



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Audit Committee

Thursday, March 29, 2012

9:30 a.m.

1. **Call to Order** Bradford Seamon, Chairperson
2. **External Auditor Communication with the Committee** Uzma Malik-Dorman
Thompson, Cobb, Bazilio & Associates
3. **Summary of Internal Audit Activity/Internal Audit Status** Joseph Freiburger
 - A. Risk Management Report Final
 - B. IT – Operating and Business Applications Report Final
 - C. Payroll Report Final
4. **Fraud Mitigation Plans** John Madrid
5. **Executive Session** Bradford Seamon
6. **Adjournment**



Internal Audit Update

Audit Committee Meeting

March 29, 2012

The following represents a summary of the activities and achievements since the December 22, 2011 meeting.

I. HIGHLIGHTS:

Performance of scheduled internal audits – Internal Audit performed audit work in nine separate audit areas. Three of the projects were totally completed and the final report issued. The three projects completed were the internal audits of IT Operating & Business Applications, Payroll, and Risk Management. There are two projects in the draft reporting stage (Maintenance Services, IT Governance), two projects in the fieldwork stage (Accounts Payable, Call Center Operations), and two projects in the planning / scoping stage (IT Help Desk, Warehouse & Inventory). The chart below depicts the planned projects and their status for the fiscal year.

A. Stage of Audits & Special Projects - The following represents an indication of the stage of completion for each scheduled audit and requested special project.

PROJECT	PLANNING / SCOPING	FIELDWORK	Draft Report	Final Report
IT Business & Operating Applications ¹				
Payroll				
Risk Management				
Maintenance Services (Wastewater)				
IT Governance				
IT Help Desk and Computer Operations				
Accounts Payable				
Call Center Operations				
Warehouse Operations				
Biosolids Management				
Capital Projects				
Permit Operations				

Note: ¹ indicates carry over from 2011 audit plan.

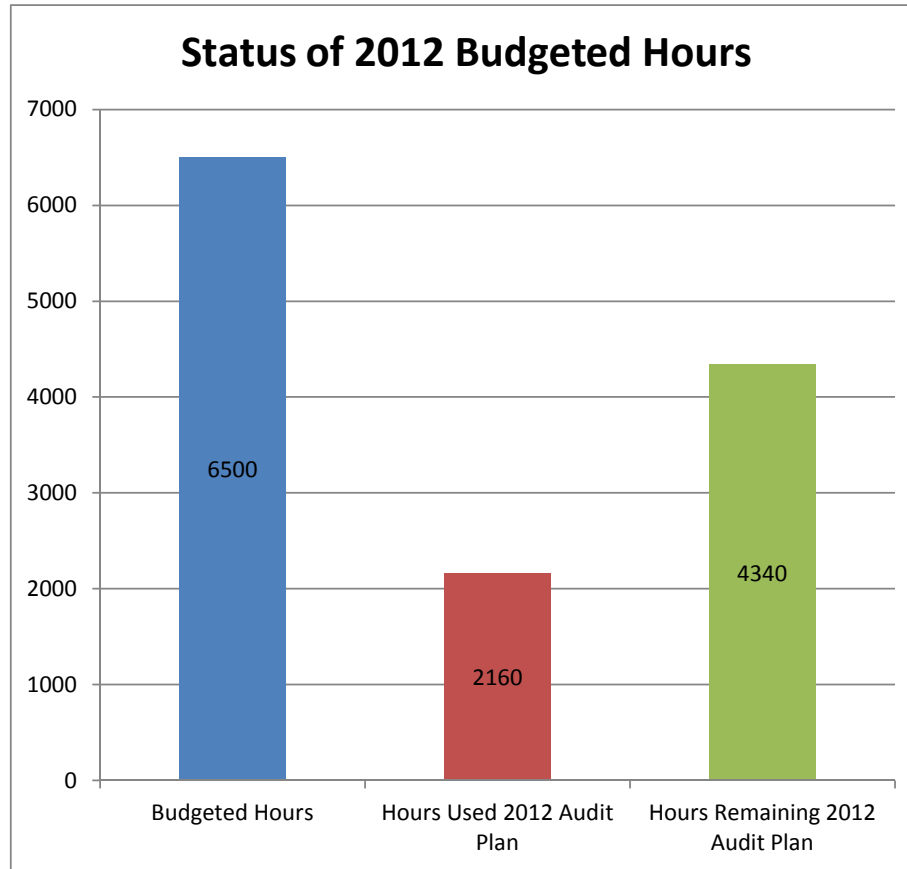
B. Analysis of key milestone dates - The following represents an indication of the date of completion of key project milestones.

PROJECT	START DATE	FIELDWORK END DATE	DRAFT REPORT ISSUANCE DATE	FINAL REPORT
IT Business & Operating Applications ¹	9/13/2011	1/26/2012	2/9/2012	2/15/2012
Payroll	10/10/2011	1/17/2012	1/24/2012	2/13/2012
Risk Management	10/5/2011	12/9/2011	1/20/2012	2/7/2012
Maintenance Services (Wastewater)	1/19/2012	3/8/2012	3/22/2012	
IT Governance	1/11/2012	3/2/2012	3/20/2012	
IT Help Desk and Computer Operations	3/9/2012			
Accounts Payable	2/28/12012			
Call Center Operations	2/21/2012			
Warehouse Operations	3/22/2012			
Biosolids Management				
Capital Projects				
Permit Operations				

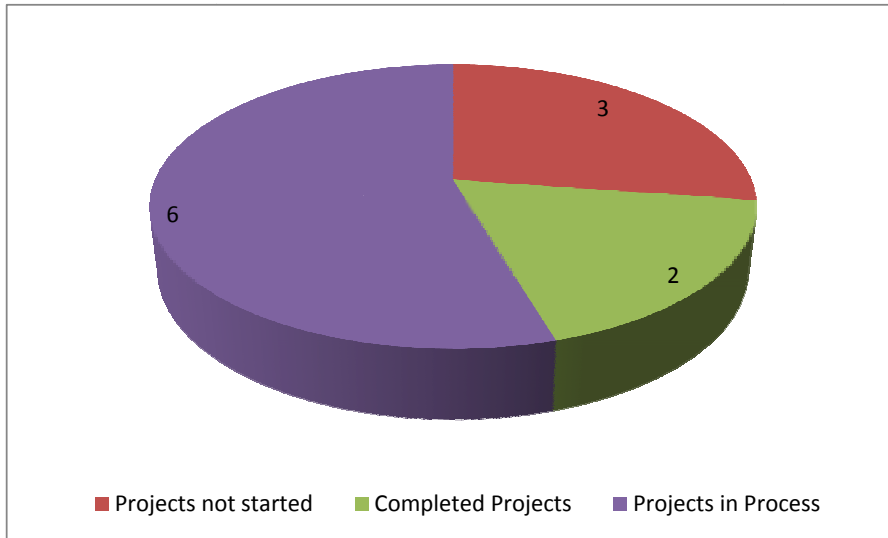
Note: ¹ indicates carry over from 2011 audit plan.

C. Analysis of Hours – The chart below indicates the actual hours used through February 29, 2012 toward completion of the internal audit plan, along with an indication of the total hours included in the 2012 plan.

Note: Some of the hours incurred pertain to the completion of FY 2011 projects in addition to the individual projects identified in the chart above.



