



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, May 30, 2013*

9:30 a.m.

1. **Call to Order** ..... Bradford Seamon, Chairperson
  
2. **Follow-Up Discussion on Items from the February Committee meeting** ..... Bradford Seamon
  
3. **Review of Internal Audit Status** ..... Joseph Freiburger
  - A. **Purchasing Card Report**
  - B. **Investment & Cash Management Report**
  - C. **Fleet Management Report**
  
4. **Update on Fraud Hotline Activity** ..... Joseph Freiburger
  
5. **Executive Session** ..... Bradford Seamon
  
6. **Adjournment**



*Internal Audit Update*  
*Audit Committee Meeting*  
*May 30, 2013*

The following represents a summary of the activities and achievements since the February 28, 2013 meeting.

## I. Highlights

Performance of scheduled internal audits – Internal Audit performed audit work in seven separate audit areas. Additionally, three final reports were issued related to the FY2013 Internal Audit Plan (P-Card, Investments & Cash Management, and Fleet Management). Three audits, IT Network Security; Sewer – Emergency Maintenance; and Process Control System, are each in the fieldwork phase. One audit, Engineering – High Priority, just began and is in the planning stage. The chart below depicts the planned projects and their status for the fiscal year.

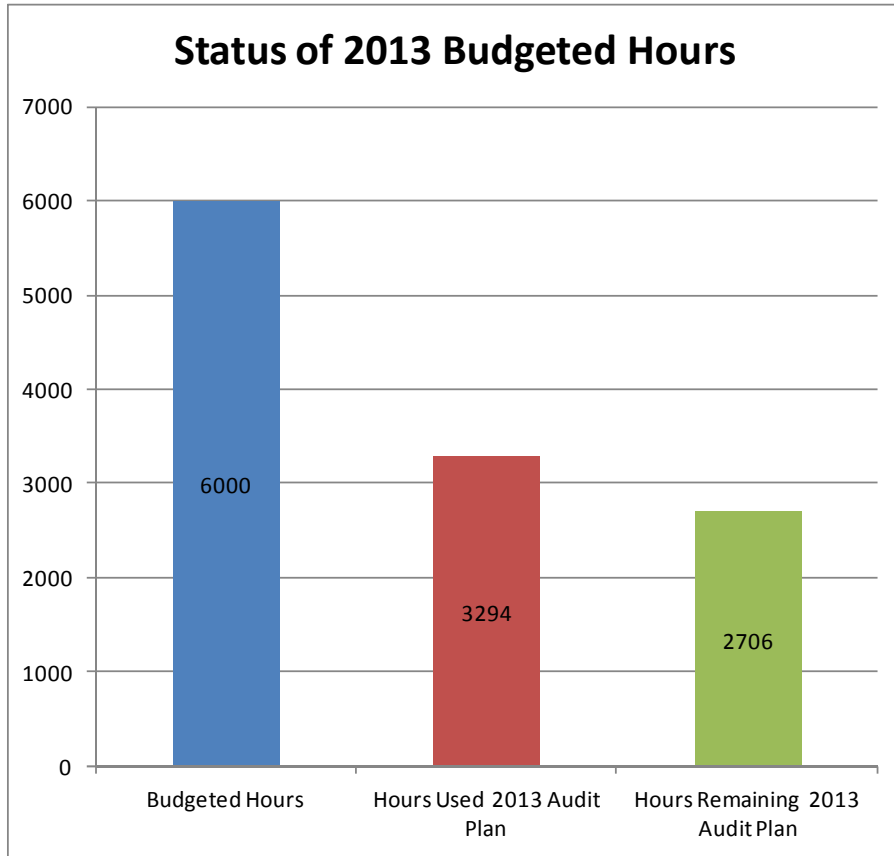
A. **Stage of Audits & Special Projects** – The following represents an indication of the stage of completion for each scheduled audit and requested special project.

PROJECT	PLANNING / SCOPING	FIELDWORK	DRAFT REPORT	FINAL REPORT
Regulatory Compliance				
P-Card				
Chemicals Purchasing				
Cashiering Remote Site				
Investments & Cash Management				
Fleet Management				
IT Network Security				
Sewer – Emergency Services				
Engineering – High Priority				
PCS				
Utilities – Repairs & Flushing				
Maintenance Services				
Warehouse Operations				
IT – SDLC & Change Management				

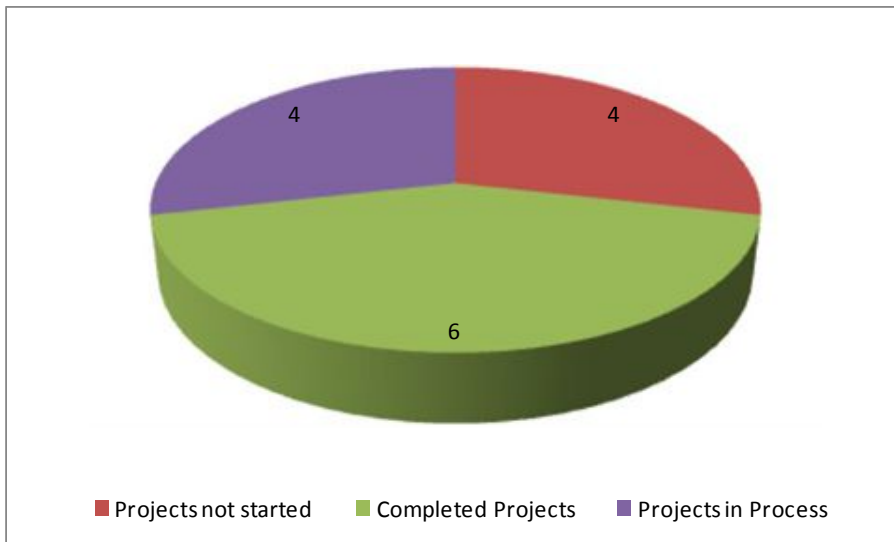
B. **Analysis of key milestone dates** – The following represents an indication of the date of completion of key project milestones.

PROJECT	START DATE	FIELD-WORK END DATE	DRAFT REPORT ISSUANCE DATE	FINAL REPORT
Regulatory Compliance	12/7/2012	1/10/2013	1/22/2013	2/14/2013
P-Card	10/12/2012	1/10/2013	2/8/2013	4/17/2013
Chemicals Purchasing	11/14/2012	1/18/2013	2/5/2013	2/19/2013
Cashiering Remote Site	12/11/2012	1/7/2013	1/15/2013	2/15/2013
Investments & Cash Management	1/15/2013	3/1/2013	3/8/2013	4/15/2013
Fleet Management	1/22/2013	4/5/2013	4/10/2013	4/17/2013
IT Network Security	2/21/2013			
Sewer – Emergency Services	4/8/2013			
Engineering – High Priority	5/20/2013			
PCS	4/15/2013			
Utilities – Repairs & Flushing				
Maintenance Services				
Warehouse Operations				
IT – SDLC & Change Management				

C. **Analysis of Hours** – The chart below indicates the actual hours used through April 30, 2013 toward completion of the internal audit plan, along with an indication of the total hours included in the FY2013 plan.



## II. 2013 Audit Plan Status



## A. Reports Issued Since Last Audit Committee Meeting

### 1. P-Card

Our overall audit objectives included an evaluation of the policies, procedures, and practices in place; to ensure that the P-card activities were in compliance with DC Water policies and procedures; to ensure there are appropriate tools to monitor P-card activity efficiently and effectively. Specific audit procedures performed are as follows:

- To assess internal controls established to ensure P-cards are issued following proper authorization;
- To assess internal controls established to ensure compliance with current P-card policy and procedures;
- To assess internal controls established to ensure timely and efficient P-card termination; and,
- To ensure P-card activities are operating effectively, that management effectively tracks and monitors the P-card process, and that previous audit findings had been remediated.

