



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY
Board of Directors**

Audit and Risk Committee

*January 25, 2024
9:30 a.m.*

**Microsoft Teams Meeting
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Phone Conference ID: 907 787 83#

1. **Call to Order**..... Floyd Holt, Chairperson
2. **Roll Call**..... Michelle Rhodd, Board Secretary
3. **[FY 2023 Financial Statements Briefing](#)**..... Genes Malasy, Controller
4. **[External Audit Results](#)**.....KPMG
5. **[Enterprise Risk Management Briefing](#)**..... Francis Cooper, Director EPMO
6. **[Internal Audit Update](#)**..... RSM Internal Audit
 - A. FY 2024 Internal Audit Plan Status Update
 - B. Status Update on Prior Audit Findings
 - C. **[P-Card and Expense Reimbursement Audit](#)**
 - D. Hotline Update
7. **Executive Session*** Floyd Holt, Chairperson
8. **Adjournment**..... Floyd Holt, Chairperson

This meeting is governed by the Open Meetings Act. Please address any questions or complaints arising under this meeting to the Office of Open Government at opengovoffice@dc.gov.

1The 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 2023 Financial Statements

Presentation to Audit Committee, January 25, 2023
Genes Malasy, Vice President, Controller

District of Columbia Water and Sewer Authority





Purpose

- Review DC Water's fiscal year 2023 audited financial statement performance



Highlights

- DC Water received an unmodified (“clean”) audit opinion from our external auditors, KPMG
 - This was the third audit completed in the new Oracle financial system
- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 26th consecutive year for our 2022 Annual Comprehensive Financial Report
- DC Water also received, for the first time, the Popular Annual Financial Reporting Award (PAFR) from GFOA for its Fiscal Year 2022 annual financial report
 - *Special thanks to Office of Marketing and Communications for their work on the PAFR*





Highlight – GASB 96

- During FY23 DC Water implemented GASB 96
 - This is the accounting and reporting for Subscription-Based Information Technology Arrangements (SBITAs)
- Implementation of this standard increased capital assets by \$52.9 million and \$51.2 million in FY23 and FY22 respectively
- It also increased accumulated depreciation by \$28.7 million and \$22.6 million in FY23 and FY22 respectively
- The implementation also decreased expenditures by \$7.0 million and \$5.5 million in the two years





Financial Overview

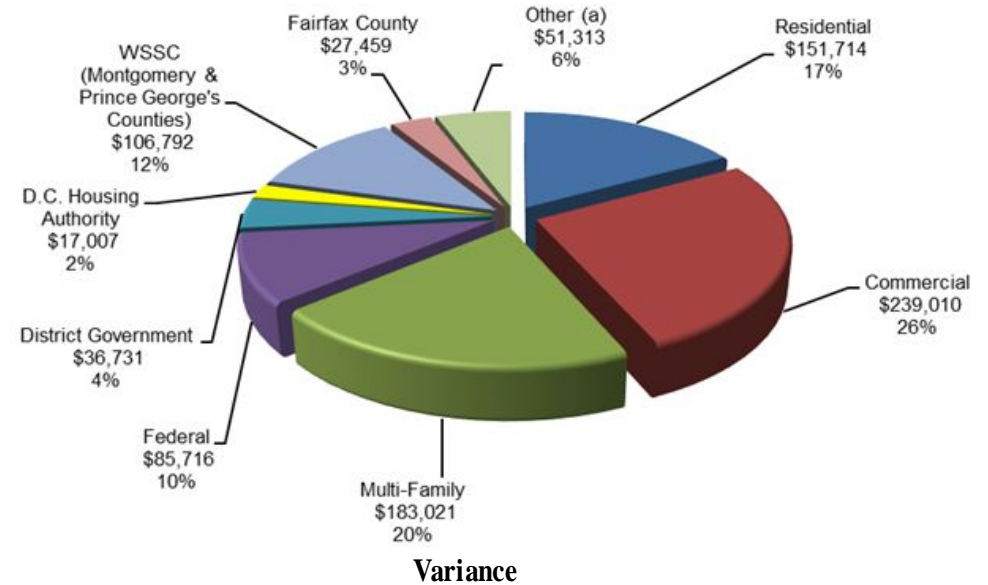
- DC Water’s financial position remains strong and continues to grow
 - The net position increased to \$3.1 billion – an increase of \$266.2 million, or 9.3%, over 2022
 - This is driven mainly by a \$142.0 million increase in net investments in capital assets and advances of \$105 million to the Washington Aqueduct for their capital program
 - Operating revenues increased to \$898.8 million – an increase of \$66.5 million, or 8.0%, over 2022
 - Operating expenses, including depreciation, increased to \$536.6 million – an increase of \$36 million, or 7.2%, over 2022



Operating Revenues

- The Authority's operating revenues increased by \$66.5 million (8.0%) to \$898.8 million, the largest increase was in the residential, commercial and multi-family category

 - This was a result of the rate increase and increased consumption
- Revenues remain diversified



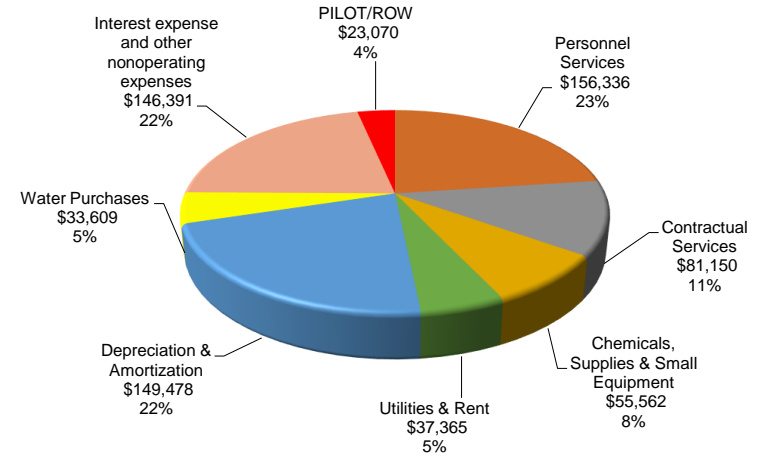
	2022		Variance	
	2023	Restated	\$	%
Residential, commercial and multi-family custom	\$ 562,351	\$ 522,057	\$ 40,294	7.72%
Federal government	85,716	76,680	9,036	11.78%
District government and D.C. Housing Authority	53,737	51,407	2,330	4.53%
Charges for wholesale wastewater treatment	152,755	135,285	17,470	12.91%
Other	44,204	46,781	(2,577)	-5.51%
Total operating revenues	\$ 898,763	\$ 832,210	\$ 66,553	8.00%



Operating Expenses

• The Authority's operating expenses increased by \$36.0 million (7.2%) to \$536.6 million

- Categories with the largest increases were personnel, chemicals, and utilities (electricity)



			Variance	
	2023	2022	\$	%
Personnel services	\$ 156,336	\$ 149,655	\$ 6,681	4.46%
Contractual services	81,150	69,308	11,842	17.09%
Chemicals, supplies and small equipment	55,562	40,974	14,588	35.60%
Utilities and rent	37,365	38,158	(793)	-2.08%
Depreciation and amortization	149,478	146,375	3,103	2.12%
Water purchases	33,609	33,345	264	0.79%
Payment in lieu of taxes and right of way fee	23,070	22,718	352	1.55%
Total operating expenses	\$ 536,570	\$ 500,533	\$ 36,037	7.20%



Net Position

💧 The Authority's net position increased by \$266.2 million (or 9.3%) to \$3.1 billion

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

💧 Capital additions were the largest portion of the increase

	2023	2022
Operating revenues	\$ 898,763	\$ 832,210
Operating expenses	536,570	500,533
Net non-operating revenues (expenses)	<u>(125,513)</u>	<u>(158,410)</u>
Change in net position before capital contributions	236,680	173,267
Capital contributions	<u>29,519</u>	<u>31,434</u>
Change in net position	266,199	204,701
Net position - beginning of year	2,866,305	2,661,604
Net position - end of year	<u>\$ 3,132,504</u>	<u>\$ 2,866,305</u>



Change in Net Position

- The difference between Assets and Liabilities constitutes Net Position
- Net position is broken down into four categories
- Unrestricted investments increased mainly as a result of balances in the concentration accounts and to the number of days of cash required to be held by DC Water and \$60.9 million in grants receivable, mainly for advances to the Washington Aqueduct for their capital program

	2023	2022
Net investments in capital assets	2,622,251	2,480,216
Restricted for:		
Capital Projects	7,958	7,287
Debt Service	76,260	62,586
Unrestricted	426,035	316,216
Total net position	\$ 3,132,504	\$ 2,866,305



Debt Administration

- At the end of fiscal year 2023, the Authority had approximately \$4.0 billion in long term debt outstanding, a decrease of \$23.9 million, or 0.6%, over the fiscal year 2022 as principle was paid off
- Over the next ten years, DC Water anticipates issuing \$3.3 billion in new debt to pay for the capital program

Description	Balance 9/30/2022	Increases	Decreases	Balance 9/30/2023
Outstanding bonds and notes	\$ 3,726,934	\$ 52,599	\$ (61,566)	\$ 3,717,967
Unamortized bond premiums	250,235	-	(15,091)	235,144
Unamortized bond discounts	(1,448)	-	128	(1,320)
Total bonds and notes	\$ 3,975,721	\$ 52,599	\$ (76,529)	\$ 3,951,791



Cash Overview

- Total restricted and unrestricted cash was \$467,700
 - Unrestricted cash and investments increased to \$345.9 million vs. \$315.2 million in FY 2022
 - Includes Board-required cash reserves, the Rate Stabilization Fund, and funds for expanded customer assistance programs
 - Use is restricted by the Trust Indenture and Board policies
 - Restricted cash and investments decreased to \$549.0 million vs. \$661.5 million in FY 2022 because of bond issuances in FY 2022 and bond drawdowns in FY2023
 - Mainly bond proceeds that will be drawn down to fund capital projects
 - Use is externally restricted by debt covenants, federal mandates, etc.