II. 2012 Audit Plan Status



A. Completed Projects Since Last Audit Committee Meeting

IT Business and Operating Applications –

Our overall audit objectives included evaluating and testing the effectiveness of processing controls built into and around key operating and business applications (i.e. Lawson) to ensure data integrity is preserved and reporting includes accurate and complete data. In addition, various change management, access and security, and computer operations controls were evaluated in order to assess the security, confidentiality, and availability of data stored within and utilized by key DC Water operating and business applications. Specific audit procedures performed included:

- ☐ Obtaining and reviewing existing policies and procedures relating to application access and security to ensure they were both current and comprehensive
- ☐ Assessing the security, confidentiality, and availability of the application information/data as well as the adequacy and maintenance of related system documentation
- ☐ Ensuring Lawson application upgrade documentation was adequately maintained
- ☐ Reviewing the process of entering, approving, and posting journal entries, along with evaluating the overall effectiveness and efficiency of processing

- ☐ Reviewing various levels of application related access to ensure the application is adequately protected from unauthorized access
- ☐ Reviewing change management policy and procedure documents to ensure that the controls relative to system changes are adequately performed
- ☐ Reviewing and validating that Lawson application security controls are in place and performed according to DC Water policies
- ☐ Validating that computer operation controls, including backup controls, are in place and operating according to policy
- ☐ Reviewing input controls to ensure that the application design inhibits the omission of data and prevents the acceptance of invalid data
- ☐ Ensuring that a periodic review of transaction journals is performed by management

Internal Audit (IA) concludes that a number of control gaps, deficiencies, and process improvement opportunities exist within the operating & business applications control environment. For instance, our testing indicated that Active Directory password configurations and settings do not require complexity as a form of security.

Our testing also identified inappropriate administrator access to the backup job scheduling tool and incomplete weekly rotation of backup tapes.

In addition, Lawson user access privileges do not appropriately restrict segregation of duties specific to posting and approving journal entries.

Finally, Internal Audit determined that sufficient project documentation (i.e. testing details and management approval from the post-implementation review) was not maintained and available following the Lawson upgrade performed in fiscal year 2011.

Payroll-

We established five objectives for the audit of the Payroll activities:

- ☐ Verify that effective payroll processes and operations are in place and functioning properly
- ☐ Ensure that payroll data is properly approved and recorded
- ☐ Ensure that payment of earnings, withholding of employee payroll taxes, and payment of special benefits are accurately calculated and properly authorized
- ☐ Ensure that DC Water is in compliance with employment tax filing requirements
- ☐ Ensure that payroll transactions are properly accounted for in the General ledger

The internal audit process consisted of a review of relevant, existing reports and documentation, along with observations of the daily activities and interviews with the Payroll staff. We examined the current payroll standard operating procedures (SOPs) and payroll policies.

The Payroll department utilizes user manuals for the various payroll systems in use, but we found that the Payroll department does not maintain Policies and Procedures that reflect the current payroll processing activities. To avoid any transaction processing and continuity issues in the Payroll department, we recommend that payroll management update policies and SOPs covering all the relevant and critical aspects of the payroll operations at DC Water.

We also reviewed the job descriptions for the Payroll Manager, Payroll Accountant, and Payroll Specialists, and observed their ongoing processes. We determined that proper segregation of duties exists within the department. Each staff member of the department has a designated backup with the ability to fill in for a staff member being absent from work, which is a good control feature.

We also reviewed the Payroll department's handling of fund disbursements. Most payroll checks are created by Ceridian as part of the bi-weekly payroll processing for employees not enrolled in the direct deposit option. These regular payroll checks are mailed directly to the individual employees. Situations occur where the Payroll department needs to process a manual payroll check. All documentation pertaining to this manual check is reviewed by the Controller and requires a second authorized check signer. The controls with respect to check issuance are sufficient.

To ensure that payroll data pertaining to a payroll period is properly approved and recorded in the payroll system prior to the Ceridian's final processing of the payroll data, we reviewed the employee time collection process. For each payroll period, workgroup supervisors are required to review, validate, and approve the time entered by the employees in their workgroup. However, our review indicated that time entered in the timekeeping system, which has not been reviewed and approved by a workgroup supervisor before the approval deadline, still results in applicable pay amounts being processed in the payroll period. For most payroll periods, a significant amount of employee work hours not approved by a supervisor continue through the payroll process. This control deficiency may lead to employees being over-paid for worked performed at DC Water.

We recommend that DC Water, on an ongoing basis, communicate the importance of the time approval process to all workgroup supervisors and provide relevant training to the workgroup supervisors, if necessary. Additionally, we recommend that a report be prepared each pay period indicating which supervisors did not approve time as required. The report should be distributed to the applicable members of Executive Management for further follow-up and resolution. The immediate effects for the Payroll department is the expenditure of a significant amount of time to review unapproved hours and making any necessary adjustments to the payroll data.

Changes made to employee time and attendance records are not supposed to be made unless an authorized exception form is completed. However, there is currently no control in place to ensure that applicable changes only take place once an approved form is received. Since the time and attendance information impacts the payroll amounts, we recommend that for every payroll period, a report be generated of all changes made to the initial payroll data and submitted to the Controller for review.

To ensure that employees no longer employed by DC Water are removed from the payroll system in a timely manner, we reviewed the process used in the Payroll department for removing terminated employees from the payroll system, and identified existing controls to ensure that the removal takes place in a timely manner avoiding any unearned payroll payments being made. We performed limited testing of a sample of terminated employees and, based on our testing, we did not identify any former employees remaining on the payroll records.

We reviewed the process in place to ensure that payment of earnings, withholding of employee payroll taxes, and payment of special benefits are accurately calculated and authorized. From a design perspective, we believe that there are sufficient controls in place to ensure that payroll tax withholdings match the employees' selection and that payroll payments are accurately calculated and authorized. We also performed sample testing of the process and our test results did not indicate or identify any issues with the process.

To ensure that DC Water is in compliance with applicable federal, state, and district payroll tax filing requirements, we obtained and reviewed the latest filings submitted. Our review did not indicate any compliance issues.

We also reviewed the process for reporting taxable benefits received by employees at DC Water and, based on our review and limited testing of this process, we did not identify any problems within this process.

Finally, to verify that payroll transactions are properly monitored and accounted for, we reviewed the latest reconciliation of payroll records to the General Ledger. The reconciliation was completed accurately and timely. We believe that the Payroll department has a good process in place to ensure that all payroll transactions are properly recorded, maintained, and monitored.

Risk Management

Internal audit established four objectives for its audit of the Department of Risk Management activities:

- ☐ Assess the effectiveness of the risk management process.
- ☐ Determine whether outside expertise is obtained to properly identify risk, outline options to mitigate risk, and brokerage firms are providing adequate guidance, documentation and performing within their contractual obligations.
- ☐ Determine whether DC Water has obtained sufficient insurance coverage to address insurable risk.
- ☐ Assess the adequacy of reporting and review procedures relative to processing liability claims.

DC Water uses the services of an independent risk management consultant for advice and guidance relative to the appropriate type and amount of insurance coverage. We reviewed a benchmarking report prepared by an independent risk management consultant. In the benchmarking report, which compares DC Water's insurance coverage to similar organizations, we noted that DC Water's coverage compares favorably to its peers.

Considering the importance of the insurance brokers in securing proper and cost-effective insurance policies for DC Water, Internal Audit reviewed the process in place to ensure that only qualified insurance brokers are selected to provide DC Water with best possible marketing and insurance broker services. Internal Audit identified that the selection of broker is based on criteria that the Department of Risk Management has determined relevant to the selection process such as the broker's experience with other public or water utility clients, service capacity and capabilities, market representation and broker's team qualifications. We confirmed the selection criteria by examining the Insurance Brokerage Service Request for Proposal (RFP) and Brokers Services contract.