P-card operations appear to have improved significantly since the last audit was performed as Audit identified no significant policy violations. Further, we noted that the policies, procedures, and practices utilized by Procurement in the oversight of P-card operations are well designed and operating effectively.

Internal Audit did identify some opportunities for improvement to further increase operating efficiencies and overall management of the P-card process. The topics identified and the recommendations brought forward are based on Best Practices for an operation of this type:

- The P-card reconciliation process, between DC Water records and the bank card provider, is not automated which means a significant amount of time is spent accumulating original receipts, obtaining manual approvals on paper forms, and forwarding stacks of paper from various departments across DC Water to Finance for their review and approval prior to payment. All of this information is stored in hard copy;
- The review being performed by certain approving officials needs improvement as policy violations are identified which require additional resources to investigate and resolve. Policy violations include late submittal of reconciliation packets, questionable purchases, inadequate receipts, and payment of sales tax to vendors;
- Further clarification should be added to the Purchase Card Procedures Manual in areas such as documentation of business justification and policies for alternate approving officials; and,
- Citibank's reporting capabilities for audit, compliance and monitoring reporting, such as change logs and access reports, should be explored. This will increase transparency and improve the overall control environment of P-card operations.

Internal Audit recognizes that to implement changes noted within this report, additional resources, in both funds and staffing, may be required for Procurement.

Current staffing may be inadequate to take on major initiatives such as procuring and implementing a software solution to automate the P-card reconciliation process, providing updated training on the new software, and identifying and creating beneficial management reports.

Procurement intends to reduce the number of cardholders once the warehouse is completed, as maintenance employees will no longer need to procure emergency items because both critical and spare parts will be more readily available from the warehouse. This change will also provide additional cost savings due to volume discounts and competitive pricing arrangements with preferred vendors.

This audit resulted in the addition of four Management Action Items in the chart in Section III Follow Up.

## **2. Investment & Cash Management**

Our audit objectives included assessing the controls relative to the management of investments in compliance with the Board approved investment policy, as well as management's ongoing evaluation and approval of investment opportunities, activities and outcomes. In addition, Internal Audit also reviewed the controls regarding DC Water bank accounts, including access to the accounts and the process to monitor cash flows. Internal Audit's review included an evaluation of the processes related to transferring cash, writing checks, and initiating and releasing electronic payments to ensure the activities are adequately segregated. Specific audit objectives focused on:

- Verifying compliance with the Board of Director's approved investment policy;
- Assessing management's processes related to the evaluation and selection of investment opportunities, activities and outcomes;
- Assuring that all investment activities are accurately recorded and presented on the DC Water financial statements;
- Assessing the controls regarding DC Water bank accounts, including access to the accounts and the reconciliation of bank statements to general ledger balances;
- Identifying the processes to monitor and forecast cash flows; and,
- Evaluating whether the abilities to transfer cash, write checks, and to initiate and release electronic payments are adequately segregated.

Internal Audit concludes that the system of internal controls and operational aspects of the Treasury Department as it pertains to Investment and Cash Management are effective. We identified one area in which management should address.

- Cash Management – Our review and test work indicated that bank reconciliations were not being performed and reviewed in a timely manner. Management should take steps to ensure that the reconciliations are completed and all reconciling items resolved in a timely fashion.

This audit resulted in the addition of one Management Action Item in the chart in Section III Follow Up.

### **3. Fleet Management**

Our overall audit objective was to assess DC Water’s ability to effectively manage and maintain the organization’s fleet of vehicles and the drivers who operate them. Specific audit objectives included:

- ❑ Evaluating the processes and controls regarding the acquisition and disposal of DC Water fleet vehicles;
- ❑ Assessing the appropriateness of management’s oversight of the maintenance and repair contractor;
- ❑ Evaluating the current process to monitor and record fleet vehicle maintenance and repair costs and frequency, and management’s utilization of these costs in the consideration of vehicle repair versus disposal decisions;
- ❑ Assessing the availability of fuel reporting, as well as management’s ability to use available reports to monitor and control fuel consumption and costs;
- ❑ Reviewing the processes and procedures in place to assure that all drivers are properly licensed and qualified to operate DC Water fleet vehicles; and,
- ❑ Determining whether controls are adequate to effectively safeguard fleet vehicles.

Internal Audit concludes that substantial work has been performed to improve the processes and controls around Fleet operations – primarily through the phased implementation of the Fleetwave fleet management system. The first phase of implementation included cataloguing and tracking of all Fleet vehicles and equipment, as well as all maintenance and repair work and fuel expenditures for each vehicle, along with detailed reporting for each component. The first phase also included the ability to enter driver information and track vehicle accident information. It is anticipated that the increased utilization of these latter capabilities, as well as the completion of the second phase of Fleetwave implementation – which will allow for a reservation system for “Motor Pool” vehicles, along with potentially tracking driver citations and suspensions through an interface with DMV records, and also provide depreciation amounts directly into the Lawson financial system – will allow Fleet to continue to improve its internal controls and operational efficiencies.

Internal Audit has identified some items that should be addressed by management in order to further strengthen DC Water’s Fleet Management processes, particularly as they pertain to the drivers that operate DC Water vehicles and equipment.

In particular, there is a need to address the following:

- ❑ Assure that all driver qualification requirements are performed, including:
  - Conduct required bi-annual driving record audits for all “Driving Essential” drivers
  - Require that all drivers submit a completed Annual Certification of Violations on a consistent basis
  - Implement a process to assure that all “Fleet” (non-Driving Essential) drivers maintain drivers licenses with the correct physical address;



- Update, approve and distribute all Drivers Qualifications and Fleet vehicle policies and procedures;
- Identify standard labor hour guidelines for each type of vehicle repair for all DC Water vehicles and equipment; and,
- Assure that the information provided to Fleetwave for fuel analysis to allow for reliable reporting of Fleet vehicle fuel consumption.

This audit resulted in the addition of four Management Action Items in the chart in Section III Follow Up.

### III. Follow Up

In addition to our work performed relative to the audit projects identified in the 2013 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 Blue Plains	AGM Consumer Services	Chief Financial Officer	General Counsel	Chief Information Officer	AGM Support Services	General Manager	Total
New Management Action Plans Since Previous Meeting	-	-	-	1	-	-	8	-	9
Management Action Plans Implementation Date Not Expired	-	7	1	2	-	4	10	-	24
Management Action Plans Implementation Date Expired	-	1	-	-	-	4	3	1	9
Total	-	8	1	3	-	8	21	1	42

**Listed Below are the Details of the Management Action Plans with Expired Implementation Dates**

**AGM Blue Plains**

1. 2012 Maintenance Services Audit – A current, accurate inventory of on-hand critical spare parts and equipment is not maintained. It was recommended that management update the critical spare parts report to include newly constructed assets and review the methodology used to determine what spare parts and equipment are “critical” to ensure the department can perform timely and cost-effective maintenance to the plant's critical assets. Management committed to review and update the critical spare parts list, assuring that all critical spare parts are included on the list, and that the list considers lead times for ordering spare parts, as well as the failure rates of critical parts.

