



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit and Risk Committee*

January 26, 2023  
9:30 a.m.

**Microsoft Teams Meeting**

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Phone Conference ID: 543 635 423#

- 1. **Call to Order**..... Floyd Holt, Chairperson
- 2. **Roll Call**.....Alfonzo Kilgore Stukes, Acting Board Secretary
- 3. **FY 2022 Financial Statements**..... Genes Malasy, Controller
- 4. **External Audit Results**.....KPMG
- 5. **Enterprise Risk Management Briefing**..... Francis Cooper, Director EP MO
- 6. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
  - A. FY 2023 Internal Audit Plan Status Update
  - B. Status Update on Prior Audit Findings
  - C. [Procurement Audit](#)
  - D. Hotline Update
- 7. **Executive Session\*** ..... Floyd Holt, Chairperson
- 8. **Adjournment**..... Floyd Holt, Chairperson

<sup>1</sup>The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss certain matters, including but not limited to: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); terms for negotiating a contract, including an employment contract, under D.C. Official Code § 2-575(b)(2); obtain legal advice and preserve attorney-client privilege or settlement terms under D.C. Official Code § 2-575(b)(4)(A); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security matters under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10); third-party proprietary matters under D.C. Official Code § 2-575(b)(11); train and develop Board members and staff under D.C. Official Codes § 2-575(b)(12); adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters or violations of laws or regulations where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14); and other matters provided under the Act.



# FY 2022 Financial Statements

Presentation to Audit Committee, January 26, 2023

Genes Malasy, Controller

District of Columbia Water and Sewer Authority





## Purpose

- Review DC Water's fiscal year 2022 audited financial statement performance



## Highlights

- 💧 DC Water received an unmodified (“clean”) audit opinion from our external auditors, KPMG
- 💧 This was the second audit completed in the new Oracle financial system
- 💧 Also received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 25th consecutive year for our 2021 Annual Comprehensive Financial Report



## Financial Overview

- The Authority's financial position remains strong and is growing
  - Net position increased to \$2.9 billion – an increase of \$205.6 million, or 7.7%, over 2021
    - This is driven mainly by a \$174.4 million increase in net investments in capital assets
  - Operating revenues increased to \$832.2 million – an increase of \$61.7 million, or 7.8%, over 2021
    - Operating expenses are lower than operating revenues because a significant amount of cash receipts were used for capital expenditures which is reflected in the construction-in-progress amount
  - Operating expenses, including depreciation, increased to \$500.4 million – an increase of \$28.5 million, or 6.0%, over 2021

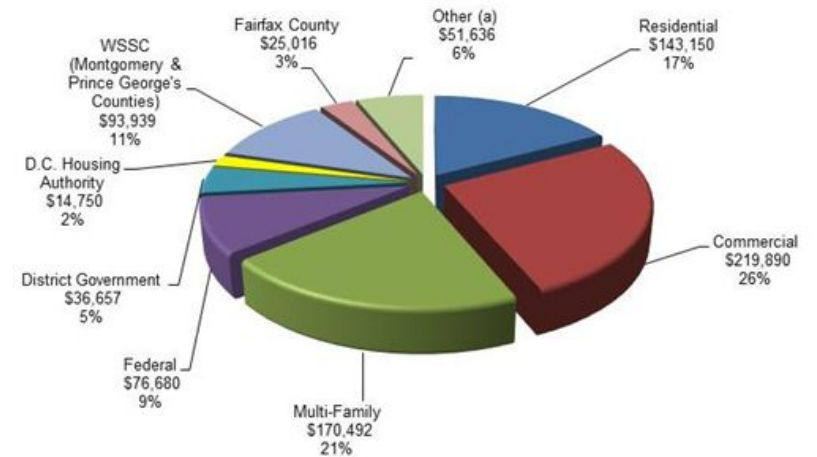




# Operating Revenues

- The Authority's operating revenues increased by \$61.7 million (7.8%) to \$832.2 million, the largest increase was in the residential, commercial and multi-family category
- Revenues remain diversified

	2022	2021	Variance	
			\$	%
Residential, commercial and multi-family customers	\$ 522,057	\$ 474,380	47,677	10.05%
Federal government	76,680	86,422	(9,742)	-11.27%
District government and D.C. Housing Authority	51,407	50,020	1,387	2.77%
Charges for wholesale wastewater treatment	135,285	127,410	7,875	6.18%
Other	46,781	32,325	14,456	44.72%
<b>Total operating revenues</b>	<b>\$ 832,210</b>	<b>\$ 770,557</b>	<b>61,653</b>	<b>8.00%</b>





## Operating Expenses

- The Authority's operating expenses increased by \$28.5 million (6.0%) to \$500.4 million
  - Categories with the largest increases were personnel, chemicals, and utilities (electricity)

			Variance	
	2022	2021	\$	%
Personnel services	\$ 149,655	\$ 142,352	\$ 7,303	5.13%
Contractual services	75,587	73,227	2,360	3.22%
Chemicals, supplies and small equipment	40,974	35,411	5,563	15.71%
Utilities and rent	37,823	27,331	10,492	38.39%
Depreciation and amortization	140,263	138,074	2,189	1.59%
Water purchases	33,345	33,135	210	0.63%
Payment in lieu of taxes and right of way fee	22,718	22,372	346	1.55%
Total operating expenses	<u>\$ 500,365</u>	<u>\$ 471,902</u>	<u>\$ 28,463</u>	<u>6.03%</u>