The Department of Risk Management at DC Water maintains policies and procedures, which establish the department's responsibilities for insurance and risk management activities. However, during our examination of the Policies & Procedures document, we noted that the Policies & Procedures have not been revised since November 2005. As a result, we recommend that the Department of Risk Management review the Policies and Procedures and issue an updated version of the document to reflect current Risk Management processes and activities. We also recommend that, going forward, the Department of Risk Management annually revise its Policies and Procedures document to capture any new changes in the department's processes and activities. As part of the Policies & Procedures review, we noted that no reference is made in the document to the annual insurance renewal process. In order to help maintain a uniform process for renewal of all DC Water's insurance needs, and to prevent any insurance coverage lapses, we recommend that the Department of Risk Management create written guidance on the insurance renewal process. The written guidance should at least outline important tasks to be completed within the insurance renewal process, deadlines, internal and external parties involved and responsibilities of each party. In addition, the written guidance should provide details on how the insurance renewal process key milestones will be monitored.

The Department of Risk Management is responsible for monitoring certain regulatory requirements. The applicable requirements are tracked via the compliance requirements notification system maintained by DC Water's Legal Counsel. The Manager of the Department of Risk Management is responsible for submitting an annual Workers Compensation report, a quarterly compensation and medical payments report, and an annual self-insurer financial statement to the D.C. Department of Employment Services. We reviewed the department's records with regard to compliance issues and verified that all reports were submitted by the regulatory compliance due date.

The Department of Risk Management manages all of DC Water's liability claims including those related to Worker's Compensation and Torts. Claim management activities performed by the Department of Risk Management include the review of incident reports, claim files and the review and approval of claims settlements and payments. It is worth noting that although Risk Management has overall oversight of the claim process, a Third Party Administrator (TPA) makes all liability claims settlements and payments on behalf of DC Water. Claims settlements and payments are made out of an escrow account funded by DC Water, and administrated by the TPA. Internal Audit evaluated the claims management process to ensure that effective procedures are currently in place to properly monitor and manage the claim activities.

First, we evaluated processes in place to ensure that funds in the escrow account are properly managed. Internal Audit identified that a reconciliation of the escrow account activity against reports submitted by the TPA is not being performed.

A formal reconciliation process would assist in identifying questionable transactions being processed. The Department of Risk Management should perform a monthly reconciliation of the escrow account to ensure that DC Water funds are appropriately used and accounted for. Also, we recommend that the Department of Risk Management create written guidance describing the proper escrow account reconciliation process. In addition to outlining the escrow account process, the written guidance should also include details on the frequency of reconciliation, person performing reconciliation as well as person responsible for reviewing it. We also reviewed a sample of recent claims that resulted in payments to determine if payments were properly supported. The Risk Management Manager performs a review of all payments in the amount of \$5,000 or greater to verify that the payments are proper. We did not identify any exceptions during our sample testing.

B. Audits Currently in Process

Maintenance Services (Wastewater) – This audit was designed to evaluate and test the effectiveness of policies, procedures, and practices in place to ensure that the Maintenance Services Department is in compliance with applicable regulations. Additionally we evaluated the processes used to monitor maintenance activity and make certain they effectively achieve their mission. This project is currently in the draft reporting stage.

IT Governance – This audit was designed to evaluate and test the organizational structures and processes to ensure that the IT Department sustains and extends the strategy and objectives of DC Water. This project is currently in the draft reporting stage.

IT – Help Desk and Computer Operations – The objective of this review is to evaluate the processes and controls in place to manage the IT Help Desk and the on-going computer operations at DC Water.

Accounts Payable – This audit is designed to evaluate the efficiency and effectiveness of internal controls over the Accounts Payable process; and will include verification that payments are being made correctly, transactions are being recorded accurately, proper support is on file; and activity is in compliance with policies, procedures, laws and regulations. This audit is currently in the fieldwork stage.

Call Center Operations – This audit is designed to evaluate the effectiveness of customer service operations as it relates to current practices with regard to compliance with established policies and procedures; and to evaluate controls in place relative to issues pertaining to the resolution of complaints/problems, timeliness of responding to inquiries, training of staff and monitoring of on-going activity with the use of reports and metrics. This audit is currently in the fieldwork stage.

Warehouse & Inventory – This audit is designed to evaluate policies, procedures, and practices in place to ensure that the Warehouse Operations is in compliance with applicable policies, to ensure warehouse activities are operating within budget constraints, and to ensure the department has the appropriate tools to monitor warehouse activity and effectively achieve its mission. This audit is currently in the planning / scoping stage.

III. Follow Up

In addition to our work performed relative to the audit projects identified in the 2012 Internal Audit Plan, Internal Audit conducted follow-up activity relative to previously reported audit comments. The table below summarizes the issues by area of responsibility and the current status of the action plan proposed by Management.

	Chief Engineer	AGM Consumer Services	Chief Financial Officer	General Counsel	Chief Information Officer	AGM Support Services	General Manager	Total
New Management Action Plans Since Previous Meeting	-	-	6	-	4	-	-	10
Management Action Plans Implementation Date Not Expired	3	1	1	-	1	13	1	20
Management Action Plans Implementation Date Expired	-	-	-	-	-	-	4	4
Total	3	1	7	-	5	13	5	34

Listed Below is the detail of the Management Action Plans With the Expired Implementation Dates

General Manager

1. 2010 Legal & Regulatory Compliance Monitoring - Regulatory Compliance Review - DC Water does not have a centralized function responsible for monitoring the business units' legal and regulatory compliance environment. Currently, no single internal group is responsible for reviewing legal and regulatory efforts for accuracy, completeness, timeliness, and overall compliance entity-wide. Although the Office of the General Counsel is monitoring entity-wide regulatory due dates and progress toward meeting those dates, Internal Audit has noted that this program has not been fully implemented.

This observation was raised as part of the internal audit of the General Counsel's Monitoring Program. The audit report was issued May 6, 2010.

2. 2010 Succession Planning & Training - The organization does not have a formal succession plan and training program in place for individuals performing critical functions. An executive model was developed several years ago under the direction of the former Executive Group; however, the model was not fully implemented. DC Water has a new Executive Group in place and no briefings have occurred to obtain their guidance and direction regarding fully implementing a succession plan along with associated training.
3. 2011 Safety, Training & Compliance Management – There were two related issues pertaining to this area. First, there was no effective follow-up process in place once a safety violation was reported to ensure that safety problems were corrected. Second, there was no effective reporting mechanism in place to identify recurring safety problems or trends, thus facilitating a means to address problematic areas. Both of these areas will be addressed by management through acquisition and implementation of a software package to capture and report the necessary information. However, the intended actions have not been completed.

OTHER TOPICS:

Internal Audit is collaborating with DC Water's Chief Financial Officer regarding his initiative to develop a Fraud Mitigation plan for the organization.

Internal Audit is also working with DC Water to ensure there is no duplication of work between the Internal Audit plan and the Office of the CFO's Internal Control Assessment Monitoring Program.

Internal Audit has completed work on a special project directed by the Office of The General Manager.