**Chief Information Officer**

1. 2012 IT Operating and Business Applications – 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 a 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. A more formal Project Management methodology should be implemented.
2. 2012 IT Governance Internal Audit – Current policies could not be readily identified and a number of draft documents were still in need of approval and distribution. An IT Governance Committee has been formed that meets bi-weekly to review IT standards, policies, and procedures documents; however, the review, approval and implementation of all documents has not yet been completed.
3. 2012 IT Governance Internal Audit – A fully functioning risk assessment framework has yet to be implemented and does not include documented approval from IT Management, a process to formally track, monitor, and mitigate identified risks, and a defined process for implement the resulting directives, including responsibilities, priorities, timeliness, monitoring procedures, and periodic updates.
4. 2012 IT Helpdesk & Computer Operations – Periodic reviews of physical access rights to DC Water data centers are not being performed. On at least a quarterly basis, IT Management should determine who has access rights to each of the five DC Water data centers and verify that all access rights are based on a valid business need. Periodic access reviews of physical access rights to the DC Water data centers should be formally documented and retained on file for audit purposes.

### **AGM Support Services**

1. 2011 Disaster Response Plan Audit – A formally documented DC Water Business Continuity Plan has yet to be implemented. The Business Continuity Plan has been approved by the General Manager, but implementation is dependent on employee and contractor training, which is estimated to be completed by the end of the 2013 calendar year.
2. 2011 Safety Programs Training & Compliance Management – The Department’s Comprehensive Safety Program & Safety Policies and Procedures handbooks that have not been updated since 2001. It was recommended that management reviews and updates the Comprehensive Safety Program & Safety Policies and Procedures handbooks to reflect changes in the safety environment as well as any additional OSHA and Homeland Security requirements.
3. 2011 Safety Programs Training & Compliance Management – There was no effective follow-up process in place regarding identified safety violations for inspected facilities. It was recommended that a monitoring process be implemented to ensure corrective action is taken within the required 45 days. Subsequently a suitable software package has been acquired to track and report the incidents. The system is in the implementation phase.

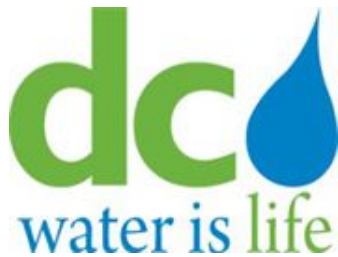
### **Office of the General Manager:**

1. 2010 Corporate Policies and Procedures – Revised DC Water Policy and Procedure documents have not been officially approved by the General Manager and made available to all DC Water employees.

## **IV. Other Topics**

Internal Audit continued to collaborate with DC Water’s Finance department regarding the Fraud and Abuse hotline that was developed in response to the organization’s goals for Fraud Mitigation. The Fraud and Abuse hotline became operational on March 14, 2013. A cross-functional team that included members from Finance, Human Capital Management, and Internal Audit worked to increase employee awareness of the Fraud and Abuse hotline through informational posters displayed throughout many of the organization’s buildings and hosting mandatory employee Fraud and Abuse awareness training sessions.

Internal Audit is the primary contact point for reported incidents. To date, there have been two reports of Fraud and Abuse received through the hotline, both alleging violations of HCM policies. These allegations are currently being investigated.



**Purchasing Card Operations  
Internal Audit Report**

April 16, 2013

**INTERNAL AUDIT TEAM**

Staff: Dominic Usher

Manager: Becky Jordan

Director: Joe Freiburger

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## EXECUTIVE SUMMARY

### Background

DC Water currently utilizes a purchasing card (P-card) program, allowing certain employees to purchase supplies and business related items. As of October 2012, DC Water had 69 active P-cardholders. For the six month period under review from March 2012 through August 2012, Internal Audit noted approximately 3,300 transactions totaling almost \$940,000. The P-card program is administered by Procurement with coordination and support from Accounts Payable (A/P), in Finance. Employees can make certain purchases without conducting the more rigorous procurement process including the development of purchase orders. The P-card program was implemented to improve operational efficiency by (1) decreasing the number of purchase orders processed by the procurement department (thus eliminating related costs), (2) decreasing the number of checks issued by Accounts Payable, and (3) decreasing the amount of time needed to procure tools and parts needed by engineers and maintenance to complete emergency field work.

Risks affiliated with the P-card program at DC Water are inherent to all P-card programs. The most significant of these risks is the likelihood that employees will use cards to purchase items unrelated to accomplishing business objectives. Other risks are associated with cards being used to purchase personal items or items that fail to comply with those authorized in the procedure manual.

The P-card process was previously audited in May 2011, with an Internal Audit report being issued in August 2011. At that time, the Director of Procurement had just begun her tenure at DC Water in January 2011. Since that time, she has actively implemented positive changes in the process including updating and significantly improving the Purchase Card Procedures Manual as well as the establishment of the Internal Review Committee (IRC). Subsequently, in March 2013, she has assumed the role of Acting AGM of Support Services and there is another Acting Director of Procurement managing the process.

Procurement has the overall responsibility for monitoring and administering the P-Card Program, while Finance is responsible for the review of the individual and department reconciliations packets and payments to Citibank. Cardholders accumulate their original receipts throughout the billing period, which ends on the 25<sup>th</sup> of each month. Every cardholder has the ability to log into Citibank records to view their monthly statement. They must reconcile their receipts to their statement to ensure all charges are supported by a receipt and they must fill out and sign the Purchase Card Transaction Log and the Purchase Card Verification Form.

The packet is then forwarded to their approving official who is responsible for performing a detailed review to ensure that transactions are authorized and appropriate. They must sign and approve the packet, and submit the information to Finance by the 10<sup>th</sup> day of the following month.

The Lead Accounting Technician in A/P performs a detailed review of each packet for completeness (i.e. each charge is supported by a receipt) before approving for payment. At the same time, the P-card Administrator I receives a set of reports from Citibank of all transactions, which includes breakout reports for weekend purchases, grocery purchases, split purchases, and declined transactions. These reports are shared with the P Card Administrator II and members of the IRC for their review of the transactions within each of the breakout tabs as well as all questionable and high-risk transactions (e.g. food, IT purchases). Questionable purchases are then investigated to determine compliance with P-Card Policy. If transactions violate policy, the P-Card Administrator I notifies the Director of Procurement of the infraction and makes a recommendation of a penalty consistent with the provisions in the P-Card Manual.

### **Objectives**

Our overall audit objectives included an evaluation to ensure the policies, procedures, and practices in place were comprehensive; to ensure that the P-card activities were in compliance with DC Water policies and procedures; and to ensure there are appropriate tools to monitor P-card activity efficiently and effectively. Specific audit procedures were performed:

- To assess internal controls established to ensure P-cards are issued only following proper authorization
- To assess internal controls established to ensure compliance with current P-card policy and procedures
- To assess internal controls established to ensure timely and efficient P-card termination
- To ensure P-card activities are operating effectively, that management effectively tracks and monitors the P-card process, and that previous audit findings had been remediated.

### **Audit Scope**

This audit was conducted based on the approved FY2013 Internal Audit Plan. The audit was initiated in October 2012 and completed in January 2013. The scope included changes in policy since October 1, 2011 and evaluated transactions for the period of March 1, 2012 – August 30, 2012.

### Summary of Work

P-card operations have improved significantly since the last audit was performed since we identified no significant policy violations. Further, we noted that the policies, procedures, and practices utilized by Procurement in the oversight of P-card operations are well designed and operating effectively.

Internal Audit did identify some opportunities for improvement to further increase operating efficiencies and overall management of the P-card process. The topics identified and the recommendations brought forward are based on Best Practices for an operation of this type.