New Capital Assets

- Net capital assets, including construction in progress and less depreciation, increased by \$224.5 million, or 2.9%, to \$8.0 billion
 - Blue Plains, at \$3.4 billion, is the largest capital investment
 - There is \$2.4 billion worth of construction in progress

	As of September 30,		
	2023	2022	2021
Wastewater treatment plant	\$ 3,425,716	\$ 3,334,860	\$ 3,327,554
Wastewater collection facilities	1,113,072	1,092,373	1,045,919
Water distribution system	1,326,108	1,231,610	1,218,468
Deep tunnel system	1,269,654	1,269,356	1,269,271
Purchased capacity	425,995	410,457	399,651
Buildings	84,903	84,903	84,904
Capital equipment	433,426	405,367	381,431
Right to use assets (SBITA)	52,892	51,206	47,860
Construction in progress	2,410,601	2,289,874	2,057,773
Less accumulated depreciation	(2,356,614)	(2,209,782)	(2,065,763)
Net capital assets	<u>8,185,753</u>	<u>7,960,224</u>	<u>7,767,068</u>



Conclusion

- 💧 DC Water received a clean audit opinion for the 26th year in a row
- 💧 This was the third audit in the new Oracle financial system
- 💧 Net position is increasing – DC Water continues to grow and invest in infrastructure





DC Water and Sewer Authority

Results of the financial statement and uniform guidance audits for the year ended September 30, 2023

January 25, 2024

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, 2023 and 2022, 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 December 21, 2023

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
- The Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, in 2023. As a result of this adoption, the Authority recorded balances for SBITA assets, liabilities, amortization expenses, and interest expenses in its fiscal year 2023 financial statements.
- GASB Statement No. 96 requires that changes adopted to conform to it be applied retroactively by restating financial statements, if practicable, for all prior periods presented. Accordingly, in 2023 the Authority restated its fiscal year 2022 financial statements to reflect SBITA-related balances.
- Refer to the next slide for other new GASB standards effective in fiscal year 2023

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.
- No significant accounting estimates or financial statement disclosures were identified in our audit

New accounting standards

GASB Standards 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

GASB Standards to be Implemented in FY 2024

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
99	Extension of the use of LIBOR, accounting for SNAP distributions - Omnibus 2022	June 15, 2023	2024
100	Accounting changes and corrections	June 15, 2023	2024

Audit misstatements

Uncorrected Audit Misstatements

No uncorrected financial statement misstatements in the Authority's books and records or financial statement presentation and disclosure omissions were identified in fiscal year 2023

Corrected Audit Misstatements

Entry											
ID	Description of misstatement	Factual, judgmental or projected misstatement?	Misstatement in accounts or in disclosure?	Accounts	Balance Sheet		Income Statement		Cash Flow Effect - Increase (Decrease)		
					Debit	(Credit)	Debit	(Credit)	Operating Activities	Investing Activities	Financing Activities
CAP.AM.01	To reclassify accounts classified as unrestricted net position to NICA	Factual	Accounts	Unrestricted net position	5,857,950						
				Net investments in capital assets		(5,857,950)					
EXP.AM.01	To correct the beginning balances of SBITA assets and accumulated depreciation	Factual	Accounts	IT subscription assets - Accrual	16,512,603						
				IT subscription amortization expense - Accrual		(16,512,603)					
TRE.AM.01	To reclassify securities misclassified as restricted investments to restricted cash and cash equivalents	Factual	Accounts	Restricted cash and cash equivalents - Noncurrent	17,499,258						
				Restricted investments - Noncurrent		(17,499,258)				17,499,258	
					39,869,811	(39,869,811)	0	0	0	17,499,258	0

Corrected Audit Misstatements - Disclosures

Correcting Entry Required at Period End				
ID	Disclosure	Corrected	Description	Amount
EXP.AM.01	Note 4	Yes	To correct the balances of SBITA assets and accumulated depreciation disclosed in note 4 as of 10/1/21, 10/1/22, and 9/30/23.	16,512,602
TRE.AM.01	Note 3	Yes	To reclassify securities misclassified as restricted investments to restricted cash and cash equivalents in Note 3.	17,499,258



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

- No material weaknesses or significant deficiencies reported

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
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy.
Related parties	No significant findings or issues arose during the audit in connection with the Authority's related parties (Note 13 to the basic financial statements).
Other information in documents containing audited financial statements	<ul style="list-style-type: none"> • 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. • 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. • 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. • 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.
Noncompliance with laws and regulations, including illegal acts or fraud	No identified or suspected instances of non-compliance with laws and regulations, including illegal acts or fraud, have come to our attention.
Significant Unusual Transactions	No significant unusual transactions were noted.
Going concern	No matters to report.

Required communications and other matters

(continued)

Communication topic	Response
Non-GAAP accounting policies and practices	No matters to report.
Subsequent events	No matters to report.
Other significant matters	No other significant findings or issues arising from the audit that are significant and relevant to those charged with governance were identified.
Significant difficulties encountered during the audit	We encountered no significant difficulties in dealing with management in performing our audit.
Disagreements with management	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.
Management’s consultation with other accountants	To the best of our knowledge, management has not consulted with other accountants.
Material written communications	Engagement letter; management representation letter, auditors’ communication letter (AU-C 260 Letter), and the management letter were distributed under a separate cover.
Confirmation of independence	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 66.958, Water Infrastructure Finance and Innovation Act
- ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds
- ALN 99.UNK, Combined Sewer Overflow

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

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP — 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
Management responsibilities – ICFR	<ul style="list-style-type: none"> — 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
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> 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; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the Authority from whom the auditor determines it necessary to obtain audit evidence — 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 — 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"> 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 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Management responsibilities – Compliance Audit	<ul style="list-style-type: none"> — Identifying the Authority's government programs and understanding and complying with the compliance requirements — Establishing and maintaining effective controls that provide reasonable assurance that the Authority administers government programs in compliance with the compliance requirements — Evaluating and monitoring the Authority's compliance with the compliance requirements — Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit — Preparation of the SEFA in accordance with the applicable criteria

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

Responsibilities *(continued)*

Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — 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
KPMG – Audit objectives	<ul style="list-style-type: none"> — 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
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — 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 — 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
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — 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 — 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 — Communicate any procedures performed relating to the other information and the results of those procedures
KPMG responsibilities – Compliance Audit	<ul style="list-style-type: none"> — 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 — 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 — 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



Responsibilities *(continued)*

<p>KPMG responsibilities – Communications</p>	<ul style="list-style-type: none"> — 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 — Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential — 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 — 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 — Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors’ report — Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal — 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 — 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 — 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 — Communicating significant findings and issues arising during the audit in connection with the Authority’s related parties — 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 — 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
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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

Enterprise Risk Management Briefing to Audit & Risk Committee

January 25, 2024

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Francis Cooper, Director EPMO