Risk Management Internal Audit Report

February 7, 2012

INTERNAL AUDIT TEAM

Senior:	Jexter Rivera
Senior:	Perry Eggers
Manager:	Dennis FitzGerald
Principal:	Joseph Freiburger

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EXECUTIVE SUMMARY

Background

The Department of Risk Management is responsible of managing all aspects of insurance and risk management for DC Water. The Department of Risk Management is comprised of a Risk Manager, a Senior Risk Analyst, and an Office Assistant. Currently, a position for another Risk Analyst is vacant. The following are examples of activities performed by the Department of Risk Management:

- ☐ Managing Insurable Risks
- ☐ Selection of Insurance Brokers
- ☐ Securing of Insurance Coverage
- ☐ Managing Worker's and Torts Compensation
- ☐ Managing Insurance Claims Operations

The Department of Risk Management reports directly to the Office of the Chief Financial Officer. The insurance policies for DC Water are secured on an annual basis and renew each July 1. Processing of claims is outsourced to third party administrators. The table below lists the current coverage provided as well as the coverage for the previous year.

Coverage Title	Insurer	2010-2011 Cost	2011-2012 Cost	% Change
Property and Equipment	P.E.P.I.P.	\$624,828	\$682,322	9%
Workers Compensation	Safety Nat'l	\$259,966	\$318,996	23%
Umbrella and Excess Liability	A.N.M.L.(Umbrella) C.L.I.P (Excess Liability)	\$864,431	\$893,004	3%
Public Officials Liability	RSUI/AWAC	\$129,249	\$110,424	-15%
Crime & Fidelity	Travelers	\$15,250	\$18,757	23%
Fiduciary Liability	Travelers	\$11,296	\$11,405	1%
Total Premiums Including Placement Fees		\$1,905,019	\$2,034,908	7%
Total Premiums Without Placement Fees		\$1,877,969	\$2,007,858	7%

Objectives

Internal audit established four objectives for its audit of the Department of Risk Management activities:

- ☐ Assess the effectiveness of the risk management process.
- ☐ Determine whether outside expertise is obtained to properly identify risk, outline options to mitigate risk, and brokerage firms are providing adequate guidance, documentation and performing within their contractual obligations.
- ☐ Determine whether DC Water has obtained sufficient insurance coverage to address insurable risk.
- ☐ Assess the adequacy of reporting and review procedures relative to processing liability claims.

Audit Scope and Procedures

This audit was conducted as part of the approved FY2012 internal audit plan. The audit process was initiated in October 2011 and completed in December 2011. The Audit activities included a series of inquiries of responsible parties, observations of daily activities, review of applicable reports and documents and selected testing of transaction processes.

Summary of Work

DC Water uses the services of an independent risk management consultant for advice and guidance relative to the appropriate type and amount of insurance coverage. We reviewed a benchmarking report prepared by an independent risk management consultant. In the benchmarking report, which compares DC Water's insurance coverage to similar organizations, we noted that DC Water's coverage compares favorably to its peers.

Considering the importance of the insurance brokers in securing proper and cost-effective insurance policies for DC Water, Internal Audit reviewed the process in place to ensure that only qualified insurance brokers are selected to provide DC Water with best possible marketing and insurance broker services. Internal Audit identified that the selection of broker is based on criteria that the Department of Risk Management has determined relevant to the selection process such as the broker's experience with other public or water utility clients, service capacity and capabilities, market representation and broker's team qualifications. We confirmed the selection criteria by examining the Insurance Brokerage Service Request for Proposal (RFP) and Brokers Services contract.

The Department of Risk Management at DC Water maintains policies and procedures, which establish the department's responsibilities for insurance and risk management activities. However, during our examination of the Policies & Procedures document, we noted that the Policies & Procedures have not been revised since November 2005. As a result, we recommend that the Department of Risk Management review the Policies and Procedures and issue an updated version of the document to reflect current Risk Management processes and activities. We also recommend that, going forward, the Department of Risk Management annually revise its Policies and Procedures document to capture any new changes in the department's processes and activities. As part of the Policies & Procedures review, we noted that no reference is made in the document to the annual insurance renewal process. In order to help maintain a uniform process for renewal of all DC Water's insurance needs, and to prevent any insurance coverage lapses, we recommend that the Department of Risk Management create written guidance on the insurance renewal process. The written guidance should at least outline important tasks to be completed within the insurance renewal process, deadlines, internal and external parties involved and responsibilities of each party. In addition, the written guidance should provide details on how the insurance renewal process key milestones will be monitored.

The Department of Risk Management is responsible for monitoring certain regulatory requirements. The applicable requirements are tracked via the compliance requirements notification system maintained by DC Water's Legal Counsel. The Manager of the Department of Risk Management is responsible for submitting an annual Workers Compensation report, a quarterly compensation and medical payments report, and an annual self-insurer financial statement to the D.C. Department of Employment Services. We reviewed the department's records with regard to compliance issues and verified that all reports were submitted by the regulatory compliance due date.

The Department of Risk Management manages all of DC Water's liability claims including those related to Worker's Compensation and Torts. Claim management activities performed by the Department of Risk Management include the review of incident reports, claim files and the review and approval of claims settlements and payments. It is worth noting that although Risk Management has overall oversight of the claim process, a Third Party Administrator (TPA) makes all liability claims settlements and payments on behalf of DC Water. Claims settlements and payments are made out of an escrow account funded by DC Water, and administrated by the TPA. Internal Audit evaluated the claims management process to ensure that effective procedures are currently in place to properly monitor and manage the claim activities. First, we evaluated processes in place to ensure that funds in the escrow account are properly managed. Internal Audit identified that a reconciliation of the escrow account activity against reports submitted by the TPA is not being performed.

A formal reconciliation process would assist in identifying questionable transactions being processed. The Department of Risk Management should perform a monthly reconciliation of the escrow account to ensure that DC Water funds are appropriately used and accounted for. Also, we recommend that the Department of Risk Management create written guidance describing the proper escrow account reconciliation process. In addition to outlining the escrow account process, the written guidance should also include details on the frequency of reconciliation, person performing reconciliation as well as person responsible for reviewing it.

We also reviewed a sample of recent claims that resulted in payments to determine if payments were properly supported. The Risk Management Manager performs a review of all payments in the amount of \$5,000 or greater to verify that the payments are proper. We did not identify any exceptions during our sample testing.

Overall, we found compliance with applicable laws and regulations, and controls over the Risk Management function to be sufficient. We identified two opportunities for improvement which are detailed on the following pages.

SC&H Consulting

By:

Joe Freiburger, CPA, CIA

II. DETAILED OBSERVATIONS & RECOMMENDATIONS

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
I. Policies and Procedures		
<p>Observation:</p> <p>The Department of Risk Management Policies & Procedures have not been revised since November 2005. We identified that details relative to the following areas was not documented within the Policies & Procedures:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Insurance Renewal <input type="checkbox"/> Escrow account reconciliation <input type="checkbox"/> Process to review and approve liability payments made out of the escrow account by the third party administrator <p>Risk:</p> <p>The absence of clearly defined Policies and Procedures can result in inconsistency in transaction processing and potential non compliance with regulatory requirements.</p>	<p>Recommendation:</p> <p>We recommend that the Department of Risk Management review the Policies and Procedures and issue an updated version of the document to reflect current Risk Management processes and activities. We also recommend that the Policies and Procedures be reviewed annually to ensure any new changes in the department's processes are captured.</p>	<p>Management's Action Plan and Implementation Date:</p> <p>We will complete/update our Risk Management policy documentation by the end of the fiscal year.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
II. Escrow Account Reconciliation		
<p>Observation:</p> <p>There is no reconciliation performed of the escrow account activity used by the third party administrator to draw down funds to pay for submitted claims against reports submitted to DC Water by the TPA.</p> <p>Risk:</p> <p>The absence of a reconciliation of the escrow account increases the likelihood of funds being used for purposes other than those approved.</p>	<p>Recommendation:</p> <p>We recommend that the Department of Risk Management perform a monthly reconciliation between the bank statement of the escrow account and the detailed claim payment report received from the TPA.</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Several adjustments have now been made to address the audit observation going forward. For example, documentation is being retained with reviewed invoices and there is a methodology for evaluating monthly escrow reports.</p> <p>February 2012</p>