- ❑ The P-card reconciliation process, between DC Water records and the bank card provider, is not automated which means a significant amount of time is spent accumulating original receipts, obtaining manual approvals on paper forms, and forwarding volumes of paper from various departments across DC Water to Finance for their review and approval prior to payment. All of this information is stored in hard copy format.
- ❑ The review being performed by certain approving officials needs improvement as policy violations are identified which require additional resources to investigate and resolve. Policy violations include late submittal of reconciliation packets, questionable purchases, inadequate receipts, and payment of sales tax to vendors.
- ❑ Further clarification should be added to the Purchase Card Procedures Manual in areas such as documentation of business justification and policies for alternate approving officials.
- ❑ Citibank's reporting capabilities for audit, compliance and monitoring reporting, such as change logs and access reports, should be explored. This will increase transparency and improve the overall control environment of P-card operations.

Internal Audit recognizes that to implement changes noted within this report, additional resources, in both funds and staffing, may be required for Procurement.

Current staffing may be inadequate to achieve major initiatives such as procuring and implementing a software solution to automate the P-card reconciliation process, providing updated training on the new software, and identifying and creating beneficial management reports.



Procurement intends to reduce the number of cardholders once the new warehouse facility is completed, as maintenance employees will no longer need to procure emergency items because both critical and spare parts will be more readily available from the warehouse. This change will also provide additional cost savings due to volume discounts and competitive pricing arrangements with preferred vendors.

SC&H Consulting

By: \_\_\_\_\_

Joe Freiburger, CPA, CIA

**II. DETAILED OBSERVATIONS & RECOMMENDATIONS**

Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
<b>I. Enhance Automation of the Reconciliation Process</b>		
<p><b>Observation:</b></p> <p>The current P-card reconciliation process and approval process is not automated and is paper intensive and reliant on manual controls. This results in a time consuming review and approval process.</p> <p>The 100% review of the reconciliation packets being performed by Finance each month is not an efficient process.</p> <p>During our testing of the detailed transactions, we tested 55 cardholder packets of information and examined approximately 350 transactions totaling over \$160,000. We noted several purchases that appeared to be in violation of policy; however, each transaction was reviewed and was either determined not to violate policy or was otherwise resolved by the program management.</p>	<p><b>Recommendation:</b></p> <p>Short-term, we recommend that A/P perform a risk-based approach to auditing the P-card reconciliations which could target departments or individuals with a higher frequency of violations or it could focus on auditing a certain number of departments each month with each department getting audited at least once per quarter. Additionally, the P-card Administrator and A/P (Lead Accounting Technician) should coordinate their specific review, report their results together and file the applicable information in one location to avoid duplicative review.</p> <p>Long-term, we recommend that DC Water obtain a software solution (e.g. Concur, ARIBA) that could be used to process transactions. The potential benefits of P-card automation technology includes:</p>	<p><b>Management’s Action Plan and Implementation Date:</b></p> <p><b>Response from John Madrid:</b></p> <p>Management agrees. Moving forward, Management will employ a risk-based approach: A/P will target individuals with high rates of violation, and audit these individuals on a monthly basis. On a sample basis, departments with high violation rates will also be audited. Management is investigating automation alternatives to introduce efficiencies into the process.</p> <p><b>Response from Katy Chang:</b></p> <p>DC Water agrees that additional technology improvements would help the reconciliation process significantly.</p>

<p>We also noted several purchases that included sales tax (5 transactions totaling approximately \$1,000 of sales tax paid) and receipts that did not comply with the DC Water’s policy (20 out of the 55 packets had at least one receipt that was deemed insufficient) that had not been identified by Finance’s review.</p> <p>Additionally, we noted transactions that were coded to improper budget PO lines, which were identified and corrected by A/P. Further, we noted six out of ten of the department reconciliation packets tested were not submitted to Finance by the established deadline of the tenth day of the month.</p> <p><b>Risk:</b></p> <p>Improper purchases could go undetected due to the compressed time requirement and amount of paperwork to be processed.</p> <p>The inefficiency in the process, over the course of time, can lead to ineffective use of resources.</p>	<ul style="list-style-type: none"> <li>• Timelier submissions,</li> <li>• Workflow for approvals by employee and manager,</li> <li>• Exception reporting for policy violations (e.g. missing receipts),</li> <li>• Mapping of MCC codes to PO/Budget line items for proper GL coding,</li> <li>• Electronic storage of reports and receipts for quick retrieval,</li> <li>• More real-time visibility, and</li> <li>• Better facilitation of audit and compliance processes.</li> </ul> <p>See also recommendation in Observation #2 for the use of Agency or Organizational Program Coordinators.</p> <p><b>Business Owner(s):</b></p> <p>John Madrid, Controller</p> <p>Katy Chang, Acting Director of Procurement</p>	<p>Management is investigating automation enhancements to introduce efficiencies into the process and has sought the advice from external sources (government and financial institutions) to develop and implement the process. In coordination with Finance and Budget/Accounts Payable, Procurement plans to continue exploring long term solutions and have a proposal ready for consideration by the end of Q4 FY13.</p> <p>Moving forward, Management will employ a risk-based approach towards reconciliation: A/P will target individuals with high rates of violation, and audit these individuals on a monthly basis. On a sample basis, departments with high violation rates will also be audited. In conjunction with A/P, Procurement will implement a process for department heads and/or designee to be the primary point of contact for reconciliation by the end of Q2 FY14.</p> <p>DC Water is also considering adding “spot checks” of reconciliation packets to be performed by the Internal Review Committee (IRC).</p>
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Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
II. Improve Approving Official’s Review of Transactions		
<p><b>Observation:</b></p> <p>The approving officials within the individual departments are responsible for ensuring:</p> <ul style="list-style-type: none"> <li>• all cardholder statements were reconciled,</li> <li>• all charges are supported by receipts,</li> <li>• purchases are in compliance with DC Water policy, and</li> <li>• all packets are submitted to Finance timely.</li> </ul> <p>However, through inquiry with A/P, certain departments’ reconciliation packets consistently have errors or exceptions. Packets are submitted late, incomplete, and inaccurate which causes A/P and the IRC to spend time investigating and resolving issues. (Note: this was identified in Observation #1)</p>	<p><b>Recommendation:</b></p> <p>Approving officials, and their designee, should be required to complete a detailed training led by both Procurement and A/P, regarding the duties and responsibilities with respect to processing and approving P-Card activity.</p> <p>Another option would be to designate Agency Organization Program Coordinators (AOPC’s) for each major department or for multiple departments. Their role would serve partly as an administrative function, to gather and organize reconciliation packets from approving officials, as well as a secondary review of transactions (in lieu of Finance’s detailed review outlined in Observation #1). This person should be someone who works within the department that does not possess a P-card.</p>	<p><b>Management’s Action Plan and Implementation Date:</b></p> <p>DC Water agrees that approving officials and/or their designee should receive similar training as an actual cardholder. DC Water’s current procurement card policy requires an approving official to be similarly trained. Since FY 2011, nine approving officials have either received new orientation or refresher orientation including their responsibilities as officials.</p> <p>Additionally, DC Water is working with Citibank to develop an online training course similar to the program administrator training offered by GSA. This training would be offered semi-annually through Citibank.</p>