## Net Position

• The Authority's net position increased by \$205.6 million (or 7.7%) to \$2.9 billion

- Net position is the difference between total assets plus deferred outflows of resources, and total liabilities plus deferred inflows of resources

	2022	2021
Operating revenues	\$ 832,210	\$ 770,557
Operating expenses	500,365	471,902
Net non-operating revenues (expenses)	<u>(157,718)</u>	<u>(152,912)</u>
Change in net position before capital contributions	174,127	145,743
Capital contributions	<u>31,434</u>	<u>42,093</u>
Change in net position	205,561	187,836
Net position - beginning of year	<u>2,661,269</u>	<u>2,473,433</u>
Net position - end of year	<u>\$ 2,866,830</u>	<u>\$ 2,661,269</u>





## Change in Net Position

- The difference between Assets and Liabilities constitutes Net Position
- Net position is broken down into four categories
  - The largest increase was in net investment in capital assets from Clean Rivers Anacostia LTCP and Potomac LTCP for \$98.0 million

	2022	2021
Net investments in capital assets	2,480,216	2,305,799
Restricted for:		
Capital projects	7,287	—
Debt service	62,586	39,223
Unrestricted	316,741	316,247
Total net position	\$ 2,866,830	\$ 2,661,269



## Debt Administration

- At the end of fiscal year 2022, the Authority had a total of \$3.7 billion in long term debt outstanding, an increase of \$300.2 million, or 8.2%, over fiscal year 2021
  - The increase was the issuance of new debt offset by principal payments of \$525.7 million, which includes refunding of bonds for savings

Description	Balance 9/30/2021	Increases	Decreases	Balance 9/30/2022
Outstanding bonds and notes	\$ 3,422,793	\$ 830,313	\$ (526,172)	\$ 3,726,934
Unamortized bond premiums	254,284	64,479	(68,528)	250,235
Unamortized bond discounts	(1,577)	-	129	(1,448)
Total bonds and notes	\$ 3,675,500	\$ 894,792	\$ (594,571)	\$ 3,975,721



## Cash Overview

### 💧 Unrestricted cash & investments

- Includes Board-required cash reserves, the Rate Stabilization Fund, and funds for expanded customer programs
- Have no external restrictions
  - Use is restricted by the Trust Indenture and Board policies
- Increased to \$315.2 million vs. \$312.5 million in FY 2021

### 💧 Restricted cash and investments

- Mainly bond proceeds that will be drawn down to fund capital projects
- Use is externally restricted by debt covenants, federal mandates, etc.
- Increased to \$661.5 million vs. \$324.4 million in FY 2021 because of FY 2022 bond issuance



## New Capital Assets

💧 Net capital assets, including construction in progress and less depreciation, increased by \$195.9 million, or 2.5%, to \$7.9 billion

- Blue Plains, at \$3.3 billion, is the largest capital investment
- There is \$2.2 billion worth of construction in progress

	As of September 30,		
	2022	2021	2020
Wastewater treatment plant	\$ 3,334,860	\$ 3,327,554	\$ 3,275,198
Wastewater collection facilities	1,092,373	1,045,919	1,087,554
Water distribution system	1,231,610	1,218,468	1,183,800
Deep tunnel system	1,269,356	1,269,271	1,268,779
Purchased capacity	410,457	399,651	385,133
Buildings	84,903	84,904	-
Capital equipment	405,368	381,431	368,796
Construction in progress	2,289,874	2,057,773	1,830,830
Less accumulated depreciation	(2,187,158)	(2,049,249)	(1,925,529)
Net capital assets	<u>\$ 7,931,643</u>	<u>\$ 7,735,722</u>	<u>\$ 7,474,561</u>



## Conclusion

- 💧 DC Water received a clean audit opinion for the 25<sup>th</sup> year in a row
  - 💧 This was the second audit in the new Oracle financial system
- 💧 Net position is increasing – DC Water is growing and investing in its infrastructure



# DC Water and Sewer Authority

## Audit results

**Financial Statement and Uniform Guidance audits for the year ended September 30, 2022**

January 26, 2023

# Agenda

- 1. Financial statement audit results**
- 2. Significant accounting policies**
- 3. New accounting standards**
- 4. Audit misstatements**
- 5. Material weaknesses and significant deficiencies in internal control**
- 6. Required communications and other matters**
- 7. Uniform Guidance Compliance Audit**
- 8. Appendix**



# Financial statement audit results

## Scope of Financial Statement Audit

- Perform an audit of the DC Water and Sewer Authority's (the Authority's) financial statements as of and for the years ended September 30, 2022 and 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- Form and express an opinion about whether the financial statements that have been prepared by the Authority's management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP

## Opinion on the Basic Financial Statements

- Unmodified opinion issued on 12/21/2022

## Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

- No material weaknesses or significant deficiencies reported
- No instances of non-compliance reported