IT Operating and Business Application Internal Audit Report

February 15, 2012

INTERNAL AUDIT TEAM

Manager: Anthony DiGiulian

Principal: Scott Heflin

Director: Joe Freiburger

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EXECUTIVE SUMMARY

Background

As a major utility company, DC Water is dependent on information technology to support critical mission and business processes. Since the establishment of the DC Water IT Department in 1999, the Authority has been increasingly applying information technology in an operational capacity as a business enabler to reduce costs and increase efficiency. In addition to supporting day-to-day operations from multiple computer systems, platforms and applications, the DC Water IT Department has been deploying commercial off-the-shelf (COTS) technology to reduce complexity, eliminate dependencies on proprietary technology, and increase the efficiency of support operations; deploying communications technologies to connect geographically dispersed or remote locations; and enabling mobile computing and remote telecommuting to support off-site access.

The increasing dependency on information assets (systems and data) has created many potential risks that must be managed appropriately to ensure efficient and effective operations. All areas of the business rely heavily on computer systems for product delivery, transaction processing, accounting, and reporting on management information. Appropriate operating and business application controls are critical to ensuring that data integrity is preserved and reporting includes accurate and complete data. Application specific controls ensure the security, confidentiality, and availability of the application information/data as well as the adequacy and maintenance of related system documentation.

Objectives

Our overall audit objectives included evaluating and testing the effectiveness of processing controls built into and around key operating and business applications (i.e. Lawson) to ensure data integrity is preserved and reporting includes accurate and complete data. In addition, various change management, access and security, and computer operations controls were evaluated in order to assess the security, confidentiality, and availability of data stored within and utilized by key DC Water operating and business applications. Specific audit procedures performed included:

- ☐ Obtaining and reviewing existing policies and procedures relating to application access and security to ensure they were both current and comprehensive

- ☐ Assessing the security, confidentiality, and availability of the application information/data as well as the adequacy and maintenance of related system documentation
- ☐ Ensuring Lawson application upgrade documentation was adequately maintained
- ☐ Reviewing the process of entering, approving, and posting journal entries, along with evaluating the overall effectiveness and efficiency of processing
- ☐ Reviewing various levels of application related access to ensure the application is adequately protected from unauthorized access
- ☐ Reviewing change management policy and procedure documents to ensure that the controls relative to system changes are adequately performed
- ☐ Reviewing and validating that Lawson application security controls are in place and performed according to DC Water policies
- ☐ Validating that computer operation controls, including backup controls, are in place and operating according to policy
- ☐ Reviewing input controls to ensure that the application design inhibits the omission of data and prevents the acceptance of invalid data
- ☐ Ensuring that a periodic review of transaction journals is performed by management

Audit Scope and Procedures

This audit was conducted based on the approved 2011 internal audit plan. The audit was initiated in October 2011 and completed in January 2012. The audit included an evaluation of change management, access and security, computer operations, and processing controls built into and around DC Water operating and business applications during the period of January 2011 – December 2011. Although the audit focused primarily on the Lawson application, additional key DC Water applications incorporated into portions of the review included Maximo, SCADA, GIS, and Oracle.

Summary of Work

Internal Audit (IA) concludes that a number of control gaps, deficiencies, and process improvement opportunities exist within the operating & business applications control environment. For instance, our testing indicated that Active Directory password configurations and settings do not require complexity as a form of security.

Our testing also identified inappropriate administrator access to the backup job scheduling tool and incomplete weekly rotation of backup tapes.

DC Water – 2012 Internal Audit
Operating & Business Application

SC&H
GROUP, LLC

In addition, Lawson user access privileges do not appropriately restrict segregation of duties specific to posting and approving journal entries.

Finally, Internal Audit determined that sufficient project documentation (i.e. testing details and management approval from the post-implementation review) was not maintained and available following the Lawson upgrade performed in fiscal year 2011.

SC&H Consulting

By:

Joe Freiburger, CPA, CIA

II. DETAILED OBSERVATIONS & RECOMMENDATIONS

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
I. Active Directory Password Settings		
<p>Observation:</p> <p>The Active Directory (AD) password settings are not currently configured to enforce password complexity. The current password complexity requirement is set to “disabled” within the AD domain policy.</p> <p>Risk:</p> <p>By not enforcing password complexity, there is an increased risk that passwords will be easily determined by an unauthorized party and user accounts compromised.</p>	<p>Recommendation:</p> <p>We recommend that DC Water enable password complexity on AD account passwords to reduce the risk of user access security breaches and unauthorized user access.</p> <p>Business Owner(s):</p> <p>Omer Siddiqui, Chief Information Officer</p>	<p>Management’s Action Plan and Implementation Date:</p> <p>The Department of Information Technology (DIT) agrees with the recommendation. Upon installation of a password strength indicator, password complexity will be enabled by March 2012.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
II. Offsite Rotation of Backup Tapes		
<p>Observation:</p> <p>Weekly offsite rotation of backup tapes for the in-scope applications was not consistently performed since June, 2011. Based on inquiry with the backup tape administrator, full rotation is periodically missed due to time constraints.</p> <p>Risk:</p> <p>Without effective procedures for regular offsite rotations of backup data, critical systems may not be able to adequately recover from a processing failure or onsite disaster (i.e. fire, flood) that destroys locally stored backup tapes.</p>	<p>Recommendation:</p> <p>We recommend that DC Water enforce the existing backup rotation policy and ensure all critical system backup tapes are rotated to an offsite location on a weekly basis.</p> <p>Business Owner(s):</p> <p>Omer Siddiqui, Chief Information Officer</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Several Backup Tapes are rotated to an offsite location and DIT will ensure tapes are rotated per backup policy.</p> <p>Recommendation has been implemented as of January 2012.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
III. Administrator Access to Backup Job Scheduling Tool		
<p>Observation:</p> <p>Inappropriate administrator access was granted to users of the backup job scheduling tool. Specifically, one user (Data Base Administrator) was identified as having administrator access without a valid business need.</p> <p>Risk:</p> <p>By not appropriately restricting access, there is an increased risk that regularly scheduled backup jobs are intentionally or unintentionally modified or cancelled.</p>	<p>Recommendation:</p> <p>We recommend that DC Water assign appropriate access to users of the backup job scheduling tool and periodically review the administrator access privileges to ensure that administrator access is only granted to those users with a valid business need.</p> <p>Business Owner(s):</p> <p>Omer Siddiqui, Chief Information Officer</p>	<p>Management's Action Plan and Implementation Date:</p> <p>DIT agrees with the recommendation. Only authorized System Administrators are provided Admin access to backup job scheduler for the purpose of backup configuration and validation. Recommendation has been implemented as of January 2012.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
IV. Lawson Access Configurations		
<p>Observation:</p> <p>The current Lawson application access configurations do not segregate and restrict the ability to create, approve, and post the same entry.</p> <p>Risk:</p> <p>Without appropriate segregation of duties, there is an increased risk that posted entries could be recorded that are inaccurate, erroneous, or fraudulent, and do not represent an appropriate business transaction.</p>	<p>Recommendation:</p> <p>We recommend that DC Water modify existing Lawson application user access rights to enforce segregation of duties and remove the ability to input, approve, and post journal entries by the same user. Users should not be granted the ability to input and approve their own journal entries, and all entries should require appropriate departmental management approval.</p> <p>Business Owner(s):</p> <p>John Madrid, Controller</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Management agrees with the recommendation. However, it is noted that the business practice for journal entries and purchase requisition processing includes appropriate segregation of duties. Management will modify security settings for journal entry and purchase requisitions programs to restrict creation and approval/posting of an entry by the same user. Completion expected by May 2012.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
V. Lawson Upgrade Documentation		
<p>Observation:</p> <p>Testing details and appropriate formal sign-off from the post-implementation review were not consistently documented and maintained during the most recent Lawson system upgrade for all necessary phases. Based on review of supporting documentation and inquiry with implementation project management, it was determined that approvals for exceptions, test results, and the post-implementation review were verbally communicated and informally recorded during project team meetings.</p> <p>Risk:</p> <p>Without formalized Project Management methodology documented and enforced, there is an increased risk that projects will not be completed on time, within budget and meet the users' requirements.</p>	<p>Recommendation:</p> <p>We recommend that DC Water develop and enforce detailed project management requirements that outline how to adequately document and maintain formal project milestones including, but not limited to, initial project approval, testing results, exception analysis, test approval, go-live approval, post-implementation analysis, and post-implementation business unit approval.</p> <p>Business Owner(s):</p> <p>John Madrid, Controller</p> <p>Omer Siddiqui, Chief Information Officer</p>	<p>Management's Action Plan and Implementation Date:</p> <p>DIT and the Business Unit management agree with the recommendation. Nonetheless, management notes that the upgrade was successfully completed.</p> <p>The Business Unit and Department of Information Technology will collaborate to ensure Project Management methodology and SDLC best practices are adopted for future projects/system upgrades. DIT will implement a Project Management methodology by July 2012.</p>



