



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Audit Committee

Thursday, July 28, 2016

9:30 a.m.

- 1. **Call to Order**.....Nicholas A. Majett, Chairperson
- 2. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
 - A. **FY 2016 Internal Audit Plan Status Update**
 - B. **Status Update on Audit Findings**
 - C. **Training, Licensing and Certification Internal Audit**
 - D. **Contract Monitoring and Compliance Internal Audit Part II**
 - E. **ROCIP Savings Analysis**
 - F. **Hotline Update**
- 3. **Executive Session*** Nicholas A. Majett, Chairperson
- 4. **Adjournment**..... Nicholas A. Majett, Chairperson

* The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(1); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10);proprietary matters under D.C. Official Code § 2-575(b)(11); decision in an adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14), and other matters provided in the Act.

DC WATER

Audit Committee Meeting



July 28, 2016

Agenda

- FY 2016 Internal Audit Plan Status Update and Modifications
- Status Update on Audit Findings
- Training, Licensing and Certification Audit
- Contract Monitoring & Compliance Audit Part II
- ROCIP Savings Analysis
- Hotline Update
- Executive Session

FY 2016 Internal Audit Plan Status Update

Audit	Status
Retail Rates Implementation (Post)	Progress Report Complete
Overtime Audit and Analysis	Report Complete
Contract Monitoring & Compliance Part I	Report Complete
ROCIP	Report Complete
Training, Licensing & Certification	Report Complete
Contract Monitoring & Compliance Part II	Report Complete
Enterprise Project Governance Maturity Assessment	Report Complete
Engineering – Contractor Management	Fieldwork In-Process
Annual Budgeting & Planning	Fieldwork In-Process
Business Development Plan	Fieldwork In-Process
Blue Horizons 2020 Strategic Plan	Planning In-Process
Customer Billing & Collections	Planning In-Process
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

FY 2016 Internal Audit Plan Modifications

Audit	Modification
Business Development Plan	Expanded the scope from a “Rapid Assessment” to a full scope Internal Audit
Maintenance Services – Work Order Management	Delayed start due to expanded scope of other audits (Training, Licensing & Certification and Contract Compliance & Monitoring) and increase in hotline hours. Some work order management issues have been addressed through follow-up
Customer Data Collection and CIS	Replaced this audit with an HCM / Employees Privacy Review due to the timing of the CIS implementation

Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions				
		Total	Open	Closed	Pending Testing	Action Deferred*
Prior to FY 2015 Audit Findings						
Organizational Policies & Procedures	02/23/2010	1	0	0	0	1
Safety Program Training & Compliance	10/07/2010	1	0	0	0	1
Human Capital Management	11/29/2011	1	0	0	0	1
Maintenance Services	04/18/2012	2	2	0	0	0
IT Helpdesk & Computer Operations	10/05/2012	1	0	1	0	0
Fleet Management	04/17/2013	1	0	0	0	1
Water Services - Distribution Maintenance Branch	10/28/2013	1	1	0	0	0
OSHA	02/18/2014	1	1	0	0	0
Disposal of Assets	02/18/2014	1	1	0	0	0
DSS - Construction & Repair	05/12/2014	3	0	3	0	0
Warehouse Operations	09/15/2014	2	1	1	0	0
GIS Mapping	06/23/2014	2	2	0	0	0
	Total	17	8	5	0	4
FY 2015 Audit Findings						
Intellectual Property Program Assessment	01/08/2015	2	1	0	0	1
Procurement – Pre-Award, Selection, and Award	05/18/2015	2	0	2	0	0
	Total	4	1	2	0	1

*All action deferred items are related to union approval of policies.