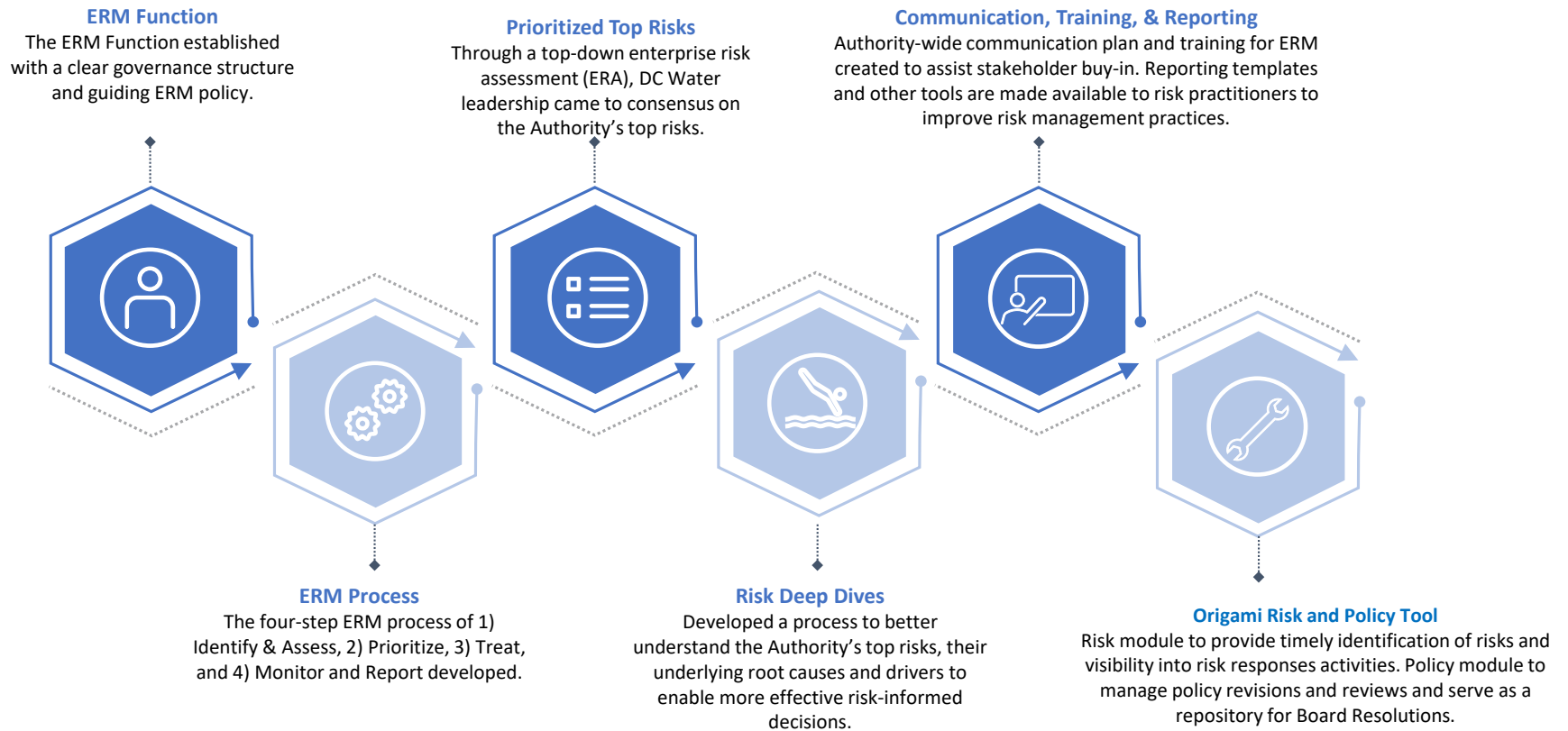
Helen Hagos, RIMS-CRMP
Manager, Enterprise Risk, Policy & Internal Audit

Agenda

- 1 ERM program Recap
- 2 Review risk deep dive outcomes and next steps
- 3 Advancing the Bottom-up risk assessment approach
- 4 ERM's role in the ESG+R (Resilience) Report

ERM Program | Elements created through FY 2023

In response to an Internal Audit finding, DC Water developed and delivered the elements below, building a solid foundation for enterprise risk management.



Risk Deep Dive | Outcomes

Risk deep dives were conducted for two enterprise risks: **1. Revenue Erosion & Expenditure Increase** and **2. New & Changing Regulations**. The deep dive process provokes and facilitates conversations among management to allow for **better understanding, awareness, and communication** around the risk topic and **supports development of risk responses**.

Risk Drivers

The below risk drivers were identified as the **highest priority** when considering which we are **controlling the least** and where are we the most vulnerable.

1. **Non-revenue water loss**
2. Asset prioritization
3. O&M spending and capital costs
4. Resources and competencies
5. Third party management
6. **Stakeholder relationships**
7. Imposed regulations (e.g., PFAs)

Initial Focus Areas

Non- Revenue Water

- Develop and implement a strategy to mitigate non-revenue water.
- Create action plans outlining steps, assign ownership, and track and monitor the performance of the plan.

Stakeholder Relationships

- Engage in a stakeholder mapping exercise to **document DC Water's current relationships**. Through this process, we will **capture information** about our stakeholders, including their respective **influence and impact**, and develop a strategy to engage and **enhance our relationships** with **critical stakeholders**.

Note: Drivers were prioritized through 1:1 sessions and a group workshop

Value in implementing the Bottom-up risk assessment approach

This approach refers to starting risk management activities at the operational or department level. Advancing this method of risk assessment will support the Authority in gaining a **more detailed and nuanced understanding** of the **specific risks**, allowing for **targeted** and **effective risk management strategies**.

Benefits include:

- **Granular understanding** of risks enabling identification of risks that may be **overlooked** in a high-level or **top-down assessment**.
- **Encourages individuals** and teams to **identify and document risks specific to their areas**. **Input from individuals** who are directly involved in day-to-day operations.
- Enables **early detection** and **proactive mitigation** of emerging risks before they escalate to a higher level of severity. **Addressing risks** at the **source** can potentially **yield cost savings**
- Promotes a sense of **ownership** and **accountability** among staff at all levels, fostering a culture of **risk awareness** and **management**.
- Enables a more **targeted allocation of resources** based on the specific needs and challenges of each business unit or process.

Note: In 2022, we advanced a top-down risk assessment through a combination of interviews, surveys and workshops with Senior leadership and specific Board members which culminated in a documented enterprise risk register.

Enterprise Risk Management + ESG

DC Water’s ERM program helps to strengthen the Authority through **risk preparation** and **mitigation**. ERM’s role is to identify and manage risks that could impact achieving our **strategic imperatives**. These activities and initiatives are featured in our **annual ESG+R Report**. The **FY23 ESG+ Report** is scheduled to be published in **March 2024**.



Appendix



2022 Enterprise Risk Assessment Results

DC Water Top Enterprise Risks & Risk Statements



Risk	Risk Statement
★ Decision Making (e.g., major project execution)	Inability to streamline decision making and culture to prioritize or execute on its major projects may lead to operational inefficiencies and increased cost.
★ New and Changing Regulations	The risk that DC Water is unable to anticipate, influence and/or adequately respond to legislations and/or regulations (federal, state, local).
★ Reliability (e.g., single source of water, asset failure, aging infrastructure)	Inability to provide reliable service due to water supply shortages, asset failure or aging infrastructure, may lead to unsatisfied customers and regulatory scrutiny.
★ Revenue Erosion & Expenditure Increase	The risk of potential inefficiencies in internal processes and resource prioritization and/or unfavorable external factors (e.g., increasing costs, continued water loss) may lead to revenue erosion.
★ Stakeholder Management (e.g., agencies, customers, unions)	Failure to manage its stakeholders, including local and federal agencies, customers, and unions, may lead to reputational harm, project delays, and budgetary issues for the Authority.
★ Talent Management	The risk that DC Water is not able to retain a skilled, diverse and inclusive workforce that meets the current and future human capital needs of world-class water utility.
★ Attract Top Talent	Inability to attract top talent may result in insufficient resourcing or misalignment with roles, significantly impacting the Authority's ability to maintain reliability, affordability, and achieve its overall corporate objectives.
★ Catastrophic Events	Inability to respond quickly and effectively to catastrophic events, e.g., pandemics, extreme weather events, etc., may negatively impact annual budgets, disrupt operations, and erode public trust.
★ Cybersecurity	Failure to support and protect technology, systems, and critical data assets from a cyber attack could lead to significant disruptions to our business operations and potential loss of stakeholder trust and confidence.
★ External Oversight of DC Water	Inability of DC Water to maintain its independence from the Washington, DC government or increased oversight efforts around rate approvals and key operational decisions may impact available resources or ability to borrow money at lower rates.
★ Health & Safety	Failure to ensure the safety of the workforce or the broader community may result in serious injury / illness, financial losses, and/or reputational damage.
★ Third-Party Management	Risk that third parties' (e.g., partners, vendors, suppliers, and contractors) poor performance, the Authority's ineffective management, or excessive reliance may have negative impacts to the Authority's reputation and/or operations.
★ Washington Aqueduct Contract	Inability to negotiate favorable terms in the contract negotiation for purchasing water from the Washington Aqueduct may result in unfavorable financial and reliability performance.