Payroll

Internal Audit Report

February 12, 2012

INTERNAL AUDIT TEAM

Staff:	Carmon Choice
Senior:	Perry Eggers
Principal:	Dennis FitzGerald
Director:	Joe Freiburger

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EXECUTIVE SUMMARY

Background

DC Water's Payroll department, within the Office of the Chief Financial Officer, prepares and validates payroll data bi-weekly for approximately one thousand employees. The department has five staff members and in FY2010 total payroll expenses were \$88,210,000. Payroll data is compiled from many different sources; employees' time data/hours worked is recorded in a designated timekeeping system; employees' compensation data is entered by Human Capital Management; and employee benefit enrollments are recorded by the web-based "Self-Service" solution. The Payroll department works closely with Human Capital Management to ensure that payroll data is accurately and timely entered into the payroll system. Combined, the Payroll department and Human Capital Management maintain all information pertaining to the employees' payroll transactions. Validated payroll data for each payroll period is processed by the payroll processing vendor, Ceridian. The Payroll department is additionally charged with the responsibility of ensuring that DC Water is in compliance with all federal, state, and district payroll tax filing requirements. Ceridian is submitting all payroll tax filings on behalf of DC Water, but the Payroll department receives a copy of every filing to ensure that tax reports are filed timely.

Objectives

We established five objectives for the audit of the Payroll activities:

- ☐ Verify that effective payroll processes and operations are in place and functioning properly
- ☐ Ensure that payroll data is properly approved and recorded
- ☐ Ensure that payment of earnings, withholding of employee payroll taxes, and payment of special benefits are accurately calculated and properly authorized
- ☐ Ensure that DC Water is in compliance with employment tax filing requirements
- ☐ Ensure that payroll transactions are properly accounted for in the General ledger

Audit Scope and Procedures

This audit was conducted as part of the approved FY2012 Internal Audit plan. The audit was initiated in October 2011 and completed in January 2012, and included a review of all relevant aspects of payroll operations at DC Water.

We met with payroll process owners involved in the daily payroll operations, and conducted preliminary walkthroughs of the payroll processes to determine the nature of the processes in place at DC Water to keep payroll operational, uninterrupted and well controlled.

We documented the relevant payroll processes by analyzing and reviewing applicable information provided to us by the individual payroll process owners. We also performed testing to evaluate the process to make certain effective controls are in place.

Summary of Work

The internal audit process consisted of a review of relevant, existing reports and documentation, along with observations of the daily activities and interviews with the Payroll staff. We examined the current payroll standard operating procedures (SOPs) and payroll policies. The Payroll department utilizes user manuals for the various payroll systems in use, but we found that the Payroll department does not maintain Policies and Procedures that reflect the current payroll processing activities. To avoid any transaction processing and continuity issues in the Payroll department, we recommend that payroll management update policies and SOPs covering all the relevant and critical aspects of the payroll operations at DC Water.

We also reviewed the job descriptions for the Payroll Manager, Payroll Accountant, and Payroll Specialists, and observed their ongoing processes. We determined that proper segregation of duties exists within the department. Each staff member of the department has a designated backup with the ability to fill in for a staff member being absent from work, which is a good control feature.

We also reviewed the Payroll department's handling of fund disbursements. Most payroll checks are created by Ceridian as part of the bi-weekly payroll processing for employees not enrolled in the direct deposit option. These regular payroll checks are mailed directly to the individual employees. Situations occur where the Payroll department needs to process a manual payroll check. All documentation pertaining to this manual check is reviewed by the Controller and requires a second authorized check signer. The controls with respect to check issuance are sufficient.

To ensure that payroll data pertaining to a payroll period is properly approved and recorded in the payroll system prior to the Ceridian's final processing of the payroll data, we reviewed the employee time collection process. For each payroll period, workgroup supervisors are required to review, validate, and approve the time entered by the employees in their workgroup.

However, our review indicated that time entered in the timekeeping system, which has not been reviewed and approved by a workgroup supervisor before the approval deadline, still results in applicable pay amounts being processed in the payroll period. For most payroll periods, a significant amount of employee work hours not approved by a supervisor continue through the payroll process. This control deficiency may lead to employees being over-paid for work performed at DC Water.

We recommend that DC Water, on an ongoing basis, communicate the importance of the time approval process to all workgroup supervisors and provide relevant training to the workgroup supervisors, if necessary. Additionally, we recommend that a report be prepared each pay period indicating which supervisors did not approve time as required. The report should be distributed to the applicable members of Executive Management for further follow-up and resolution. The immediate effects for the Payroll department is the expenditure of a significant amount of time to review unapproved hours and making any necessary adjustments to the payroll data.

Changes made to employee time and attendance records are not supposed to be made unless an authorized exception form is completed. However, there is currently no control in place to ensure that applicable changes only take place once an approved form is received. Since the time and attendance information impacts the payroll amounts, we recommend that for every payroll period, a report be generated of all changes made to the initial payroll data and submitted to the Controller for review.

To ensure that employees no longer employed by DC Water are removed from the payroll system in a timely manner, we reviewed the process used in the Payroll department for removing terminated employees from the payroll system, and identified existing controls to ensure that the removal takes place in a timely manner avoiding any unearned payroll payments being made. We performed limited testing of a sample of terminated employees and, based on our testing, we did not identify any former employees remaining on the payroll records.