# Significant accounting policies

## **Significant accounting policies and practices**

- Described in Note 2 to the financial statements
- No new or changed significant accounting policies in FY 2022
- See next slide for new GASB pronouncements implemented in FY 2022

## **Significant accounting estimates and significant financial statement disclosures**

- The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities
- However, no significant accounting estimates or financial statement disclosures were identified in our audit

# New accounting standards

## GASB Standards Implemented in FY 2022

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
87	Leases	June 15, 2021	2022
92	Omnibus 2021	June 15, 2021	2022

## GASB Standards to be Implemented in FY 2023

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
91	Conduit Debt Obligations	December 15, 2021	2023
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	June 15, 2022	2023
96	Subscription-Based Information Technology Arrangements	June 15, 2022	2023

# Audit misstatements

## Uncorrected Audit Misstatements

Description of misstatement	Quantitative effect on Net Position (Debit (Credit)) (in \$ thousands)	Quantitative effect on Change in Net Position (Debit (Credit)) (in \$ thousands)
1. To reclassify restricted assets from current to non-current in order to limit the current amounts to the related liability balances.	-	-
2. To record the reversal of the prior year understatement of IMA wholesale revenue.	-	\$3,150
Total	-	\$3,150
Net Position/Change in Net Position	\$(2,754,312)	\$(205,561)
Percentage	(0.00%)	(1.53%)

Refer to the management representation letter for the detailed schedule of uncorrected audit misstatements.

# Audit misstatements

## Corrected Audit Misstatements

Description of misstatement	Debit (in \$ millions)	Credit (in \$ millions)
1. To reclassify cash restricted for debt service from Net Investment in Capital Assets (NICA) to restricted net position  <div style="margin-left: 40px;">Net Investment in Capital Assets</div> <div style="margin-left: 80px;">Net Position Restricted for Debt Service</div>	18,778	(18,778)

# Material weaknesses and significant deficiencies in internal control

## Scope of Internal Control Testing

- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- Report significant deficiencies and material weaknesses in internal control in the Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

## Material Weaknesses and Significant Deficiencies in Internal Control

- None reported

All other control deficiencies identified during our audit that are of a lesser magnitude than a material weakness or significant deficiency have been communicated in the management letter

# Required communications and other matters

Communication topic	Response
<b>Changes to our planned risk assessment and planned audit strategy</b>	There were no significant changes to our planned risk assessment and planned audit strategy.
<b>Related parties</b>	No significant findings or issues arose during the audit in connection with the Authority's related parties (Note 13 of the financial statements).
<b>Other information in documents containing audited financial statements</b>	<ul style="list-style-type: none"> <li>• Certain other information (introductory and statistical information) is included in the Authority's Annual Consolidated Financial Report (ACFR), which also contains the Authority's audited financial statements.</li> <li>• Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document.</li> <li>• However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements.</li> <li>• Our report on the ACFR will include our consideration of the other information, including whether material inconsistencies or material misstatements of facts were identified related to other information.</li> </ul>
<b>Noncompliance with laws and regulations, including illegal acts or fraud</b>	No identified or suspected instances of non-compliance with laws and regulations, including illegal acts or fraud, have come to our attention.
<b>Significant Unusual Transactions</b>	No significant unusual transactions were noted.
<b>Going concern</b>	No matters to report.



# Required communications and other matters

*(continued)*

Communication topic	Response
<b>Non-GAAP accounting policies and practices</b>	No matters to report.
<b>Subsequent events</b>	No matters to report.
<b>Other significant matters</b>	No other significant findings or issues arising from the audit that are significant and relevant to those charged with governance were identified.
<b>Significant difficulties encountered during the audit</b>	We encountered no significant difficulties in dealing with management in performing our audit.
<b>Disagreements with management</b>	There were no disagreements with management on financial accounting and reporting matters that individually or in the aggregate could be significant to the financial statements, or our report.
<b>Management’s consultation with other accountants</b>	To the best of our knowledge, management has not consulted with other accountants.
<b>Material written communications</b>	Engagement letter; management representation letter, including summary of uncorrected misstatements; and the management letter were distributed under a separate cover.
<b>Confirmation of independence</b>	In our professional judgment, we are independent with respect to the Authority, as that term is defined by the professional standards.

# Uniform Guidance Compliance Audit

## Scope of compliance audit

- Forming and expressing an opinion on compliance for each of the Authority’s major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement

## Major programs tested

- ALN 66.418, Construction Grants for Wastewater Treatment Works Program
- ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds
- ALN 97.036, Disaster Grants – Public Assistance (Presidentially Declared Disasters)

## Compliance Audit Results

- As the audit is currently in progress, we will provide a verbal update
- Uniform Guidance (UG) management representation letter will be provided at the completion of the UG audit
- Separate letter related to the UG audit with required communications will be addressed to the Board of Directors and Management