<p>We also noted during our testing, that not all approving officials had received formal training on the proper use and review procedures of the P-Cards.</p> <p>However, we did note that all approving officials receive quarterly updates from the P-card Administrator I which details common policy violations and updates to policy.</p> <p><b>Risk:</b></p> <p>Inadequate review by the approving officials could ultimately result in fraud, misuse or abuse of DC Water funds by questionable or inappropriate purchases being undetected. Furthermore, inadequate review could result in additional time and resources expended by both the Internal Review Committee and A/P.</p>	<p>They would report their findings directly to the P-card administrator and ensure timely submission of packets to Finance.</p> <p><b>Business Owner(s):</b></p> <p>Katy Chang, Acting Director of Procurement Approving Officials</p>	<p>Although GSA recommends that refresher training be conducted for cardholders and approving officials every two years, DC conducts refresher training more frequently (on an annual basis).</p> <p>DC Water agrees with the concept of a department AOPC. DC Water is currently working on the development of policies and procedures of such a role; it is provisionally called the Departmental Point of Contact (DPOC). DC Water intends to have DPOCs identified and trained by the end of Q1 FY14. DPOCs will have the ability, like Department Heads currently, to view online all card activity from their departments online. DPOCs will be responsible for ensuring that purchases are in compliance with DC Water policies and procedures, and reconciliation packets are submitted timely and properly.</p>
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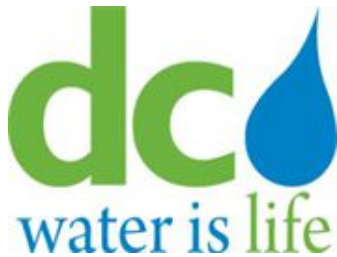
Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
III. Updates to P-card Policies and Procedures		
<p><b>Observation:</b></p> <p>Significant improvements have been made to the P-card policies and procedures since the last P-card audit was performed. However, we noted two areas that could be improved:</p> <p>1.) Cardholders must provide a description of what was purchased and sign off that the purchase was for “Official Use” on the Purchase Card Transaction Log; however, there is no requirement for cardholders to document the business justification for their purchases. This could have further implications as it could relate to the IRS meals and entertainment rules, as IRS publications Topic 512 states, “you must have records to prove the business purpose and the amount of each expense, the date and place of the entertainment, and the business relationship of the persons entertained.” It our opinion that the current blanket food approval memo given to certain departments may not be sufficient to meet this requirement.</p>	<p><b>Recommendation:</b></p> <p>DC Water should update the policies and procedures to include the following changes:</p> <p>1.) Cardholders should be required to provide a business justification for purchases over a certain dollar threshold (e.g. purchases greater than \$100) or for certain categories of purchases (e.g. meals or receipts from major retailers like Target, training, etc.).</p> <p>2.) The policy should provide guidance to ensure all alternate approving officials are approved by Procurement prior to reviewing of reconciliation packets to ensure the approving official is properly trained, appropriately segregated from the cardholder, and has direct knowledge of cardholder’s role and the ability to verify the purpose, necessity and appropriateness of the transactions.</p>	<p><b>Management’s Action Plan and Implementation Date:</b></p> <p>DC Water agrees that the policy and procedures could be updated to require more justification for certain types of purchases – particularly IT and food purchases. Given that the IRC reviews 100% of all purchases and transactions, such justification would streamline the review process.</p> <p>DC Water agrees that an Approving Official’s ability to delegate their authority should be documented. Today, the “delegation of authority” documentation is provided in the form of email notification to department heads, executive assistants and others as appropriate. The ability for senior and executive management to delegate authority is a long standing practice of DC Water and stems from their mandated responsibility</p>

<p>2.) The current policy documents who the appropriate approving official should be for each class of employee; however, it does clearly specify policies for when an alternate approving official must perform the review of transactions.</p> <p><b>Risk:</b> By not requiring a business case justification for purchases, DC Water may be unable to assure that funds are expended for the appropriate business use for future audits, such as the IRS. The appropriate individuals may not be approving transactions in all situations.</p>	<p><b>Business Owner(s):</b> Katy Chang, Acting Director of Procurement</p>	<p>“to ensure their departments are properly managed and supervised,” from the DC Water-wide Attendance and Punctuality Policy from 2001.</p> <p>Such delegation includes P-Card matters, but is a general delegation to act on behalf of the person during their absence. We will review the P-Card manual and amend the language appropriately. DC Water also agrees that the Approving Official should be kept informed of any P-Card activity during the period they were out.</p> <p>Policy review and updates will completed by the end of Q3 FY14.</p>
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Observation(s)	Internal Audit Recommendation(s)	Management Comment(s)
<b>IV. Citibank Reporting</b>		
<p><b>Observation:</b></p> <p>Since the last audit was performed, Procurement has begun using reports provided by Citibank. The use of management reports can be expanded to aid in the managing and monitoring of P-card operations. We were unable to obtain and examine audit and compliance reports (i.e. access reports, change logs, card activation and de-activation dates, or cardholder limit increases) directly from Citibank. Audit and compliance reports could be useful for self-audits, internal audits and external audits. Further, additional monitoring reports, if deemed necessary, can be used to continually improve, strategically drive and promote the success of the P-card program.</p> <p>Additionally, three individuals from Procurement have change access capabilities in the Citibank system: the director of the P-Card Program, the P-card Administrator I, and the P-card Administrator II.</p>	<p><b>Recommendation:</b></p> <p>Management should identify all potential users (e.g. approving officials, management, P-card Administrator, auditors, etc.) and establish what type of data and reports would be useful. Then, with the assistance of Citibank, these reports should be created in pre-formatted queries that will assist each user in achieving their objectives. For example, since DC Water's goal is to increase their participation in local and small businesses, a report could be generated showing transactions that could have been purchased with a local and small vendor which could be communicated to cardholders and approving officials, hence increasing the program's success. Increased monitoring and reporting can help strategically drive P-card operations.</p> <p>More specifically, we identified a need for two reports to be created and reviewed on at least a monthly basis.</p>	<p><b>Management's Action Plan and Implementation Date:</b></p> <p>Electronic transaction monitoring reports were developed in consultation with GSA and Citibank. Prior to FY 2012, monitoring and reporting was done manually.</p> <p>Effective immediately, DC Water will regularly run the Citibank generated reports (change logs, access reports) that were requested by the auditors this year.</p> <p>We will continue to work with cardholders and Approving Officials to ensure they are receiving the kinds of information to achieve program objectives.</p>



<p>The Director of Procurement approves all changes presented to her on the Purchase Card Request Form. However, there is no subsequent review to ensure that all changes that occurred in the systems were approved, accurate, and made in a timely manner. An audit report form Citibank would facilitate this process.</p> <p><b>Risk:</b></p> <p>DC Water may not be taking full advantage of monitoring and managing capabilities that are facilitated through the card provider.</p> <p>Improper changes or improper access to the system could go undetected.</p>	<p>1.) Change Log - a report should be created from Citibank that tracks all changes made between the specified dates (e.g. bi-weekly or monthly), who made the change, what change was made, and the date and time of the change. This report may include all activated and terminated cards for that period. This report should be reviewed and approved by the Director of Procurement to ensure that she is aware of all additions, changes, and terminations and that the changes were executed timely and accurately.</p> <p>2.) Access Report - a report should be created that documents who has access to the Citibank Electronic Access System and the type of access they have (i.e. what they have access to view, what they have access to change). This will become important as more employees are given access to the system to protect the data and system integrity. It will also be a good tool to use to ensure access is terminated timely after a change in an employee's status.</p> <p><b>Business Owner(s):</b></p> <p>Katy Chang, Acting Director of Procurement</p>	
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**Investment & Cash Management  
Internal Audit Report**

April 15, 2013

**INTERNAL AUDIT TEAM**

Director: Joe Freiburger

Manager: Russell Ojers

Associate: Dominic Usher

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## EXECUTIVE SUMMARY

### **Background**

DC Water's Treasury Department, within the Office of the Chief Financial Officer, is responsible for management and oversight of the organization's investment activity and cash management. The Treasury Department is also responsible for Debt Management, which has been excluded from the scope of this review. The Treasury department is led by the Treasury Manager, who reports directly to the Chief Financial Officer. The Treasury Manager is assisted by a Senior Financial Analyst and a Financial Analyst.