★ Tier 1 Enterprise Risk ★ Tier 2 Enterprise Risk

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Summary of Top Enterprise Risks – Tier 1



Risk Statement	Risk Drivers and Considerations	What We Heard	Rating
<p><u>Reliability (e.g., single source of water, asset failure, aging infrastructure)</u></p> <p><i>Inability to provide reliable service due to water supply shortages, asset failure or aging infrastructure, may lead to unsatisfied customers and regulatory scrutiny.</i></p>	<ul style="list-style-type: none"> • Reliance on single water source, which DC Water does not own • High cost to replace aging infrastructure • Potential for asset failure 	<p><i>"We only have a 24–36-hour water supply if something happens on the Potomac."</i></p> <p><i>"I worry about asset failure."</i></p>	<div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: red; color: white; padding: 2px 5px;">High</div> <div>Impact</div> </div> <div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: yellow; padding: 2px 5px;">Med.-High</div> <div>Vulnerability</div> </div>
<p><u>Revenue Erosion & Expenditure Increase</u></p> <p><i>The risk of potential inefficiencies in internal processes and resource prioritization and/or unfavorable external factors (e.g., increasing costs, continued water loss) may lead to revenue erosion.</i></p>	<ul style="list-style-type: none"> • ~1% annual decrease in water consumption, likely due to conservation efforts • Mandated capital improvement projects • Late fees paused due to COVID-19 • Global supply chain and inflation effects on costs 	<p><i>"With the rise in cost of materials and supplies, either we ask more from rate payers, or have to do fewer capital projects."</i></p>	<div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: yellow; padding: 2px 5px;">Med.-High</div> <div>Impact</div> </div> <div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: yellow; padding: 2px 5px;">Med.-High</div> <div>Vulnerability</div> </div>
<p><u>Talent Management (e.g., development, succession planning, skills)</u></p> <p><i>The risk that DC Water is not able to retain a skilled, diverse and inclusive workforce that meets the current and future human capital needs of world-class water utility.</i></p>	<ul style="list-style-type: none"> • Impact of contractors on ability to develop in-house skills • Institutional knowledge not shared consistently • Key person risk / single point of failure • Scarcity of niche talent needs • Lack of performance plans for unionized workforce 	<p><i>"We have an aging skills profile based on what the organization needed 25 years ago, but as we build new capabilities, we need people with new sets of skills."</i></p>	<div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: yellow; padding: 2px 5px;">Med.-High</div> <div>Impact</div> </div> <div style="display: flex; align-items: center; gap: 10px;"> <div style="background-color: yellow; padding: 2px 5px;">Med.-High</div> <div>Vulnerability</div> </div>

Summary of Top Enterprise Risks – Tier 1 (cont.)



Risk Statement	Risk Drivers and Considerations	What We Heard	Rating
<p><u>Decision Making (e.g., major project execution)</u></p> <p><i>Inability to streamline decision making and culture to prioritize or execute on its major projects may lead to operational inefficiencies and increased cost.</i></p>	<ul style="list-style-type: none"> DC Water historically had a siload culture Focus on meeting regulatory requirements may delay funding for other infrastructure projects 	<p><i>"Without all the necessary information, we manage risk by being overly conservative, which is expensive."</i></p>	<p>Med.-High Impact</p> <p>Med.-High Vulnerability</p>
<p><u>Stakeholder Management (e.g., agencies, customers, unions)</u></p> <p><i>Failure to manage its stakeholders, including local and federal agencies, customers, and unions, may lead to reputational harm, project delays, and budgetary issues for the Authority.</i></p>	<ul style="list-style-type: none"> Coordination with other utilities and agencies Managing customers' expectations as a non-profit 70% of DC Water workforce is unionized Operational incident, caused by DC Water or not Public perception management of projects and products 	<p><i>"We need to collaborate with other utilities and agencies to fix issues, but if they don't want to play ball, then we are stuck."</i></p>	<p>Med. Impact</p> <p>Med. Vulnerability</p>
<p><u>New and Changing Regulations</u></p> <p><i>The risk that DC Water is unable to anticipate, influence and/or adequately respond to legislations and/or regulations (federal, state, local).</i></p>	<ul style="list-style-type: none"> Potential federal or local regulatory changes' affect on water standards could have a financial impact Relative ease to pass local legislation in DC Federal mandates for programs (e.g., Clean Rivers) 	<p><i>"We don't think enough about how we will work to meet future regulatory requirements."</i></p>	<p>Med. Impact</p> <p>Med. Vulnerability</p>

Summary of Top Enterprise Risks – Tier 2



Risk Statement	Risk Drivers and Considerations	What We Heard	Rating
<p>Cybersecurity</p> <p><i>Failure to support and protect technology, systems, and critical data assets from a cyber attack could lead to significant disruptions to our business operations and potential loss of stakeholder trust and confidence.</i></p>	<ul style="list-style-type: none"> Status as critical infrastructure provider for U.S. capital Evolving and increasingly complex nature of cyber threats 	<p><i>"Cyber is always going to be a risk, especially as threats become more complex and prevalent."</i></p>	<p>Med.-High Impact</p> <p>Med. Vulnerability</p>
<p>External Oversight of DC Water</p> <p><i>Inability of DC Water to maintain its independence from the Washington, DC government or increased oversight efforts around rate approvals and key operational decisions may impact available resources or ability to borrow money at lower rates.</i></p>	<ul style="list-style-type: none"> Increased DC government scrutiny of DC Water and its rates (e.g., Office of People's Counsel) Reallocation of resources to meet demand of DC governmental requests for meetings & inquiries Potential impacts to credit and bond ratings due to increased oversight / scrutiny from regulators 	<p><i>"Increased government oversight and interaction has forced us to dedicate resources to appease meetings and inquiries"</i></p>	<p>Med.-High Impact</p> <p>Med. Vulnerability</p>
<p>Health & Safety</p> <p><i>Failure to ensure the safety of the workforce or the broader community may result in serious injury / illness, financial losses, and/or reputational damage.</i></p>	<ul style="list-style-type: none"> Lack of comprehensive safety assessment Lack of accountability at frontline level No systematic process to measure changes in safety culture 	<p><i>"We don't have a great safety culture or tools to measure it. We've come a long way in the past three years, but we have a long way to go."</i></p>	<p>Med.-High Impact</p> <p>Med. Vulnerability</p>
<p>Washington Aqueduct Contract</p> <p><i>Inability to negotiate favorable terms in the contract negotiation for purchasing water from the Washington Aqueduct may result in unfavorable financial and reliability performance.</i></p>	<ul style="list-style-type: none"> Water purchase contract with Washington Aqueduct expires in 2023 and has been in place since the 1990s DC Water is the Aqueduct's primary customer but relies solely on it for its water supply 	<p><i>"Even though we don't operate the Washington Aqueduct, the public would probably blame us if something failed."</i></p>	<p>Med. Impact</p> <p>Med. Vulnerability</p>

Summary of Top Enterprise Risks – Tier 2 (cont.)



Risk Statement	Risk Drivers and Considerations	What We Heard	Rating
<p>Catastrophic Events</p> <p><i>Inability to respond quickly and effectively to catastrophic events, e.g., pandemics, extreme weather events, etc., may negatively impact annual budgets, disrupt operations, and erode public trust.</i></p>	<ul style="list-style-type: none"> • Climate change and weather-related events (e.g., floods) • Infrastructure failure (e.g., Blue Plains) • Multiple risks materializing concurrently 	<p><i>"We should be planning for two or more unknowns at the same time, like Japan when it had a tsunami and nuclear reactor go down in the same event."</i></p>	
<p>Attract Top Talent</p> <p><i>Inability to attract top talent may result in insufficient resourcing or misalignment with roles, significantly impacting the Authority's ability to maintain reliability, affordability, and achieve its overall corporate objectives.</i></p>	<ul style="list-style-type: none"> • Competition for talent, especially in evolving, post-COVID labor market • Requirements to source talent from DC area • Difficulty bringing institutional knowledge in-house 	<p><i>"One of the biggest risks we have is that we are too lean. We can't hire enough people."</i></p> <p><i>"The availability of qualified people is not there."</i></p>	
<p>Third-Party Management</p> <p><i>Risk that third parties' (e.g., partners, vendors, suppliers, and contractors) poor performance, the Authority's ineffective management, or excessive reliance may have negative impacts to the Authority's reputation and/or operations.</i></p>	<ul style="list-style-type: none"> • Balance of what is developed in-house vs. outsourced • Reliance on third parties for critical parts of business • Third parties may be unable to meet obligations 	<p><i>"We don't have a dashboard to monitor vendor performance."</i></p>	



Risk Deep Dive Output



Revenue Erosion & Expenditure Increase Deep Dive | High Priority Risk Drivers

High Priority Drivers

[1.1]. Difficulties detecting issues in **customer billing** due to internal capacity limitations and/or insufficient systems/technology (e.g., illegal meter connections, new meter installations, large meter accessibility)

[1.2]. Opportunity to **minimize water loss** by addressing leakages in infrastructure and implementing water shut-offs as necessary

[1.3]. Management and prioritization of unplanned **O&M spending** (i.e., increasing asset maintenance expenses) and **rising capital costs** (i.e., Clean Rivers)

[1.4]. **Utilization of third parties** and opportunity to re-evaluate the existing operating model to assess potential duplication of efforts and current uses for external parties

[2.1]. Impact of federally/EPA **mandated capital improvement plan (CIP) programs** on debt service from capital costs without proper federal funding to align with mandated needs

[2.2]. **Supply chain disruptions** and use of **single sourced** materials leading to raw material shortages and increasing the cost of chemicals required to treat wastewater

Note: The numbering of risk drivers signifies the root cause of the driver.