# Appendix

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# Responsibilities

<b>Management responsibilities – Financial statements</b>	<ul style="list-style-type: none"> <li>— Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP</li> <li>— Adjusting the financial statements to correct material misstatements and affirming in the management representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole</li> </ul>
<b>Management responsibilities – ICFR</b>	<ul style="list-style-type: none"> <li>— Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error</li> </ul>
<b>Management responsibilities – Other</b>	<ul style="list-style-type: none"> <li>— To provide the auditor with:                             <ol style="list-style-type: none"> <li>1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;</li> <li>2) additional information that the auditor may request from management for the purpose of the audit; and</li> <li>3) unrestricted access to persons within the Authority from whom the auditor determines it necessary to obtain audit evidence</li> </ol> </li> <li>— Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations</li> <li>— Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's:                             <ol style="list-style-type: none"> <li>1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting; and</li> <li>2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud</li> </ol> </li> </ul>
<b>Management responsibilities – Compliance Audit</b>	<ul style="list-style-type: none"> <li>— Identifying the Authority's government programs and understanding and complying with the compliance requirements</li> <li>— Establishing and maintaining effective controls that provide reasonable assurance that the Authority administers government programs in compliance with the compliance requirements</li> <li>— Evaluating and monitoring the Authority's compliance with the compliance requirements</li> <li>— Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit</li> <li>— Preparation of the SEFA in accordance with the applicable criteria</li> </ul>

The audit does not relieve management or the Audit Committee of their responsibilities.

# Responsibilities *(continued)*

<b>Audit Committee responsibilities</b>	<ul style="list-style-type: none"> <li>— Oversight of the financial reporting process and ICFR</li> <li>— Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud</li> </ul>
<b>Management and the Audit Committee responsibilities</b>	<ul style="list-style-type: none"> <li>— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards</li> <li>— Ensuring that the Authority's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority's financial statements</li> </ul>
<b>KPMG – Audit objectives</b>	<ul style="list-style-type: none"> <li>— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP</li> </ul>
<b>KPMG responsibilities – Audit</b>	<ul style="list-style-type: none"> <li>— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement</li> <li>— Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting</li> </ul>
<b>KPMG responsibilities – Other information in documents containing financial statements</b>	<ul style="list-style-type: none"> <li>— The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information</li> <li>— The auditor's responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts</li> <li>— Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement</li> <li>— Communicate any procedures performed relating to the other information and the results of those procedures</li> </ul>
<b>KPMG responsibilities – Compliance Audit</b>	<ul style="list-style-type: none"> <li>— Forming and expressing an opinion on compliance for each Authority's major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement</li> <li>— Performing our audit of compliance in accordance with auditing standards generally accepted in the United States of America; <i>Government Auditing Standards</i> and the Uniform Guidance</li> <li>— Considering internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance</li> </ul>



# Responsibilities *(continued)*

<p><b>KPMG responsibilities – Communications</b></p>	<ul style="list-style-type: none"> <li>— Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee</li> <li>— Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential</li> <li>— Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management’s attention. The objective of our audit of the financial statements is not to report on the Authority’s internal control</li> <li>— Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy</li> <li>— Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors’ report</li> <li>— Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal</li> <li>— Communicating to the Audit Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement</li> <li>— When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the Authority, or by additional requirements applicable to the engagement</li> <li>— Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors’ professional judgment, relevant to the responsibilities of the Audit Committee</li> <li>— Communicating significant findings and issues arising during the audit in connection with the Authority’s related parties</li> <li>— Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an Authority’s ability to continue as a going concern for a reasonable period of time</li> <li>— Communicating significant matters related to the audit of compliance that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you</li> </ul>
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# Internal control related matters

## **KPMG responsibilities**

- The purpose of our audit was to express an opinion on the financial statements
- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control
- We are not expressing an opinion on the effectiveness of internal control
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified

## **Material weakness**

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur

## **Significant deficiency**

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance





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## Strategy & Performance Cluster

Enterprise Risk Management Briefing to Audit & Risk Committee

January 26, 2023

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Matt Ries, Acting EVP Strategy & Performance

### Status

1. Environmental Social Governance (ESG) + Resilience Report
  - ESG + R report completed on December 2022. ERM's role is to mitigate risks associated with ESG and support the delivery of our ESG ambitions.
2. Advancing ERM phase 2
  - Reprogrammed funds to support financing phase 2
  - Initiating procurement activities for support with initial risk deep dives and development of treatment plans

