions regarding this report.

Regarding the Remote Cashiering report – Mr. Firestine asked about Management's response to Internal Audit's recommendation that the process of collecting and applying payments from the drop boxes be modified to require that two employees collect, open and apply the payments together. Mr. Firestine asked why it appears that Management discounted Internal Audit's recommendation. Mr. Madrid commented that the addition of a "No Cash Allowed" sign should alleviate the risk of customers remitting payments into the drop box that contained cash that could subsequently be misappropriated.

Mr. Hunt added that the process was not altered because the risk of unapplied/missing payments was deemed to be minimal, and that no one could remember instances where payments (including cash) were remitted by customers into the drop box and subsequently were unapplied to the customer accounts. Mr. Firestine asked if the cash payments were the reason for the observation on the report. Mr. Freiburger responded that the cash payments were the primary risk that was identified.

Mr. Seamon asked for a clarification of the wording of Management's response to the observation regarding the shredding of customer checks in-house, versus being given to the third party representative for shredding off-site. Mr. Seamon noted that while the response stated that there was a small cross-cut shredder already located at the payment facility and another larger shredder being procured, the response didn't state that the Remote Cashiering staff would be shredding the checks in-house. Representatives from Finance confirmed that they would be shredding the checks in-house.

Regarding the Chemicals Purchasing report – Mr. Seamon asked why the Implementation Dates for the remediation of two of the observations identified in the report were left as

“TBD”. Mr. Tesfaye responded that the dates were left as TBD because the remediation required the coordination of his department with the IT department and the CFO’s office, and that until that coordination occurred, it was not possible to estimate the time needed for remediation. Mr. Seamon asked if a time could be provided by the next Audit Committee meeting to which Mr. Tesfaye answered in the affirmative.

Regarding the IT Asset Inventory report – Mr. Seamon asked where the 829 IT assets located by Internal Audit were found. Mr. Freiburger responded that if offices were locked or the assets were unavailable at the time of counting, that the vendor that initially conducted the audit would not have counted it, and would have noted the asset as “missing” without any additional follow-up. Mr. Freiburger additionally indicated that the performance of the vendor that conducted the audit was not very thorough. Mr. Seamon asked if the organization would be utilizing this vendor in the future, to which Mr. Freiburger and members of Finance and IT answered in the negative.

Mr. Seamon acknowledged that the format of this report was different than the other audit reports. He identified that the observations were identified, but that there were no Management Action Plans and corresponding Implementation dates. Mr. Freiburger indicated that the Management responses were not included because a final Management response document was not received by the deadline for the submission of the audit committee update materials. Mr. Freiburger further indicated that Internal Audit had been presented with Management’s plan for the remediation of the IT Asset Inventory issues and felt that the plan, once implemented, would address the issues that were identified. Mr. Seamon asked if the items contained in the implementation plan could be aligned with the observations in the report, and implementation dates could be added by the April 25, 2013 Audit Committee meeting, to which Mr. Edwards and Mr. Hawkins answered in the affirmative.

Mr. Freiburger then discussed the Management responses to previously identified audit recommendations and noted seven Management responses that were past-due and thus labeled as “expired”.

Mr. Edwards provided information to the Committee regarding the formation of an IT Governance Committee that will be reviewing 1-2 process documents at each meeting, which would address the expired IT-related action plans. Mr. Seamon asked if these items would be resolved prior to the April 25, 2013 Audit Committee meeting, to which Mr. Edwards answered in the affirmative. Ms. Wiggins provided information to the Committee regarding the implementation and subsequent testing of a new software application that would resolve the expired Support Services-related action plans. Mr. Seamon asked if the implementation would be completed prior to the April 25, 2013 Audit Committee meeting, to which Ms. Wiggins answered in the affirmative. Mr. Hawkins provided information to the Committee regarding the delays that have been experienced in the process to review and approve updated process documents. Mr. Hawkins indicated that Ms. Wiggins, in her new role as Chief of Staff, will assist him in expediting the updating, review and approval of all DC Water process documents. Mr. Seamon asked if these items would be resolved prior to

the April 25, 2013 Audit Committee meeting, to which Mr. Hawkins answered in the affirmative.

Update on Establishing Fraud Hotline (Item 4)

Mr. Freiburger then informed the Committee that a contract had been executed with the selected fraud hotline vendor. Mr. Freiburger indicated that a primary point of contact had been identified and that communications have been taking place regarding the implementation of the fraud hotline. Mr. Freiburger further indicated that Human Capital Management was preparing to offer awareness training for the new hotline, and that it should be active by April 1, 2013. Mr. Seamon asked about the number of hours budgeted for Internal Audit to manage the fraud hotline. Mr. Freiburger responded that without a history or basis for comparison, the number of budgeted hours was an estimate, but that actual hours could vary depending on the number of issues and concerns received through the hotline. Mr. Seamon and Mr. Freiburger agreed that there should be a better understanding of the amount of time required to investigate and resolve calls to the fraud hotline by the June 2013 Audit Committee meeting.

Executive Session (Item 5)

At approximately 10:50AM, the meeting was called into Executive Session.

At 11:05AM the Public Session was re-convened and subsequently the meeting was adjourned.