1 – Self-Inflicted
2 – Imposed
3 – Calculated

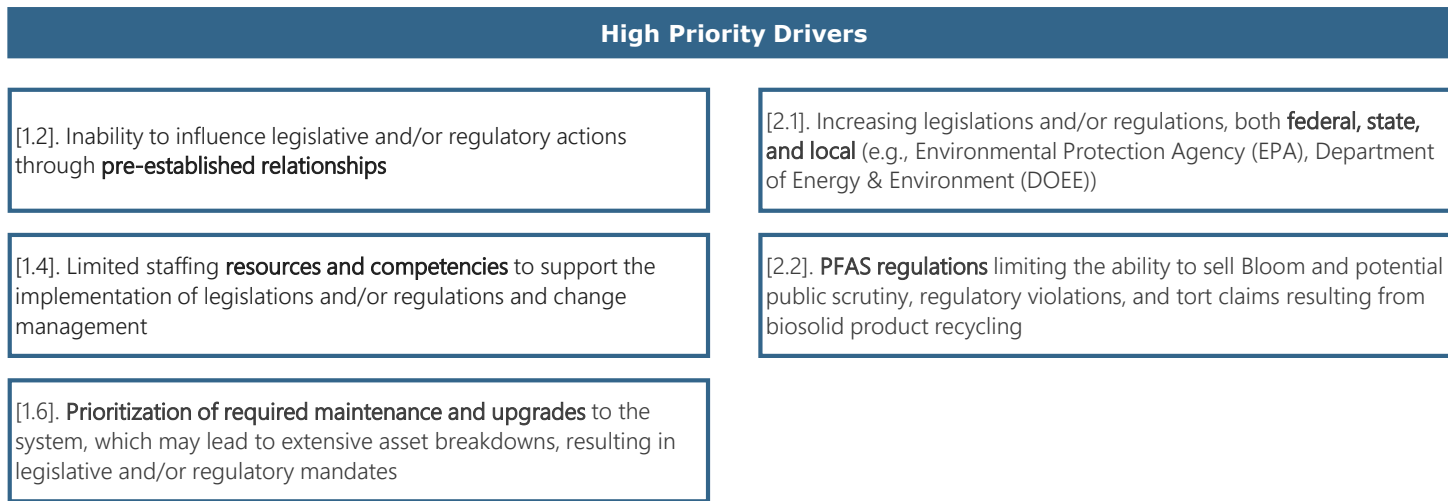
Ex: Driver [1.2] was the second driver discussed under self-inflicted category.

Note: Drivers were prioritized through 1:1 sessions and a group workshop

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New and Changing Regulations Deep Dive | High Priority Risk Drivers



Note: The numbering of risk drivers signifies the root cause of the driver.

- 1 – Self-Inflicted
- 2 – Imposed
- 3 – Calculated

Ex: Driver [1.2] was the second driver discussed under self-inflicted category.

Note: Drivers were prioritized through 1:1 sessions and a group workshop

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Illustrative Risk Summary Dashboard



RISK: NEW AND CHANGING REGULATIONS		RISK DRIVERS	SELECT KEY RISK METRICS	ACTUAL	TARGET	TREND
IMPACT	Med./High	[2.3] PFAS regulations limiting the ability to sell Bloom and potential public scrutiny, regulatory violations, and tort claims resulting from biosolid product recycling	A. Number of enacted regulations with medium/high effect on DC Water [2.1] [2.3]		TBD	
VULNERABILITY	Med./High		B. Number of proposed legislations with medium/high effect on DC Water [2.1] [2.3]			
TREND	TBD	[2.1] Increasing legislations and/or regulations, both federal, state, and local (e.g., Environmental Protection Agency, Department of Energy & Environment)	C. Number of regulatory violation notices received (at local, regional, and/or federal level) [2.1] [2.3]		TBD	
RISK OWNER			D. Number of regulatory violation notices settled or enforced with/without monetary penalties or other adverse actions annually [1.2] [2.1] [2.3]			
TBD		[1.6] Prioritization of required maintenance and upgrades to the system, which may lead to extensive asset breakdowns, resulting in legislative and/or regulatory mandates	E. Number of outstanding noncompliance matters /violations that are behind on resolution and/or expected to be behind on resolution [1.6] [2.1] [2.3]		TBD	
EXECUTIVE RISK SPONSOR			F. Number of assets (and or %) of assets that are overdue (x days) for maintenance or replacement [1.6]*			
Jeffrey Thompson		[1.4] Limited staffing resources and competencies to support the implementation of legislations and/or regulations and change management	G. Number of compliance reporting obligations and percentage of delays in reporting [1.4] [1.6] [2.1]		TBD	
RISK MANAGEMENT STATUS			H. Year over year change in regulatory/legislative stakeholder relationship health map [1.2] [1.4]			
TBD		[1.2] Inability to influence legislative and/or regulatory actions through pre-established relationships			TBD	
A&RC PRESENTATION DATE						
TBD						

RISK DESCRIPTION	SELECT RISK RESPONSE ACTIVITIES*	OWNER	DUE	STATUS	RECENT PROGRESS	ADDITIONAL CHALLENGES
The risk that DC Water is unable to anticipate, influence and/or adequately respond to legislations and/or regulations (federal, state, local).	• Public outreach regarding alternative to recycling biosolids [2.3]					
	• OLA tracks District Reg development and sends email updates [2.1]					
	• Robust asset maintenance in place at Blue Plains Treatment Plant [1.6]					
	• Processes in place to address staffing needs [1.4]					
	• FTEs within Government & Legal Affairs team focusing on DC reg development and interacting with some EPA departments [1.2]					

Trend Options:
Change in risk exposure since last report
(Increased, Decreased, Unchanged):



Status Options ● On Track ● At Risk ● Delayed

*Information gathered through review of DC Water documentation and stakeholder interviews

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DC WATER

Audit & Risk Committee Meeting



January 25, 2024



Agenda

- FY 2024 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits
 - P-Card and Expense Reimbursement Audit
- Hotline Update

AUDIT PLAN STATUS UPDATE

Internal Audit Plan Status Update

Audit	Status
FY 2024	
Purchasing Card and Expense Reimbursement Audit	Report Complete
Contract Compliance Audit	Fieldwork in Progress
Work Order Management Audit - DPO	Planning in Progress
Permit Operations Audit	Planning in Progress
Mobile Application Penetration Testing	Planning in Progress
Genesys IT General Controls Assessment	Not Started
Internal and External Network Penetration Testing	Not Started
Physical Security – Fleet Facility	Not Started
Physical Security - HQO	Not Started
Training and Recruiting Audit	Not Started
FY2025 Risk Assessment	Not Started
Remediation & Follow Up	On-going
Hotline Management	On-going

Internal Audit Plan FY 2024 Timeline

	Oct – 23	Nov – 23	Dec – 23	Jan – 24	Feb – 24	Mar – 24	Apr – 24	May – 24	Jun – 24	Jul – 24	Aug – 24	Sep – 24	Oct – 24
▶ P-Card and Expense Reimbursement Audit*		█											
▶ Contract Compliance Audit*		█											
▶ Work Order Management - DPO*			█										
▶ Permit Operations			█										
▶ Mobile Application Penetration Testing*			█										
▶ Genesys ITGC Review				█									
▶ Internal and External Network Penetration Testing							█						
▶ Physical Security – Fleet Facility										█			
▶ Physical Security - HQO										█			
▶ Training and Recruiting Audit*										█			
▶ FY 2025 Risk Assessment										█			
▶ Ongoing Follow-up Procedures	█												
▶ Ongoing Hotline Monitoring	█												

* indicates cycle audit



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	2023	7/27/2023	DWO Work Order Management Audit	<p>Failure to capture work order labor and materials data</p> <p><i>DWO has defined work activities that require material data capturing and developed business processes for capturing both required labor hour and material data capture that have been socialized with DWO branches. Starting December 1st, DWO began monitoring data integrity biweekly to monitor effectiveness of new process adoption. Any changes necessary to business processes based on what they are seeing during this monitoring period will be implemented before April 2024.</i></p>	8/31/24	N/A	0
2	2023	10/26/2023	Fleet Management Audit	<p>Lack of current policies and procedures</p> <p><i>Fleet is leveraging a writer that has interviewed staff, created a glossary of terms, is looking through current industry best practices, and drafted a scope with phased timeline for policy development. The SOP for District inspections has already been documented. Fleet has submitted milestones to Internal Audit for tracking towards final target date in September that include drafting a RACI and determining Fleet policy needs, finalizing draft of 10 Authority-wide Fleet policies, and submitting policies to review (Legal, Labor Relations, People & Talent).</i></p>	9/1/24	N/A	0

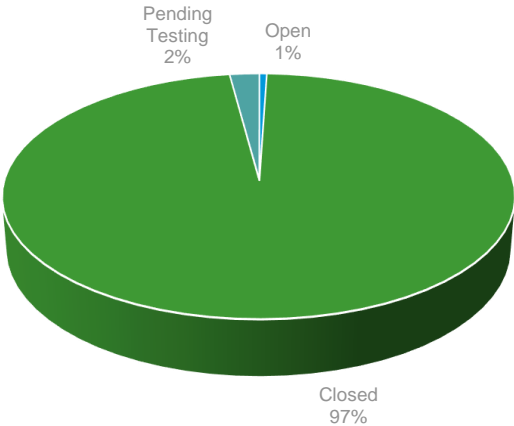
Legend	
	Past due
	Original target date has not yet come due



Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
Prior to FY23 Audit Findings					
Entity Level Review	10/26/2017	7	0	6	1
Occupational Safety and Health	4/25/2019	4	0	3	1
Contract Compliance Audit	7/22/2021	3	1	2	0
Strategic Plan Monitoring Audit	7/28/2022	2	0	0	2
Total		16	1	11	4

FY17 - FY22 Prior Audit Findings Status



¹“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 FY23 with the status of “Pending Testing” or “Open”. Audits conducted prior to FY23 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 FY17 – FY22.