# Appendix

## What we want to accomplish in Phase 2

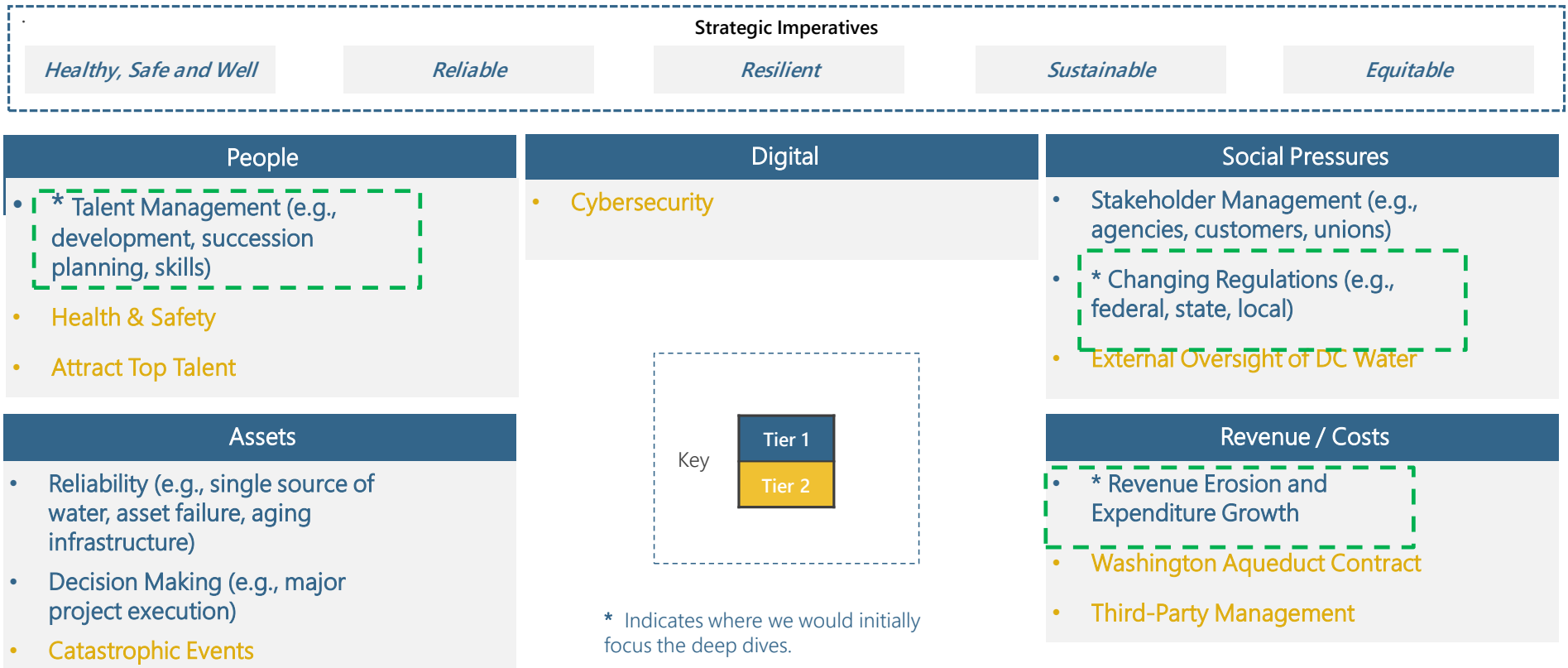
### Desired Outcomes | ERM

- **Deeper understanding** of top enterprise risks, their **underlying root causes** and drivers, and associated risk indicators to enable more effective **risk-informed decision making**.
- Clear understanding of **potential gaps** in risk mitigation plans for the Authority's top enterprise risks.
- Ability to **report on top enterprise risks** that face the Authority along with their trends to better **inform senior leadership** and **Board members**.
- Methods to **promote a strong risk-aware culture** at DC Water to advance risk thinking and awareness, **drive engagement**, and bolster risk understanding across the Authority.
- Leverage the **Origami Solution** for **automation** of ERM processes.



## DC Water Top Enterprise Risks

Below is the prioritized list of top enterprise risks. This is the output at the end of the top-down enterprise risk assessment. Using a combination of identification methods: surveys and interviews with DC Water Leadership and specific board members, and internal and external research, top risks to DC Water were identified and ranked.



# DC WATER

## Audit & Risk Committee Meeting



January 26, 2023

# Agenda

- FY 2023 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits
  - Procurement Audit
- Hotline Update

# AUDIT PLAN STATUS UPDATE



# Internal Audit Plan Status Update

Audit	Status
<b>FY 2023</b>	
<b>Procurement Audit</b>	<b>Report Complete</b>
Contract Compliance Audit	Reporting in Progress
Payroll & Timekeeping Audit	Planning in Progress
Metering, Billing and Collections Audit	Planning in Progress
Penetration Testing Audit – External Network	Planning in Progress
Oracle IT General Controls Assessment	Not Started
Oracle Identity & Access Assessment	Not Started
Work Order Management Audit – DWO	Not Started
Business Continuity Assessment	Not Started
Fleet Management Audit	Not Started
FY2024 Risk Assessment	Not Started
Remediation & Follow Up	On-going
Hotline Management	On-going

# Internal Audit Plan FY 2023 Timeline

	Oct – 22	Nov – 22	Dec – 22	Jan – 23	Feb – 23	Mar – 23	Apr – 23	May – 23	Jun – 23	Jul – 23	Aug – 23	Sep – 23	Oct – 23
▶ Procurement Audit		█											
▶ Contract Compliance Audit		█											
▶ Payroll & Timekeeping Audit				█									
▶ Metering, Billing and Collections Audit				█									
▶ Penetration Testing Audit – External Network				█									
▶ Oracle IT General Controls Assessment							█						
▶ Oracle Identity & Access Assessment							█						
▶ Work Order Management Audit – DWO							█						
▶ Business Continuity Assessment								█					
▶ Fleet Management Audit										█			
▶ FY 2024 Risk Assessment											█		
▶ Ongoing Follow-up Procedures	█												
▶ Ongoing Hotline Monitoring	█												