We reviewed the process in place to ensure that payment of earnings, withholding of employee payroll taxes, and payment of special benefits are accurately calculated and authorized. From a design perspective, we believe that there are sufficient controls in place to ensure that payroll tax withholdings match the employees' selection and that payroll payments are accurately calculated and authorized. We also performed sample testing of the process and our test results did not indicate or identify any issues with the process.

DC Water – 2012 Internal Audit
Payroll

SC&H
GROUP, LLC

To ensure that DC Water is in compliance with applicable federal, state, and district payroll tax filing requirements, we obtained and reviewed the latest filings submitted. Our review did not indicate any compliance issues.

We also reviewed the process for reporting taxable benefits received by employees at DC Water and, based on our review and limited testing of this process, we did not identify any problems within this process.

Finally, to verify that payroll transactions are properly monitored and accounted for, we reviewed the latest reconciliation of payroll records to the General Ledger. The reconciliation was completed accurately and timely. We believe that the Payroll department has a good process in place to ensure that all payroll transactions are properly recorded, maintained, and monitored.

SC&H Consulting

By:

Joe Freiburger, CPA, CIA

II. DETAILED OBSERVATIONS & RECOMMENDATIONS

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
I. Policies and Procedures		
<p>Observation:</p> <p>We noted that the Payroll department does not have documented Policies and Procedures that reflects all important aspects of the payroll activities as currently being performed. The actions necessary to complete the periodic payroll processing to include monitoring and approving should be documented. The documentation will assist should there be turnover in the department.</p> <p>Risk:</p> <p>The absence of clearly defined Policies and Procedures and SOPs can result in inconsistency in processing of payroll transactions and may lead to continuity issues in the department.</p>	<p>Recommendation:</p> <p>We recommend that payroll management update the Policies and Procedures and SOPs covering all the relevant and critical aspects of the payroll operations at DC Water. We also recommend that the Policies and Procedures be reviewed annually to ensure any new changes in the department's processes are captured.</p> <p>Business Owner(s):</p> <p>John Madrid, Controller</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Management notes that the Accounting Policies and Procedures Manual have been updated as recently as 2010 to reflect the change in the application platform that occurred in that year. Management acknowledges that more detailed policies and procedures, including SOP's, used by payroll staff requires update. Management will obtain cost estimates and timeframe to update Time and Attendance and Payroll Processing SOP's and Instruction Manual by May, 2012 and evaluate a decision to update prior to year-end or delay the update until after the union labor contract is negotiated and complete.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
II. Approval of Time		
<p>Observation:</p> <p>We noted that for several payroll periods reviewed, a significant amount of hours representing staff hours worked make it through the time and attendance approval process unapproved.</p> <p>Our testing of activity for selected payroll periods indicated there is a significant amount of time records that are not approved by a supervisor, the applicable employees are being paid based on the time records they submit. DC Water policy indicates that employee time records are to be approved by a supervisor, thus authorizing pay amounts.</p> <p>Risk:</p> <p>This control deficiency may lead to employees being over-paid for work performed at DC Water, which results in the need to adjust employee pay amounts and DC Water's financial records.</p>	<p>Recommendation:</p> <p>We recommend that DC Water, on an ongoing basis, communicate the importance of the time approval process to all workgroup supervisors, and provide relevant training to the workgroup supervisors, if necessary. Additionally, we recommend that a report be prepared identifying supervisors not approving the time records by the required deadlines. This report should be submitted to the applicable member of Executive Management.</p> <p>Business Owner(s):</p> <p>John Madrid, Controller</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Management will incorporate a procedure to hold a workgroup supervisor responsible /accountable for timely approval of supervisees' time and attendance. The procedure will also incorporate the identification of supervisor(s) not timely approving time and attendance to the AGM-Administrative Services, Human Capital Management Director, CFO, and Chief of Staff. Completion of procedure expected in May, 2012.</p>

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
III. Payroll Data Changes		
<p>Observation:</p> <p>Any changes to an employee time and attendance record must be documented on an Exception Form and approved by an authorized party. We noted that there is no control in place to ensure that changes to the records are completed only upon receipt of an approved exception form.</p> <p>Risk:</p> <p>This control gap may result in unapproved data being processed, which may lead to errors in the payroll or processing of unauthorized transactions.</p>	<p>Recommendation:</p> <p>We recommend that for every payroll period, a report be generated of all changes made to the applicable records. This report should be submitted to Controller for review of these changes as part of the bi-weekly review of the processed payroll data.</p> <p>Business Owner(s):</p> <p>John Madrid, Controller</p>	<p>Management's Action Plan and Implementation Date:</p> <p>Management will pursue a cost estimate and timeframe to customize a report that would facilitate sampling and validating changes made in the system to the approved exception form by May, 2012. Management also notes that the current time and attendance system is over ten years old.</p>



Internal Controls at DC Water (Continuous Process Improvement)

Audit Committee Briefing
March 29, 2012

Presented by John Madrid, Controller



Internal Controls at DC Water

- ▶ A strong system of internal controls is essential for an organization to successfully achieve its goals and objectives. To ensure this, management:
 - Acknowledges its responsibility for implementing internal controls
 - Has adopted the Commission of Sponsoring Organization of the Treadway Commission (COSO) Internal Controls framework
 - Routinely/periodically reviews internal controls to address gaps and leverage new opportunities



Internal Controls at DC Water (cont.)

- ▶ The COSO Framework states that:
Internal Control is a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievements of objectives in the following categories:
 - Effectiveness & efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations



Internal Controls at DC Water (cont.)

COSO Framework Components:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring



Internal Controls at DC Water (cont.)

- ▶ Control Environment – Establishes the foundation of the internal control system by providing fundamental discipline and structure. It sets the tone of the organization - **Leadership**
- ▶ Risk Assessment – Involves the identification and analysis of relevant risks by management to achieving predetermined objectives - **Engagement**
- ▶ Control Activities – Policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out - **Participation**
- ▶ Information and Communication – Support all other control components by communicating control responsibilities to employees and by providing information in a form and timeframe that allows people to carry out their duties - **Delegation**
- ▶ Monitoring – Covers the external oversight of internal controls by management or other parties outside the process - **Compliance and Measurement**



Internal Controls at DC Water (cont.)

Control Environment:

- ▶ Tone is set from the very top:
 - Effective Board of Directors (BOD) – Audit Committee
 - Knowledgeable and competent BOD
 - Clear policy direction and strong oversight
 - Management / Staff
 - Management is accountable to the BOD
 - Performance based evaluation

Risk Assessment:

- ▶ Formal risk assessment process performed by Internal Audit

Internal Controls at DC Water (cont.)



Control Activities:

- ▶ In addition to the many standard control activities, extensive assurance functions are performed at the Authority by:
 - Internal Auditors
 - External Auditors
 - Controller's Internal Control Assessment and Monitoring Program (ICAMP) Staff
 - Independent reviews
 - Adhoc reviews by the Office of Inspector General



Internal Controls at DC Water (cont.)

Information and Communication:

- ▶ Policies and Procedures
- ▶ Performance Planning
- ▶ Employee Training
- ▶ Team Blue Initiatives – Positive Attitude, Accountability, Communication, and Teamwork (PACT)

Monitoring:

- ▶ Ongoing evaluations and monitoring procedures performed by:
 - General Manager's office – Accountability and Performance group
 - Internal Audit group
 - Budget group
 - Controller's office – ICAMP group

Internal Controls at DC Water (cont.)