In October of 2011, the Board of Directors of DC Water approved the amended "Statement of Investment Policy". This document governs the processes and controls pertaining to the overall administration and investment management of those monies held in DC Water's investment portfolio. During March 2013, DC Water had approximately \$398 Million in operating revenues and bond funds invested in a diversified mix of authorized investments. As permitted in the Statement of Investment Policy, the Treasury Manager has been delegated the authority to make investment decisions by the General Manager and the Chief Financial Officer.

In addition to the investment activities outlined above, DC Water must maintain an optimum level of liquidity to ensure its ability to make required payments as they become due. In March 2013, DC Water bank accounts had approximately \$194 Million in available operating funds. The Treasury Manager and his staff monitor cash flow on a daily and monthly basis to ensure the adequacy of on-hand cash. Additionally, the Financial Planning Manager maintains short-term (two years) and long-term (10 years) forecasts to assist with budgeting and determining an appropriate level of liquidity.

### **Objectives**

Our audit objectives included assessing the controls relative to the management of investments in compliance with the Board approved investment policy, as well as management's ongoing evaluation and approval of investment opportunities, activities and outcomes. In addition, Internal Audit also reviewed the controls regarding DC Water bank accounts, including access to the accounts and the process to monitor cash flows. Internal Audit's review included an evaluation of the processes related to transferring cash, writing checks, and initiating and releasing electronic payments to ensure the activities are adequately segregated. Specific audit objectives focused on:

- Verifying compliance with the Board of Director's approved investment policy;
- Assessing management's processes related to the evaluation and selection of investment opportunities, activities and outcomes;
- Assuring that all investment activities are accurately recorded and presented on the DC Water financial statements;

- ❑ Assessing the controls regarding DC Water bank accounts, including access to the accounts and the reconciliation of bank statements to general ledger balances;
- ❑ Identifying the processes to monitor and forecast cash flows; and,
- ❑ Evaluating whether the abilities to transfer cash, write checks, and to initiate and release electronic payments are adequately segregated.

**Audit Scope and Procedures**

This audit was conducted based on the approved FY2013 Internal Audit plan. The review was initiated in January, 2013 and completed in February, 2013. The audit included an evaluation of the physical controls, as well as the processes and procedures of the Treasury Department as they pertain to Investment and Cash Management. The review process included interviews with appropriate members of Treasury, Finance and Accounting. The audit process also included substantive testing of a sample of investment transactions, cash reconciliations and electronic payments. Emphasis was placed on the identification of significant risks that could potentially impact the safeguarding of DC Water assets.

**Summary of Work**

Internal Audit concludes that the system of internal controls and operational aspects of the Treasury Department as it pertains to Investment and Cash Management are effective. We identified one area in which management should address.

- ❑ Cash Management – Our review and test work indicated that bank reconciliations were not being performed and reviewed in a timely manner. Management should take steps to ensure that the reconciliations are completed and all reconciling items resolved in a timely fashion.

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By:

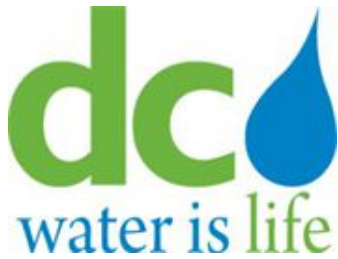
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Joe Freiburger, CPA, CIA

**II. DETAILED OBSERVATIONS & RECOMMENDATIONS**

**I. Cash Management – Bank Reconciliation Review and Approval**

<p><b>Observation:</b> DC Water has 15 TD Bank accounts. The Concentration bank account is the primary account in which operating funds are retained. In March 2013 the Concentration account balance averaged approximately \$71M. There are other receivables accounts in which payments are received and then swept into the Concentration account on a daily basis. There are also disbursement accounts that are funded by the Concentration account for the amount necessary to cover approved payments. There is also a “DC Pilot” account in which approximately \$14.5M is retained to fund an upcoming commitment; however, there are no transactions within this account beyond small monthly interest payments.</p> <p>Bank account reconciliations should be completed, and all variances resolved, by the end of the following month to allow for the timely completion of the month-end financial close.</p> <p>Internal Audit tested a sample of six monthly reconciliations of the Concentration bank</p>	<p><b>Recommendation:</b> The Finance group should ensure that all bank reconciliations are completed in a timely manner and all reconciling items resolved in a timely fashion as well.</p>	<p><b>Management’s Action Plan:</b> Management agrees with the recommendation. Management is in the process of implementing the Lawson Cash Ledger module to facilitate the bank reconciliation process and through the reduction in manual steps the amount of time needed to complete the reconciliations will decrease. Management will commence with lower volume accounts in the Cash Ledger in May and progressively advance towards the higher volume accounts through the remainder of the year.</p> <p><b>Implementation Date:</b> Commence May, 2013. Expected completion of September 30, 2013.</p>
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<p>account from June 2012 through December 2012 and found that five of the six reconciliations were not prepared and reviewed by the end of the following month. Internal Audit found that:</p> <ul style="list-style-type: none"> <li>• The June, July and September 2012 reconciliations were prepared and reviewed in November 2012;</li> <li>• The October 2012 reconciliation was prepared in December 2012 and was reviewed in January 2013; and,</li> <li>• The November and December 2012 reconciliations were prepared and reviewed in January 2013.</li> </ul> <p>As such, Internal Audit determined that the monthly reconciliations of the Concentration bank account are not prepared and reviewed timely.</p> <p><b>Risk:</b></p> <ul style="list-style-type: none"> <li>• Inaccurate or fraudulent bank transactions may not be identified and resolved timely;</li> <li>• The billing system may not accurately reflect adjustments to the revenues received identified through the reconciliation process; and,</li> <li>• The completion of the month-end financial close could be delayed.</li> </ul>		
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**Fleet Management  
Internal Audit Report**

April 17, 2013

**INTERNAL AUDIT TEAM**

Director: Joe Freiburger

Manager: Russell Ojers

Associate: Dominic Usher



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## EXECUTIVE SUMMARY

### **Background**

The Fleet Management department provides guidance and oversight to the maintenance and repair of approximately 600 DC Water vehicles and a total of approximately 1100 pieces of related support equipment. The Fleet Management department is responsible for the acquisition, distribution and disposal of all DC Water vehicles and related support equipment. The Fleet Management department also monitors fuel spending and other costs associated with fleet operations.

In August of 2012, Tim Fitzgerald began serving as the Acting Fleet Director, replacing O.Z. Fuller, who had been the Fleet Director for approximately 13 years. In February of 2013, Mr. Fitzgerald was officially named as Fleet Director. Mr. Fitzgerald has over 18 years of direct experience, specializing in areas such as Fleet Management Operations, Vehicle Technologies, and Computer Operations.

The Fleet Management department has contracted the daily vehicle maintenance and repair operations to a third party. A contractor called First Vehicle Services provided fleet maintenance and repair services for DC Water until October 31, 2012. Beginning on November 1, 2012, a new contractor called G4S began providing the fleet maintenance and repair services for the Authority. The contractor uses DC Water's fleet maintenance facilities at O Street for all vehicle services. As the source of both parts and labor associated with the repair of all fleet vehicles, G4S is an integral part of DC Water's fleet operations.