# PRIOR AUDIT FINDINGS – FOLLOW UP STATUS

# Open High Risk Prior Audit Findings

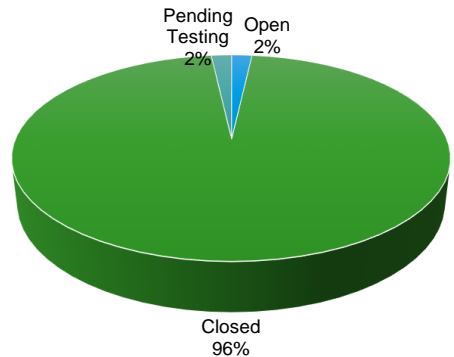
	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date	# Extensions
1	2022	7/28/2022	Strategic Plan Monitoring	Missing, incomplete, or outdated goals data	3/31/23	N/A	0
				<i>Status notes: The Goal Master List has been updated to include an "as of" field to more easily monitor timeliness of inputs from the business units. The Strategic Management team will develop formal SOPs to address a notification / escalation protocol for goal data updates. The Strategic Management team is developing a process to validate the completeness, accuracy, and quality of data used to monitor progress of the strategic goals aligned to Blueprint 2.0.</i>			
2	2022	10/27/2022	DSO Work Order Management	Failure to capture work order labor and materials on a consistent basis	1/25/23	N/A	0
				<i>Status notes: DSO has identified priority required metrics by work order type, is implementing manual review controls (weekly labor report review, weekly material report review), and conducting a mandatory Maximo training program.</i>			

Legend	
	Past due
	Original target date has not yet come due

# Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>Prior to FY22 Audit Findings</b>					
Training, Licensing & Certification	7/28/2016	7	0	6	1
Entity Level Review	10/26/2017	7	0	6	1
Integrated Work Order Management Audit	1/24/2019	10	0	9	1
Fleet Management Review	1/24/2019	3	1	2	0
Occupational Safety and Health	4/25/2019	4	1	2	1
Customer Billing and Collections Audit	10/22/2020	3	1	2	0
Contract Compliance Audit	7/22/2021	3	1	2	0
<b>Total</b>		<b>37</b>	<b>4</b>	<b>29</b>	<b>4</b>

FY16 – FY21 Prior Audit Findings Status



<sup>1</sup>“Pending Testing” indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

Note that the audit findings reported above only represent findings prior to FY22 with the status of “Pending Testing” or “Open”. Audits conducted prior to FY22 for which all findings have been closed are not represented in this table. However, the pie chart to the right includes status of all audit findings FY16 – FY21.

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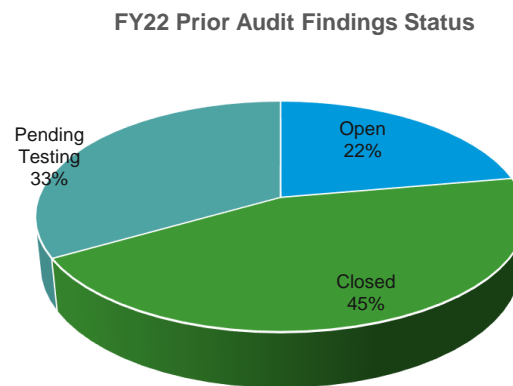
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Color Key	
<span style="background-color: #0070C0; width: 20px; height: 10px; display: inline-block;"></span>	At least 1 original remediation target date has been extended



# Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY22 Audit Findings</b>					
Contract Monitoring & Compliance Audit	1/27/2022	3	0	3	0
Accounts Payable Audit	4/28/2022	3	0	3	0
Incident Response Tabletop Exercise	4/28/2022	3	0	1	2
Strategic Plan Monitoring Audit	7/28/2022	2	2	0	0
Physical Security Audit – HQO & Ft. Reno	7/28/2022	4	0	1	3
Work Order Management Audit – DSO	10/27/2022	3	2	0	1
	<b>Total</b>	<b>18</b>	<b>4</b>	<b>8</b>	<b>6</b>



Color Key	
	At least 1 original remediation target date has been extended

<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

In total, 93% of all prior audit findings from FY16 – FY22 are closed. Management’s target closure rate is 90%.

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# PROCUREMENT AUDIT

# Procurement Audit

## Purpose

The purpose of this internal audit was to obtain an understanding of the various processes that occur prior to DC Water entering into contract agreements with vendors for capital projects. The testing period was fiscal year 2022 – October 1, 2021 through September 30, 2022.

## Scope

The audit scope was based upon the following objectives:

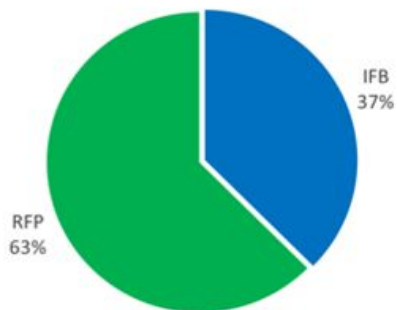
- Gained an understanding of the process from request initiation through vendor offer execution, and created flowcharts to illustrate the process
- Conducted walkthroughs with Procurement Department staff to understand the procedures and controls related to pre-award, selection of contracted vendors, and contract execution
- Selected a representative sample of capital program contracts for review of the following processes:
  - Preparation of procurement request
  - Solicitation of vendor responses
  - Evaluation of vendor responses
  - Funding and timely execution
  - Record retention
- Evaluated controls for the processes above as outlined in the Procurement Manual for the respective procurement method used
- Identified potential opportunities for process improvement or control gaps and underlying root causes
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps.