- ▶ The Offices of the General Manager, CFO, Controller and Internal Audit are continuously evaluating and strengthening the internal control framework through:

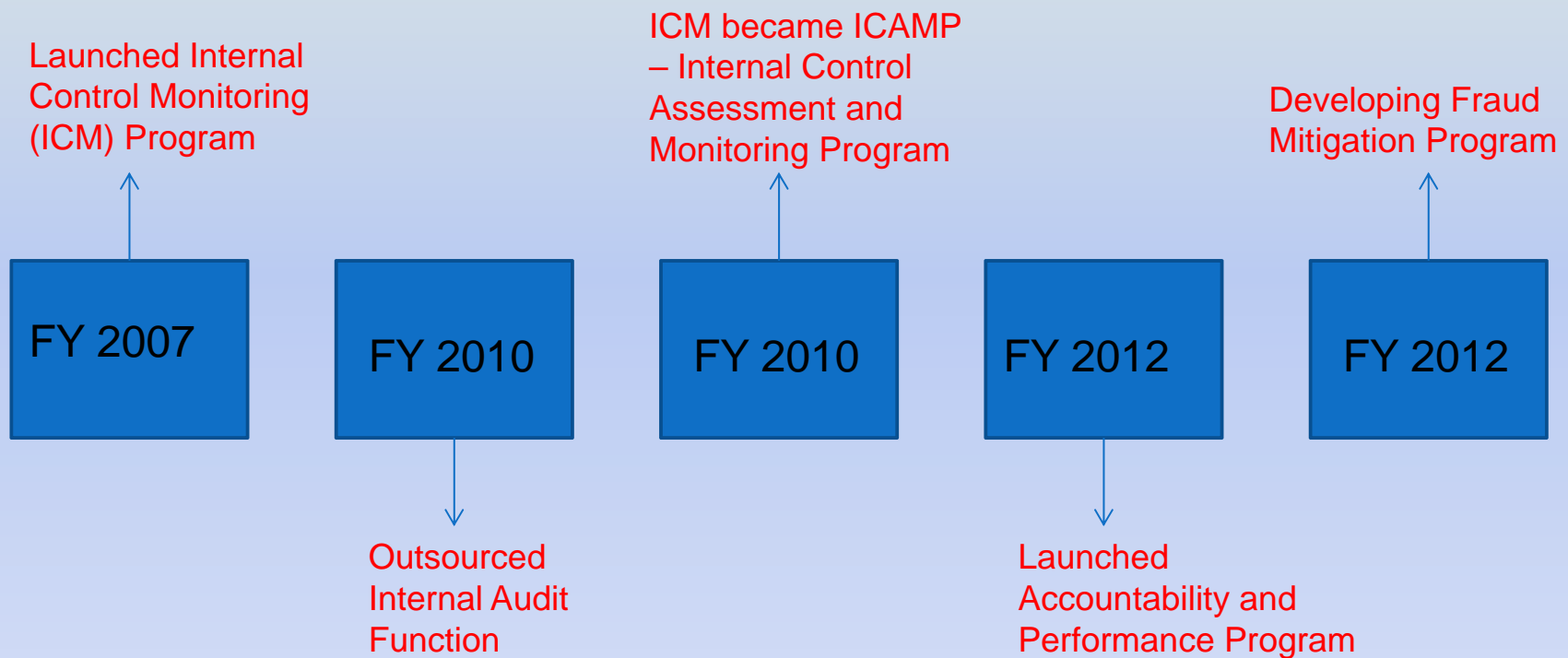


- ▶ Team routinely meets and collaborates to coordinate and review plans



Internal Controls at DC Water (cont.)

Internal Controls Enhancement to Date





Internal Control Assessment and Monitoring Program (ICAMP)



ICAMP

- ▶ In 2007, ICM was initiated by the Office of the CFO to complement DC Water's internal control environment. In 2010, ICM was converted into ICAMP to enhance the program by incorporating an assessment component
- ▶ ICAMP targets specific high-risk areas with limited scope and performs internal control review with the objective of strengthening internal controls from operational and system standpoints and immediately address issues that may arise during the review process
- ▶ The Financial Systems and Controls group (consists of 3 FTEs dedicating 45% of their time to ICAMP) within the Office of the CFO



ICAMP (cont.)

- ▶ Since inception, approximately 30 processes within various Departments have been reviewed, including but not limited to outgoing wire transfers, account reconciliations, benefits administration and vehicles & equipment disposals
- ▶ ICAMP coordinates with Internal Audit and DC Water Departments to ensure there is no duplication of work by reviewing the audit plan and results of reviews performed



ICAMP (cont.)

ICAMP Framework:

- Identifies high-risk areas by leveraging risk assessment performed by Internal Audit
- Coordinates activities with Departments
- Identifies internal controls
- Assesses and monitors internal controls
- Collaborates with Departments to ensure that issues identified during assessment and monitoring phase are resolved immediately



Fraud Mitigation Program



Fraud Mitigation Program

- ▶ Occupational fraud may be defined as:
 - The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets
- ▶ Occupational fraud schemes can be as simple as pilferage of company supplies or manipulation of timesheets, or as complex as sophisticated financial statement frauds



Fraud Mitigation Program (cont.)

According to the Association of Certified Fraud Examiners (ACFE) and major accounting firm:

- ▶ Approximately half of employees who commit fraud have been with their employers for over 5 years (ACFE)
- ▶ The median cost for each incident of fraud is \$160,000 (ACFE)
- ▶ U.S Companies lose an average of 5% of gross revenue to fraud every year (ACFE), and 60% of all frauds committed were by someone who worked for the company in some way (Kroll Global Fraud Report)
- ▶ 75% of the companies surveyed experienced at least one incident of fraud in the last 12 months (KPMG)

Implementing an Active Fraud Mitigation Program at DC Water



- ▶ In the last three years, there have been two instances of financial fraud at DC Water
- ▶ DC Water currently does not have a proactive Fraud Mitigation Program in place
- ▶ To address these gaps, we are exploring the implementation of an active Fraud Mitigation Program at DC Water

Implementing an Active Fraud Mitigation Program at DC Water (cont.)



- ▶ PHASE I (Work in progress)
 - Develop Fraud Mitigation Policies and Procedures
 - Ethics/Fraud Awareness Training

- ▶ PHASE II (Currently being defined)
 - Reinitiate Hotline
 - Implement Fraud Audits (including random audits)

Implementing an Active Fraud Mitigation Program at DC Water (cont.)



Policies and Procedures

- ▶ Documents that address policies and procedures in place at the Authority related to ethics/fraud:
 - Procurement Manual
 - Procurement Regulation
 - Personnel Policies and Procedures
 - Collective Bargaining Agreement
- ▶ Draft documents
 - Standards of Conduct
 - Standards of Conduct – Certification Statement
 - Fraud Mitigation Standard Practice

Implementing an Active Fraud Mitigation Program at DC Water (cont.)



Ethics/Fraud Awareness Training

- All Employees will attend mandatory 3 hours course
- Authority will leverage technology to raise and improve awareness
- New employee orientation will include Ethics/Fraud training
- All Employees will attend refresher course every 2 years

Implementing an Active Fraud Mitigation Program at DC Water (cont.)



Fraud Mitigation Program Task Force

- ▶ The task force currently consists of the following:
 - Office of the CFO
 - Office of the Controller
 - Financial Systems and Controls group
 - Internal Audit
 - General Counsel
 - Human Capital Management (Learning and Development)



Internal Controls at DC Water

Questions