8

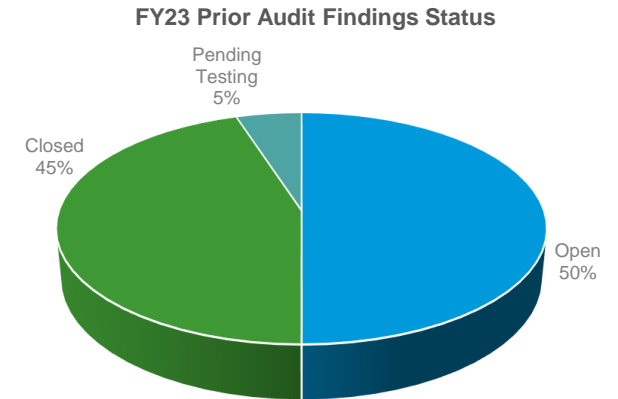
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Color Key	
	At least 1 original remediation target date has been extended



Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
FY23 Audit Findings					
Procurement Audit	1/26/2023	1	0	1	0
Contract Compliance Audit	4/27/2023	1	0	1	0
Metering, Billing, and Collections Audit	4/27/2023	1	0	0	1
Payroll & Timekeeping Audit	7/23/2023	7	2	5	0
IT Wireless Penetration Testing Audit	7/23/2023	1	0	1	0
Oracle ITGC Testing	7/23/2023	0	0	0	0
Work Order Management Audit – DWO	7/23/2023	3	3	0	0
Fleet Management Audit	10/27/2023	6	5	1	0
	Total	20	10	9	1



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

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

In total, 92% of all prior audit findings from FY17 – FY23 are closed. Management’s target closure rate is 95%.

9



P-CARD AND EXPENSE REIMBURSEMENT AUDIT

P-Card and Expense Reimbursement Audit

Purpose

The purpose of this review was to obtain an understanding of the various processes and controls that occur throughout the purchasing card (P-Card) and expense reimbursement processes and the applicable governing policies. The audit testing period was 1/1/2023 – 10/15/2023.

Scope

The audit scope was based upon the following objectives:

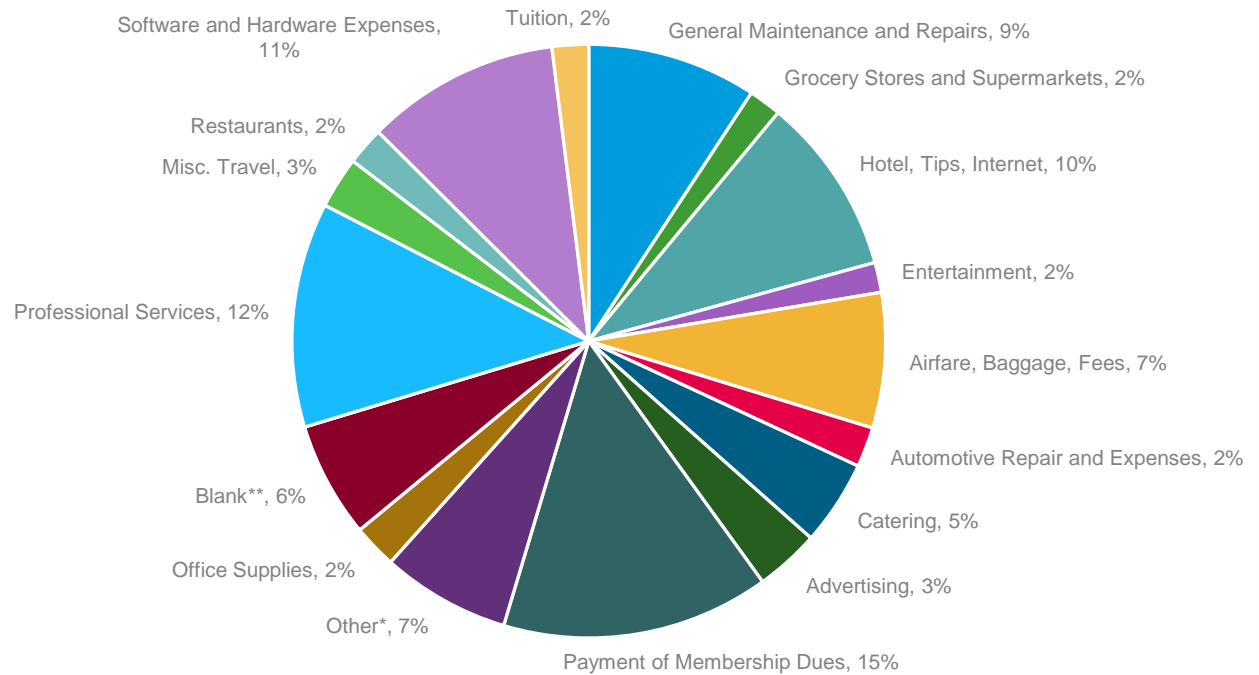
- Reviewing the applicable Authority policies related to the P-Card and Expense Reimbursement program
- Conducting walkthroughs with responsible personnel within the Procurement Department to obtain an understanding of the process
- Updating existing flowcharts of the process(es) for changes in existing P-Card and Expense Reimbursement policies and controls since the FY19 P-Card internal audit
- Performing testing of the P-Card and Expense Reimbursement transactions for proper justification, approval, and documentation of receipt by the responsible persons, including verification of the following:
 - Appropriateness of transactions based on the employee, department, credit limit, and prohibited items listed within the policy
 - Timeliness and approval of the Employee Reconciliation Report
 - If applicable, timeliness and approval of itemized receipts and authorizations
 - Department follow-up and resolution for transactions violating the Business Travel and P-Card Manual
 - Other specific requirements, as per walkthroughs
- Reviewing forms utilized for new P-Cards
- Evaluating spending trends for unusual activity and inactive / infrequent users
- Reviewing segregation of duties over the P-Card and Expense Reimbursement process

P-Card and Expense Reimbursement Audit

This was the first audit of the P-Card and expense reimbursement program since the implementation of the Oracle Expense Module, as well as the combination of the P-Card and Travel Card into a single card on October 1, 2020.

A total of \$1,206,130.32 was spent on P-Cards during the audit period of January 1, 2023 through October 15, 2023 (exclusive of permit fees). The pie chart to the right represents the breakdown of spend on P-Cards by MCC.

Note: Our review also included a review of expense reimbursements. Total expense reimbursements during the audit period were \$290,056.68.



Three low risk findings are included in the full report.