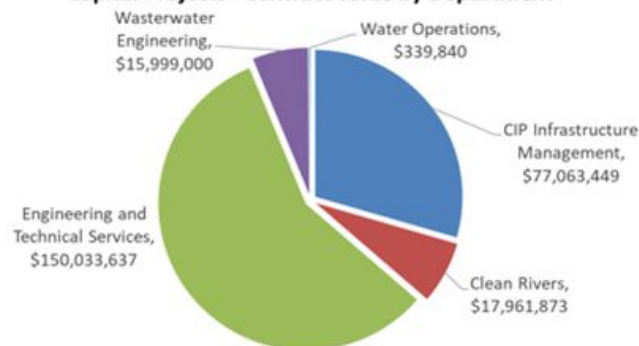
# Procurement Audit

For the period of October 1, 2021 – September 30, 2022, there were a total of 23 active capital program contracts\* with a total contract value of **\$261,397,799.00**.

Capital Projects – Contract Value by Procurement Type



Capital Projects - Contract Value by Department



\* Listing of Capital Program Contracts executed in FY22 was provided by the Procurement department.

*One low risk finding is included in the full report.*

# HOTLINE UPDATE

# Hotline Update

Below are calls received in FY23 to date as of 1/19/23:

FY 23 Hotline Call Summary	
FY 23 Calls Received	1
FY 23 Cases Closed	1
FY 23 Calls Open	0
FY23 Hotline Call Breakdown	
<i>Discrimination</i>	1

Total calls by Fiscal Year:

Year	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY19	FY20	FY21	FY22
# of calls	10	20	16	36	31	21	28	10	7	18
Action Taken	0	2	7	7	2	0	1	0	0	2

*\*the numbers in the chart above may be inflated based on repeat calls regarding the same matters*



# QUESTIONS AND ANSWERS

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# DC WATER

## Procurement Internal Audit



January 2023

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- Executive Summary and Objectives
- Background
- Approach
- Observations and Recommended Action
- Appendix
- A Rating Definitions**



# EXECUTIVE SUMMARY, BACKGROUND AND APPROACH





# Executive Summary and Objectives

## Objective and Scope

The purpose of this internal audit was to obtain an understanding of the various processes that occur prior to the DC Water and Sewer Authority (DC Water or Authority) entering into contract agreements with vendors for capital projects. The testing period was fiscal year 2022 – October 1, 2021 through September 30, 2022. The internal audit scope included the following procedures:

- Gained an understanding of the process from request initiation through vendor offer execution, and created flowcharts to illustrate the process
- Conducted walkthroughs with Procurement Department staff to understand the procedures and controls related to pre-award, selection of contracted vendors, and contract execution
- Selected a representative sample of contracts for review of the following processes:
  - Preparation of procurement request
  - Solicitation of vendor responses
  - Evaluation of vendor responses
  - Funding and timely execution
  - Record retention
- Evaluated controls for the processes above as outlined in the Procurement Manual for the respective procurement method used (i.e., micro-purchase, small purchase, sealed bid, competitive proposal, multi-step, expedited purchase, limited competition, joint, General Services Administration schedule purchase, rider)
- Identified potential opportunities for process improvement or control gaps and underlying root causes
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps.

Fieldwork was performed November 2022 – January 2023

## Overall Summary and Highlights

There was one low risk observation identified during our assessment:

### 1. Periodic Review of Procurement Manual

This observation is described in the detailed observations section of the report (pages 9 -10). We assigned relative risk or value factors to the observation. Risk ratings are the evaluation of the projected severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

### Summary of Observation Ratings (See Appendix for risk rating definitions)

Number of Observations by Risk Rating		
High	Moderate	Low
0	0	1

We thank all DC Water team members who assisted us throughout this review.

# Background

In accordance with the District of Columbia Code, DC Water must maintain an established procurement system that is consistent with principles of competitive procurement. Specific "Procurement Regulations" were approved by the Board of Directors and published in the District of Columbia Municipal Regulations in 1999 and have since been revised in 2009 and 2015. The Authority's Procurement Manual acts as a guideline for staff to follow in the acquisition of goods, services, equipment, and/or construction.

With the Regulations and Procurement Manual as guiding principles, the procurement process revolving around vendor selection and contract initiation is designed to meet the needs of the Authority. The manual outlines various authorized types of procurement methods that should be used to ensure full and open competition, as well as the appropriate methods for purchases that are exempt from competition (see table to the right).

Contract types vary per procurement depending on the vendor's responsibility and profit incentive (see table to the far right for more detail).

Authorized Procurement Methods
Micro-purchase
Small purchase (simplified acquisitions)
<b>Sealed bid</b>
<b>Competitive proposal</b>
<b>Multi-step</b>
Expedited purchase
Limited competition
Joint agency
Rider
General Services Administration (GSA) schedule purchase
Competition-Exempt Procurements
Sole Source
Emergency
Categorical Exemption

The FY23 Procurement Audit was focused solely on the procurement process for capital projects. Per management, all executed Capital Procurement projects during calendar year 2022 were conducted as sealed bid, competitive proposal, or multi-step procurements. As such, our testing focused on these three procurement methods.