As part of a DC Government-wide program, all of DC Water's fleet vehicles use an automated fuel management and vehicle fleet data reporting system known as a CANceiver ("Fuel Ring"). This system deters fuel theft by allowing only vehicles with the fuel ring installed to receive fuel at designated gas stations in the District. The Fuel Ring system limits the ability of fleet vehicles to fill up based on mileage thresholds that are defined by the Fleet Management department. The Fuel Ring system also provides additional reporting capabilities for important vehicle metrics such as vehicle tracking, miles per gallon, tire pressure data, etc. which is designed to maximize fuel efficiency and prevent unexpected vehicle breakdowns through constant monitoring of all fleet vehicles.

DC Water has implemented multiple policies and procedures governing Fleet operations. These policies define the roles and expectations of the Fleet Management department, as well as Human Capital Management and the individual departments that utilize the vehicles. The policies and procedures documents are designed to assure that all DC Water departments have the required support to assure that both the drivers and the vehicles are capable of meeting the needs and goals of the organization.

Internal Audit completed a similar audit in 2011. Since that time, Fleet Management has acquired and installed software called FleetWave in order to better manage the operations.

### **Objectives**

Our overall audit objective was to assess DC Water's ability to effectively manage and maintain the organization's fleet of vehicles and the drivers who operate them. Specific audit objectives included:

- Evaluating the processes and controls regarding the acquisition and disposal of DC Water fleet vehicles;
- Assessing the appropriateness of management's oversight of the maintenance and repair contractor;
- Evaluating the current process to monitor and record fleet vehicle maintenance and repair costs and frequency, and management's utilization of these costs in the consideration of vehicle repair versus disposal decisions;
- Assessing the availability of fuel reporting, as well as management's ability to use available reports to monitor and control fuel consumption and costs;
- Reviewing the processes and procedures in place to assure that all drivers are properly licensed and qualified to operate DC Water fleet vehicles; and,
- Determining whether controls are adequate to effectively safeguard fleet vehicles.

### **Audit Scope and Procedures**

This audit was conducted based on the approved FY2013 internal audit plan. The audit was initiated in January, 2013 and completed in March, 2013. The audit included an evaluation of the physical controls, as well as the processes and procedures of the Fleet Department and other DC Water departments, where applicable, as they pertain to Fleet Management. The audit process included interviews with appropriate members of Fleet, Human Capital Management, Sewer Services and Water Services personnel. The audit process also included substantive testing of a sample of vehicle acquisitions, vehicle disposals, work order completion, planned maintenance efficiency, and the accuracy and completeness of required driver documentation.

Emphasis was placed on the identification of risks that could adversely affect Fleet operations and the safe operation of DC Water vehicles and equipment.

**Summary of Work**

Internal Audit concludes that substantial work has been performed to improve the processes and controls around Fleet operations – primarily through the phased implementation of the Fleetwave fleet management system. The first phase of implementation included cataloguing and tracking of all Fleet vehicles and equipment, as well as all maintenance and repair work and fuel expenditures for each vehicle, along with detailed reporting for each component. The first phase also included the ability to enter driver information and track vehicle accident information. It is anticipated that the increased utilization of these latter capabilities, as well as the completion of the second phase of Fleetwave implementation – which will allow for a reservation system for “Motor Pool” vehicles, along with potentially tracking driver citations and suspensions through an interface with DMV records, and also provide depreciation amounts directly into the Lawson financial system – will allow Fleet to continue to improve its internal controls and operational efficiencies.

Internal Audit has identified some items that should be addressed by management in order to further strengthen DC Water’s Fleet Management processes, particularly as they pertain to the drivers that operate DC Water vehicles and equipment.

In particular, there is a need to address the following:

- Assure that all driver qualification requirements are performed, including:
  - o Conduct required bi-annual driving record audits for all “Driving Essential” drivers
  - o Require that all drivers submit a completed Annual Certification of Violations on a consistent basis
  - o Implement a process to assure that all “Fleet” (non-Driving Essential) drivers maintain drivers licenses with the correct physical address;
- Update, approve and distribute all Drivers Qualifications and Fleet vehicle policies and procedures;
- Identify standard labor hour guidelines for each type of vehicle repair for all DC Water vehicles and equipment; and,
- Assure that the information provided to Fleetwave for fuel analysis to allow for reliable reporting of Fleet vehicle fuel consumption.

SC&H Consulting

By:

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Joe Freiburger, CPA, CIA

## II. DETAILED OBSERVATIONS & RECOMMENDATIONS

### I. Driver Qualification Assessment Requirements

**Observation:**

Section 6.11.2 of DC Water’s Drivers’ Qualifications Policy states that “The Fleet Director shall conduct bi-annual driving record audits for all employees who are required to have a CDL and those employees who are required to have a non-CDL driver’s license who are required to drive as an essential function of their job.”

Internal Audit noted that as of September, 2012, the required driving record audits are no longer occurring, except on a one-off basis for cause.

Per discussion with Fleet Management, the vendor that was performing the driving record audits no longer provides that service for DC Water, and a new vendor has not been identified.

**Risk:**

Failure to perform these semi-annual checks of driver records could result in drivers with excessive citations or suspended/revoked licenses continue operating DC Water vehicles or equipment.

**Recommendation:**

Internal Audit recommends that Fleet Management identify a new vendor and resume the performance of the required bi-annual driving record audits, pursuant to DC Water policy.

Internal Audit further recommends that Fleet Management consider conducting the driving record audits on a quarterly basis, rather than bi-annual, in order to reduce the amount of time that a driver could operate a DC Water fleet vehicle without a valid license from a potential five months without detection, down to a potential two months without detection – thus reducing the risk that a DC Water vehicle is being operated by an unqualified driver.

**Management’s Action Plan:**

The Department of Fleet Management has contacted the Department of Procurement and Human Capital Management and is in the process of finalizing an RFP to select a new vendor to provide driver records. The new contract will focus on the following:

- A greater emphasis on an immediate turnaround time for all reporting requests
- Periodic and ad-hoc driver records reporting for both essential and non-essential drivers upon request
- Real-time updates to changes in drivers’ records.

An approved RFP is estimated to be released in June 2013, with vendor selection and contract approval occurring in the fourth quarter of FY 2013. As such, a bi-annual driving record audit should be performed immediately thereafter.

**Implementation Date:**

September 30, 2013

<p><b>Observation:</b> Section 6.12.3 of DC Water’s Drivers’ Qualifications Policy states that “Employees who drive Authority vehicles or equipment are required to certify on an annual basis a listing of all traffic violations (other than parking) incurred for which they have been convicted, forfeited bond or collateral for the preceding 12 months, or certify that no such occurrences took place.”</p> <p>Per discussions with management, Internal Audit noted that this requirement is not enforced and that employees do not submit an Annual Certification of Violations.</p> <p><b>Risk:</b> Failure to identify drivers with excessive citations or suspended/revoked licenses could result in unauthorized drivers operating DC Water vehicles or equipment. This risk is compounded by the lack of bi-annual driving record audits noted above.</p>	<p><b>Recommendation:</b> Internal Audit recommends that Fleet Management require that all drivers adhere to the Drivers’ Qualifications Policy and submit a completed Annual Certification of Violations on a consistent basis.</p>	<p><b>Management’s Action Plan:</b> Once a vendor is selected, the goal is to allow for real-time updates to changes in drivers’ records. These will be provided to Fleet Management, as well as to the department heads so they are aware of citations, accidents or changes in the status of their drivers’ licenses.</p> <p>The real-time updates will be in addition to the required Annual Certification of Violations that will be performed, as outlined in the Drivers’ Qualification Policy.</p> <p><b>Implementation Date:</b> December 31, 2013</p>
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<p><b>Observation:</b> DC Water’s Drivers’ Qualifications Policy requires that all drivers maintain a valid driver’s license. One component of a valid driver’s license is a current, correct address.</p> <p>Internal Audit noted that for all Driving Essential drivers, the Senior Compensation Specialist compares the address on each employee’s driver’s license to the address on their Payroll records, and investigates any discrepancies. Internal Audit further noted that there is not a corresponding process for all Fleet (non-Driving Essential) drivers.</p> <p><b>Risk:</b> Drivers could operate DC Water fleet vehicles without a valid driver’s license.</p>	<p><b>Recommendation:</b> Internal Audit recommends that Fleet Management implement a process for Fleet drivers to assure that the address on each employee’s driver’s license matches the address on their Payroll records to assure that each driver maintains a valid driver’s license.</p>	<p><b>Management’s Action Plan:</b> Once the above-referenced vendor is selected and in place, we will be able to conduct thorough driver’s license validations matching the driver’s license information to the information obtained from the driver records, as well as a comparison of the license address to the address on record in Payroll. The validation will be performed for all essential and non-essential drivers.</p> <p><b>Implementation Date:</b> December 31, 2013</p>
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**II. Policies and Procedures Documents**