* All categories that represented less than 1% of total spend were combined to create the 'Other' category

** 6% of all expenditures did not have a MCC provided, and as such Internal Audit could not classify the type of good/service procured with the transaction



HOTLINE UPDATE



Hotline Update

Below are calls received in FY24 to date as of 1/18/24:

FY 24 Hotline Call Summary	
FY 24 Calls Received	5
FY 24 Cases Closed	5
FY 24 Calls Open	0

Total calls by Fiscal Year:

Year	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY19	FY20	FY21	FY22	FY23	FY24
# of calls	10	20	16	36	31	21	28	10	7	18	16	5
Action Taken	0	2	7	7	2	0	1	0	0	2	3	1

QUESTIONS AND ANSWERS

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DC WATER

P-Card and Expense Reimbursement Internal Audit



January 2024

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EXECUTIVE SUMMARY, BACKGROUND AND APPROACH



Executive Summary and Objectives

Objective and Scope

The purpose of this review was to obtain an understanding of the various processes and controls that occur throughout the purchasing card (P-Card) and expense reimbursement processes and the applicable governing policies. The audit testing period was 1/1/2023 – 10/15/2023. The audit scope was based on the following objectives:

- Reviewing the applicable Authority policies related to the P-Card and Expense Reimbursement program
- Conducting walkthroughs with responsible personnel within the Procurement Department to obtain an understanding of the process
- Updating existing flowcharts of the process(es) for changes in existing P-Card and Expense Reimbursement policies and controls since the FY19 P-Card internal audit
- Performing testing of the P-Card and Expense Reimbursement transactions for proper justification, approval, and documentation of receipt by the responsible persons, including verification of the following:
 - Appropriateness of transactions based on the employee, department, credit limit, and prohibited items listed within the applicable policy
 - Timeliness and approval of the Employee Reconciliation Report
 - If applicable, timeliness and approval of itemized receipts and authorizations
 - Department follow-up and resolution for transaction purchase violating the Business Travel and P-Card Manual
 - Other specific requirements, as per walkthroughs
- Reviewing forms utilized for new P-Cards
- Evaluating spending trends for unusual activity and inactive / infrequent users
- Reviewing segregation of duties over the P-Card and Expense Reimbursement process

Field work was performed from November 2023 – January 2024

Overall Summary and Highlights

There were three low risk observations identified during our assessment:

1. Failure to Track P-Card and Expense Reimbursement Training Completion
2. Deviations from Business Travel and P-Card Policy
3. Approval of Executive Expense Reports

These observations are described in the detailed observations section of the report (pages 11 -16). 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	3

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

Background

Overview

Purchasing Cards (P-Cards) are the preferred method for micro-purchases that do not have an existing purchase order. The purpose of the P-Card program is to simplify DC Water’s buying process and improve cycle time from ordering to receipt. In order to accomplish this goal, DC Water enforces a Business Travel and Purchasing Card Policy that outlines the policies, procedures, roles, and responsibilities for card usage and administration. When the P-Card administrator issues a P-Card to an employee, the employee is assigned a single purchase limit and a monthly spending limit. The single purchase credit limit sets a dollar restriction for each purchase. The monthly spending limit gives the cardholder monthly dollar restrictions for total charges during each billing cycle. Cardholders are responsible for maintaining monthly bank statements and supporting documentation detailing the purchases charged such as itemized receipts, amounts, item descriptions, etc. The table below illustrates credit limits for the P-Cards at the Authority.

Position	Single Purchase Limit	Monthly Spending Limit
Directors and higher	\$5,000	\$10,000
Executive Assistant	\$5,000	\$10,000
Below Directors	\$2,000	\$5,000

It is important to note that all individuals without P-Cards are expected to follow the purchasing requirements outlined in the Business Travel and Purchasing Card Policy. Individuals that use personal funds to conduct business-related purchases must submit expense reimbursement requests within the same timeframe as a P-Card holders expense reconciliation report (within two weeks of the transaction date or two weeks of the last day of travel). Likewise, all Authority employees are expected to adhere to the stipulations laid out in the policy, including but not limited to: meal per diems, tax-exempt purchases, hotel price guidelines, etc.

Background (continued)

P-Card and Expense Reimbursement Trends

In addition to reviewing the P-Card and Expense Reimbursement processes, the audit scope included evaluating spending trends, including the departments with the highest dollars spent and number of transactions. The tables below illustrates the top five departments by dollars spent and by transaction volume. For the audit period of January 1, 2023 through October 15, 2023 there were 4,007 transactions with total spend of \$1,496,187.*

Top 5 Departments – Spend		
Department	Dollars spent	% of total spend
Office of the CEO (OCEO) - Central Administration	\$168,298.28	11%
Finance – Central Administration	\$95,871.03	6%
Facilities-Central Administration	\$91,289.46	6%
Government and Legal Affairs –Central Administration	\$88,149.55	6%
Marketing and Communications-Central Administration	\$68,244.97	5%

Top 5 Departments – Transactions		
Department	# of Transactions	% of total transactions
Government and Legal Affairs - Central Administration	400	10%
Office of the CEO (OCEO) - Central Administration	388	10%
Marketing and Communications-Central Administration	264	7%
Performance - Central Administration	261	7%
Finance - Central Administration	196	5%

*Note that DC Water also leverages P-Cards for permitting fees, which have been excluded from Internal Audit's above analysis. 8,168 transactions were excluded from the total transactions and \$887,325.50 was excluded from the total spend pertaining to permit fees.



Background (continued)

P-Card and Expense Reimbursement Trends (continued)

The tables below illustrate the top five vendors by dollars spent and volume of transactions for the audit period of January 1, 2023 through October 15, 2023.*

Top 5 Vendors – Spend		
Vendor Name	Dollars Spent	% of total spend
Marriott Marco Island	\$41,805.79	3%
AMZN MKTP US	\$41,080.97	3%
American Air	\$36,798.78	2%
Spilled Milk Virtual Term	\$35,990.00	2%
ECO Promotional Products	\$32,366.36	2%

Top 5 Vendors – Transactions		
Vendor Name	# of Transactions	% of total transactions
AMZN MKTP US	333	8%
Uber Trip	203	5%
Foreign Currency Conversion	197	5%
American Air	112	3%
United	97	2%

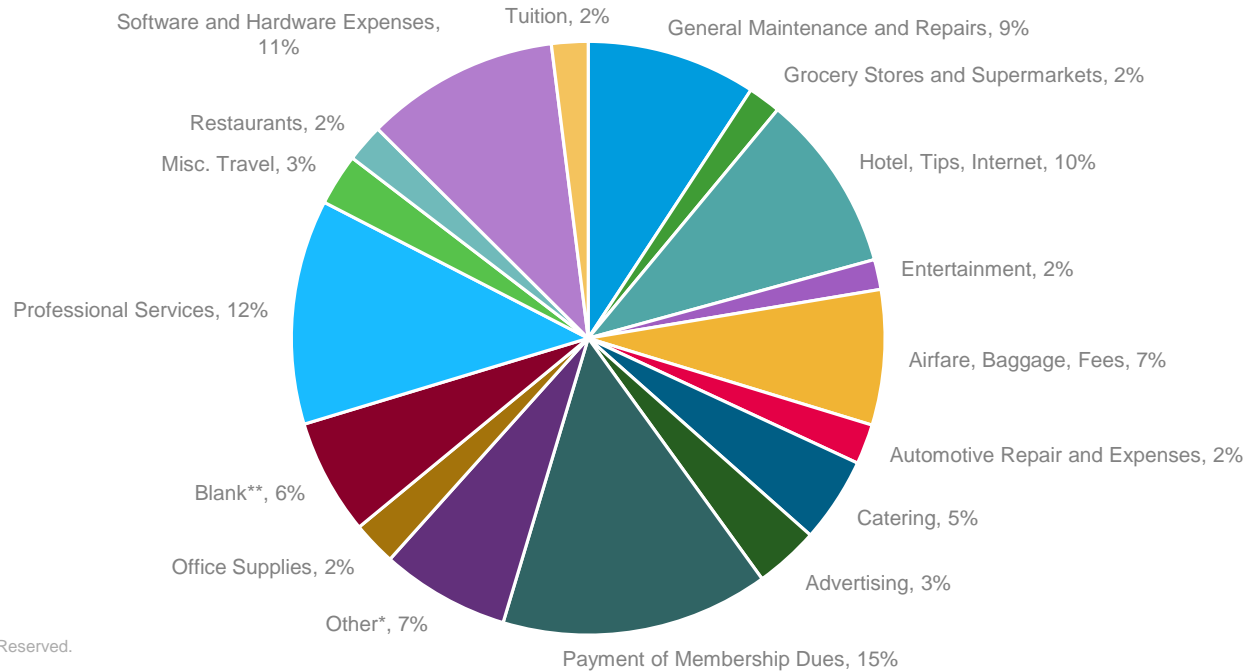
*Note that DC Water also leverages P-Cards for permitting fees, which have been excluded from Internal Audit's above analysis. 8,168 transactions were excluded from the total transactions and \$887,325.50 was excluded from the total spend pertaining to permit fees.

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Background (continued)

P-Card and Expense Reimbursement Trends (continued)

The pie chart below references merchant category codes (MCCs), which are used to classify businesses by the types of goods and services they provide. The chart represents the breakdown of spend on P-Cards by MCC. A total of \$1,206,130.32 was spent on P-Cards during the audit period of January 1, 2023 through October 15, 2023 (exclusive of permit fees). Please note that this chart does not include any expense reimbursement spend that occurred during the audit period.



* All categories that represented less than 1% of total spend were combined to create the 'Other' category

** 6% of all expenditures did not have a MCC provided, and as such Internal Audit could not classify the type of good/service procured with the transaction



Approach

Our audit approach consisted of the following phases:

Understanding of the Process

The first phase of our review consisted primarily of inquiries with key process and control owners to obtain an understanding of the Authority's P-Card and Expense Reimbursement Program, how it is currently administered, and how the spending is monitored. The following procedures were conducted as part of the first phase of our review:

- Conducted walkthroughs with responsible personnel within the Procurement Department to obtain an understanding of the P-Card and Expense Reimbursement process.
- Reviewed documented policies and procedures, organization charts, and other key process information available to further our understanding of the function.
- Updated existing flowcharts of the process(es) for changes in existing P-Card and Expense Reimbursement policies and controls since the FY19 P-Card internal audit
- From our interviews and review of policies, we identified key risks and controls, and developed a detailed control testing script to facilitate phase 2 testing.