Contract Types	
<b>Fixed Price Contracts</b>	Fixed Price
	Fixed-Price with Economic Price Adjustment
	Fixed-Price with Prospective Price Redetermination
	Fixed-Ceiling-Price with Retroactive Price Redetermination
	Firm-Fixed-Price, Level-of-Effort Term
	Fixed-Price Incentive
<b>Cost Reimbursement Contracts</b>	Cost-Reimbursement
	Cost-Plus-Fixed-Fee
	Cost-Reimbursement Incentive
<b>Time-and-Materials and Labor-Hour Contracts</b>	Time-and-Materials
	Labor-Hour

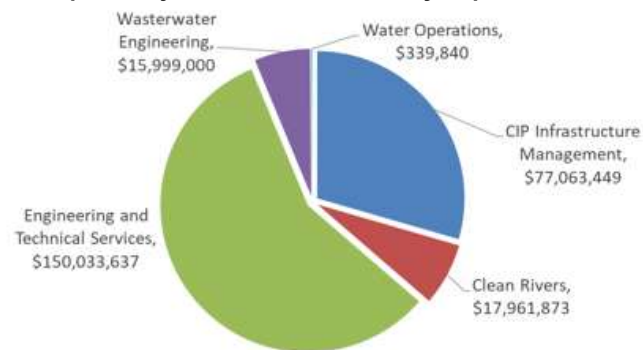
## Background (continued)

For the period of October 1, 2021 – September 30, 2022, there were a total of 23 active capital program contracts\* with a total contract value of **\$261,397,799.00**.

Capital Projects – Contract Value by Procurement Type



Capital Projects – Contract Value by Department



\* Listing of Capital Program Contracts executed in FY22 was provided by the Procurement department.

## Approach

---

### PROCUREMENT TESTING

- Conducted walkthroughs with Procurement Department staff to understand the standard operating procedures related to pre-award and selection of vendor contracts
- Selected a representative sample Capital Procurement contracts for testing over control operating effectiveness
- Evaluated controls outlined in the Procurement Manual for the respective procurement method used (e.g., micro-purchase, small purchase, sealed bid, competitive proposal, multi-step, expedited purchase, limited competition, joint, General Services Administration schedule purchase, rider)
- Identified potential opportunities for process improvement or control gaps and underlying root causes.
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps

*Reporting:* At the conclusion of this audit, we summarized our observations related to the procurement function. We have reviewed the results of our testing with management.



# OBSERVATIONS AND RECOMMENDED ACTION

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## Observation 1: Periodic Review of Procurement Manual

### Risk Rating: Low

**Observation:** Through inquiry with management, Internal Audit determined that there is not a system in place that necessitates a periodic review of the Procurement Manual. When questions or new situations arise, an informal review of the manual takes place. Per inquiry, an informal review last occurred in 2022 when there were updates to federal requirements and DC Water management reviewed to determine whether there would be any impact to the Authority's procurement requirements; however, no changes were deemed necessary. Since there were no changes made to the manual, no sign-off on the manual occurred. The most recent update to the Procurement Manual was implemented in 2015.

**Root Cause Analysis:** DC Water does not have a documented review cadence required to ensure the Procurement Manual reflects the most up-to-date and accurate policies/procedures.

**Impact Analysis:** A lack of formally required periodic review of the Procurement Manual may create challenges in keeping the department up-to-date on changes to people, process and/or technology (e.g., recent regulation). Given the manual is posted publicly, it may also lead to outdated communication to third parties looking to perform work with the Authority. Additionally, a periodic review will allow the department to continue aligning with industry best practices.

### Recommendation:

We recommend that DC Water formalize a review of the Procurement Manual annually or as extenuating circumstances arise. This review should entail confirming all stipulated requirements are relevant and up-to-date. Whether or not changes are implemented, the reviewer should sign-off and date the manual as evidence that a review occurred.

## Observation 1: Periodic Review of Procurement Manual (continued)

---

### **Management Action Plan:**

**Response:** Procurement and DGLA will hold an annual review of the Procurement Regulations and Manual. The meeting will be held on the first Friday of June of each year. Procurement and DGLA will prepare an agenda for discussion and will engage other stakeholders who may be impacted. If an action (change) is agreed, research will be performed, and a recommendation will be drafted for review and approval by the Chief Legal Officer and Chief Contracting Officer. Changes to the Procurement Regulations will require Board of Directors approval and adoption. The Chief Contracting Officer will be the final approver for the changes to the Procurement Manual (that does not impact the Procurement Regulations). Upon final formal approval, the updated Procurement Regulations and/or Manual will be filed with DGLA and Strategy and Performance and on DC Water's website. Procurement will be responsible for the implementation of changes and will lead the communication with the department heads and stakeholders.

**Responsible Party:** Procurement and DGLA

**Target Date:** June 2, 2023

# APPENDIX

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## Appendix A – Rating Definitions

RSM defined observations based on the following risk rating definitions:

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within <b>12 months</b> (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within <b>nine months</b> (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed <b>six months</b> (if related to external financial reporting, must mitigate financial risk within two months).

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