<p><b>Observation:</b> The Drivers’ Qualifications Policy has not been updated, approved and distributed to remain current.</p> <p>Internal Audit noted that the current version of the Drivers’ Qualifications Policy was approved by Human Capital Management (“HCM”) in April of 2007. Per discussion with management, a revision was begun by HCM in 2011, but that version was never approved.</p> <p><b>Risk:</b> The absence of a formalized process for regularly maintaining, reviewing and approving DC Water’s Drivers’ Qualifications Policy increases the likelihood that these documents are not representative of the current operating environment, and may not consider additional risks that have been identified that should be addressed through these documents.</p>	<p><b>Recommendation:</b> Internal Audit recommends that HCM management implement a process to update, approve and distribute all policies and procedure documents on a consistent, recurring basis.</p>	<p><b>Management’s Action Plan:</b> The department of Fleet Management continues to encourage Policy adherence and is moving forward to update the Drivers’ Qualification Policy in conjunction with Human Capital Management and the Executive staff.</p> <p>Additionally, Fleet has asked for the addition of a certified trainer to work within HCM and Fleet to assist in assuring that all policy requirements are met.</p> <p><b>Implementation Date:</b> June 30, 2013</p>
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<p><b>Observation:</b> The Fleet vehicle policy documents are not updated, approved and distributed to remain current.</p> <p>Internal Audit noted that there are several Fleet vehicle process documents that were created by Fleet Management and approved by Support Services management in 2008. These documents were updated by Fleet Management in 2009, and again in 2011, but were not approved.</p> <p><b>Risk:</b> The absence of a formalized process for regularly maintaining, reviewing and approving DC Water’s Fleet vehicle policy documents increases the likelihood that these documents are not representative of the current operating environment, and may not consider additional risks that have been identified that should be addressed through these documents.</p>	<p><b>Recommendation:</b> Internal Audit recommends that Fleet and Support Services management implement a process to update, approve and distribute all policies and procedure documents on a consistent, recurring basis.</p>	<p><b>Management’s Action Plan:</b> The department of Fleet Management is working to obtain the approval of the 2009 versions of the updated Fleet Management policy documents that were submitted.</p> <p>Additionally, Fleet is working to further update the policy documents to reflect the current environment, procedures and requirements. Once these updates are completed, the new versions will also be submitted for approval.</p> <p><b>Implementation Date:</b> June 30, 2013</p>
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**III. Standardize Labor Hours**

**Observation:**

Internal Audit noted that the maintenance and repair contractor invoices DC Water for actual labor hours for all work performed, which is in accordance with the contract. Invoices are approved by the appropriate DC Water Manager. However, there have not been standard guidelines established for reasonable labor hours associated with various types of maintenance/repair activity. As invoices are delivered by the contractor the actual hours used should be compared with pre-established guidelines for reference. Hours that may be invoiced beyond a reasonable level should then be challenged. Our testing did not identify questionable charges but guidelines would facilitate the invoice review process. Additionally, standardized repair labor hours would increase the accuracy of repair projections and labor forecasts.

**Risk:**

Internal Audit identified the following risks associated with the current labor billing process:

- The lack of a standard labor hour for each repair could lead to increased labor costs for repairs;

**Recommendation:**

Internal Audit recommends that Fleet Management identify and maintain available industry-standard labor hours for all vehicle maintenance and repair activities, and retain as a resource going forward. These records can serve as a reference guideline when reviewing contractor invoices and forecasting labor needs.

**Management’s Action Plan:**

The Department of Fleet Management has undertaken this process as a part of its Phase II implementation of the Fleetwave system. The industry standard target cost and labor categories will be targeted by job type and original equipment manufacturers standards.

**Implementation Date:**

December 31, 2013

<ul style="list-style-type: none"> <li>• The lack of a standard labor hour for each repair could prevent benchmarking of contractor performance versus available industry standards; and,</li> <li>• The lack of a standard labor hour for each repair decreases the accuracy of labor forecasts and projections.</li> </ul>		
<p><b>IV. Fuel Reporting</b></p>		
<p><b>Observation:</b> The Fleetwave fleet management system includes fuel analysis reporting that allows Fleet Management to monitor fuel consumption for each vehicle. The data for the fuel analysis report is provided automatically from the Fuel Ring installed on each Fleet vehicle that transmits fuel and odometer information each time that the vehicle refuels.</p> <p>There are isolated instances in which the Fuel Ring does not function properly and the vehicle cannot be refueled without a “manual override” that requires the approval of Fleet Management and relies on the manual entry of odometer and fuel information into FleetWave. If either of these fields are not properly recorded, the accuracy of the fuel analysis report could be negatively impacted, compromising the</p>	<p><b>Recommendation:</b> Internal Audit recommends that Fleetwave fuel records are corrected timely for each instance in which there’s a manual override to assure that the vehicle odometer readings are accurate and that the fuel analysis report is reliable.</p>	<p><b>Management’s Action Plan:</b> The District of Columbia – DPW -Fleet Management Administration is moving to the EJ Ward 4 fuel management system upgrade. As a part of this upgrade the system will move to a WiFi connection to the OBD fuel ring technology.</p> <p>Our plan is to utilize the upgraded fuel ring to implement WiFi for the gas cans and the vehicles to automate the reading of the odometer and measure the fuel usage based on tank size, type of unit, frequency of usage and departmental needs. This will negate the use of overrides.</p> <p><b>Implementation Date:</b> December 31, 2013</p>

<p>reliability of the report.</p> <p>To assure the integrity of the fuel analysis report, the erroneous information should be corrected the next time that the vehicle is brought into the facility for planned or unplanned maintenance. The Fuel Ring should automatically record the correct information into Fleetwave and the reporting for that vehicle should be accurate going forward.</p> <p>Internal Audit noted that Fleetwave’s Fuel Analysis report included 31 vehicles that appeared to contain inaccurate information – vehicles with reported miles per gallon (“mpg”) in excess of 50mpg, including 19 vehicles in excess of 100mpg.</p> <p>Per discussion with management, this is caused when the Fuel Ring prevents the driver from obtaining fuel and they have to call for a “manual override”. This manual override compromises the consistency of the vehicle odometer information obtained through the Fuel Ring and reported to Fleetwave. Once this odometer discrepancy occurs, the vehicle’s mileage record is not corrected to reflect the accurate vehicle mileage. This prohibits the use of the Fuel Analysis reporting for those vehicles for which manual overrides have been given.</p>		
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<p><b>Risk:</b> Fuel analysis reporting cannot be relied upon as a control to monitor fuel consumption if the source data is not accurate and reliable.</p>		
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