Detailed Testing

The second phase of our review consisted of an assessment of the design of key controls, and testing of the operating effectiveness of those controls. This process was facilitated through the testing of a sample of 50 transactions during the period of 1/1/23 – 10/15/23. Specific procedures performed included verification of the following:

- Appropriateness of transactions based on the employee, Department, credit limit, and prohibited items listed within the applicable policy
- Timeliness and approval of the Expense Reconciliation Reports (P-Card transaction) or Expense Reimbursement Reports (personal funds/reimbursement)
- If applicable, timeliness and approval of itemized receipts and authorizations
- Department follow-up and resolution for transaction purchases violating the Business Travel and P-Card Manual
- Other specific requirements, as per walkthroughs

Reporting

At the conclusion of this internal audit, we summarized our observations related to the P-Card and Expense Reimbursement function and reviewed the results of our testing with management.

OBSERVATIONS AND RECOMMENDED ACTION

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Observation 1: Failure to Track P-Card and Expense Reimbursement Training Completion

Risk Rating: Low

Observation: Based on discussion with Management, Internal Audit noted that although P-Card training is made available to all cardholders, the Procurement Team is not monitoring the completion of P-Card and Expense Reimbursement training. Training is required to be completed by all cardholders per the Business Travel and Purchasing Card Policy. Internal Audit also noted that the majority of expense reports submitted at the Authority are made by individuals who do not possess a P-Card. Given this, Internal Audit would expect that the training be made available to and required for individuals that incur frequent business expenses that will require reimbursement (i.e. executive assistants, frequent travelers, etc.).

Root Cause Analysis: There is inadequate enforcement of P-Card and Expense Reimbursement trainings and inadequate review processes to validate that the cardholder has completed the necessary trainings prior to issuance of a new P-Card or a renewal of an existing P-Card. Additionally, there is no requirement for non P-Card holders to complete the training, despite an employee's eligibility to submit expense reimbursement reports.

Impact Analysis: Improper monitoring of P-Card and Expense Reimbursement training completion can lead to non-compliance with the documented policies and procedures, including late submission of expense reports or submission of transactions not allowable per policy.

Observation 1: Failure to Track P-Card and Expense Reimbursement Training Completion (cont'd)

Recommendation: Per discussion with Management, there are currently efforts in place to enhance the P-Card and Expense Reimbursement training available within Oracle. Internal Audit recommends that Management enforce and monitor P-Card and Expense Reimbursement training completion prior to the issuance of a new P-Card. Additionally, Internal Audit recommends that Management provide the training to all individuals expected to book frequent travel and/or incur frequent business expenses. Completion of the training should be tracked and noted in the individual's Oracle profile.

Management Action Plan:

Response:

- 1) P-Card training: The training material was not set up in Oracle to effectively monitor the compliance training. The current P-card training material will be loaded in Oracle. Management will also modify the process to require the training prior to the submission of a new P-card application.
- 2) New P-Card, business travel, and expense reimbursement training: The new training material is in development. A request for Oracle expense module modification is submitted to the Oracle COE team to capture additional expense details. The new training material will be finalized after the Oracle expense module modification is complete. This new training will be offered to all employees.

Responsible Party: VP of Procurement

Target Date:

- 1) P-Card training: April 1, 2024
- 2) New P-Card, business travel, and expense reimbursement training: October 1, 2024 (pending on the time and effort required for Oracle expense module updates)

Observation 2: Deviations from Business Travel and P-Card Policy

Risk Rating: Low

Observation: Internal Audit reviewed a sample of 25 business travel and 25 non-business travel related expense reports submitted between 1/1/2023 through 10/15/2023. Internal Audit's testing involved confirming compliance of the expense reports to the requirements detailed within the Business Travel and Purchasing Card Policy. The deviations observed are noted below:

- 9 of the 50 samples contained a purchase that had taxes included despite DC Water's tax-exempt status for the good/service procured. Of these 9 exceptions, 7 were related to the inclusion of transportation tax on airfare purchases.
- 6 of the 50 samples did not have a sufficiently detailed receipt provided for the transaction. Without a receipt, there was not enough detail to determine whether the purchase properly excluded taxes, upgrades, meal cost appropriateness, etc.
- 1 of the 50 samples involved the purchase of a team lunch within 50 miles of HQO without prior approval per policy requirements.

Internal Audit also performed procedures to confirm P-Card holders did not exceed their allowed transaction or monthly spend limit. Internal Audit's testing of 5 P-Card limit increases identified 2 instances in which a user's allowable limit had been increased, yet the P-Card team was unable to provide evidence of approval for the credit limit increase.

Root Cause Analysis: Internal Audit notes that while employees are currently required to complete P-Card and Expense Reimbursement training, this completion is not tracked or monitored. In the event an employee has not completed this training, they might be unaware of specific elements of the policy. This is further detailed in Observation #1 in this report. For the instance in which an internal credit limit increase approval was not able to be provided, the credit limit occurred under the tenure of the Authority's prior P-Card administrator. As such, the current administrator was unable to locate the documentation because it was not saved within the Oracle system.

Observation 2: Deviations from Business Travel and P-Card Policy (cont'd)

Impact Analysis: Deviations from the Business Travel and P-Card policy can result in expenditures on unallowable items that open the Authority to unnecessary risk, such as circumventing procurement processes or inappropriate use of Authority funds. Management has various mitigating controls that are in place throughout the P-Card and Expense Reimbursement process, and these mitigating controls require additional effort from the P-Card team that would not be required with improved policy adherence by employees.

Recommendation: Internal Audit recommends the following to address instances of non-compliance:

- Improve training requirements – see recommendation tied to Observation #1.
- There are currently ongoing efforts to modify the language used in the Oracle Expense module to provide additional clarity to employees when submitting expense reports. Internal Audit recommends that Management continue these efforts and finalize the updates to the module.
- There are currently ongoing efforts to enter into a partnership with a third-party travel booking system to assist employees with booking business travel. Internal Audit recommends that Management continue moving forward with the proposed partnership. This will bring more consistency to travel booking (including removing transportation tax from future airfare purchases).

Observation 2: Deviations from Business Travel and P-Card Policy (cont'd)

Management Action Plan:

Response:

- 1) Training requirements: see observation #1
- 2) Oracle expense module update: see Observation #1
- 3) Third-Party travel booking service: The contract is signed with the agency. The implementation is planned to begin in early February with completion in April. The training will be offered in April and May for roll-out by May or June.

Responsible Party: VP of Procurement

Target Date:

- 1) P-card training: April 1, 2024
- 2) New P-card, business travel, and expense reimbursement training: October 1, 2024 (may be modified depending on the time and effort required for Oracle expense module update)
- 3) Third-Party travel booking service: June 1, 2024

Observation 3: Approval of Executive Expense Reports

Risk Rating: Low

Observation: Internal Audit confirmed with Management that all employee expense reports are routed to their manager in Oracle for approval prior to review by the expense auditor and AP team. However, given the CEO has no direct manager at the Authority, there had been a process in place outside of the Oracle system for the Board Chair to regularly review and approve CEO expense reports. When Internal Audit requested evidence of Board Chair approval for the CEO's expense reports that were selected during sample testing, Internal Audit was informed that the Board Chair has not given approval for expenses during this audit period.

Root Cause Analysis: Due to the Board Chair's position outside of the Authority, the decision was made to not provision Oracle access for the sole purpose of approving the CEO's expense reports. This decision resulted in the need for manual email correspondence/approval. Per Internal Audit's inquiry, this process did not prove effective for the purpose of timely approvals.

Impact Analysis: A lack of formalized independent review of the CEO's expenses may increase the risk of noncompliance with the P-Card and Business Travel policies. However, all CEO's expense reports, along with any other employee's reports, were reviewed by the expense auditor for compliance with the policies. Despite the thorough review of the expense auditor, it is a common best practice for the expenses of the CEO of an organization to undergo a review by the Board or Audit Committee.

Observation 3: Approval of Executive Expense Reports (cont'd)

Recommendation: Internal Audit recommends that Management re-instate or re-design the CEO expense report review process. A new Interim Board Chair was recently instated, and as such, Internal Audit recommends that a discussion is held to determine the most efficient way to facilitate approval from the Chair. If the decision is made to continue receiving approval via email, Internal Audit recommends that all individuals that will be involved in the process are made aware of the required actions moving forward.

Management Action Plan:

Response: A meeting will be organized with Board Secretary and Board Chairperson to discuss the policy and to establish a new process.

Responsible Party: VP of Procurement

Target Date: May 1, 2024

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 12 months (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 nine months (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 six months (if related to external financial reporting, must mitigate financial risk within two months).

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