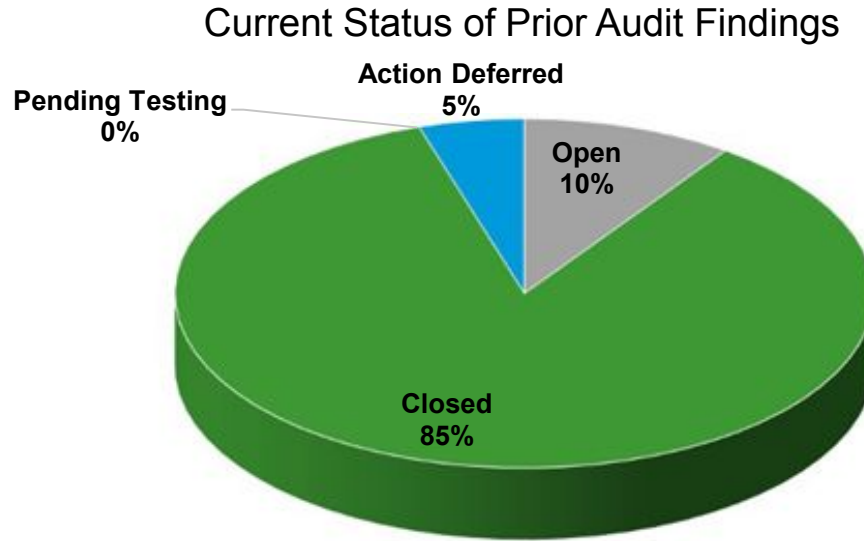
Update on Prior Audit Findings, cont.

Status by Business Area

PRIOR TO FY 2015 FINDINGS	DETS	Blue Plains	Customer Care & Operations	Office of the General Counsel	IT	Support Services	Finance	Office of the General Manager
Closed Since Last AC Meeting	0	0	3	0	1	1	0	0
Open Management Action Plans	2	2	1	0	0	3	0	0
Pending Testing	0	0	0	0	0	0	0	0
Action Deferred	0	0	0	0	0	0	0	4
17 Total	2	2	4	0	1	4	0	4

FY 2015 FINDINGS	Support Services	Office of the General Manager
Closed Since Last AC Meeting	2	0
Open Management Action Plans	0	1
Pending Testing	0	0
Action Deferred	0	1
4 Total	2	2

Update on Prior Audit Findings, cont.



	Prior to FY 2015 - Audit Committee Meeting Date						
	03/26/15	04/23/15	06/23/15	10/22/15	02/25/16	04/28/16	07/28/16
Open	44	34	37	29	15	8	8
Closed	19	12	3	4	16	11	5
Pending Testing	14	12	6	10	9	4	0
Action Deferred	5	5	5	5	4	5	4

Training, Licensing and Certification Audit

The scope of the Training, Licensing and Certification Audit included:

- Evaluate how training is managed at the Department-level and Authority-level, including the monitoring and documentation of training requirements and completion;
- Determine if the licensing and certification requirements are identified and monitored to ensure compliance;
- Evaluate how the Authority utilizes Cornerstone and other systems of record to identify, authorize and track the required training, licensing and certification, and monitor employee completion;
- Evaluate consistency in training, licensing and certification controls across the Authority;
- Evaluate compliance with union agreements;
- Review how training budgets are established and monitored, and
- Evaluate the training assistance and reimbursement process and determine alignment with the Educational Assistance and Reimbursement Policy.

The revised FY 2014 and approved FY 2015 training budgets are summarized in the table below. The Authority's total training budget increased by 3.9% from FY 2014 to FY 2015.

Training Type	FY 2014		FY 2015	
	Revised Budget	% of Total Budget	Approved Budget	% of Total Budget
In-House	\$554,000	36%	\$519,000	33%
Contractual Training – by Department	881,000	57%	976,000	61%
Safety Training	100,000	7%	100,000	6%
Total	\$1,535,000	100%	\$1,595,000	100%

Training, Licensing and Certification Audit, cont.

Observations	Risk Rating
1. Identification and Monitoring of Required Certifications and Licenses	High
<p>Management Action Plan: A complete list of licenses and certifications has been compiled and is being validated. A monitoring and tracking system will be set up in Cornerstone.</p>	
2. Identification and Monitoring of Training Requirements	High
<p>Management Action Plan: Efforts have begun to identify training by position. L&D will identify and input required technical training within business units and will work on Cornerstone training for coordinators.</p>	
3. Training, Tuition, and Conference Approval and Payment	High
<p>Management Action Plan: Directors and Managers should have final approval of training. DC Water has a process for approval for employees to attend a conference. HCM will develop a definition for when a conference qualifies as a training event and a process for capturing in Cornerstone. All conferences defined as training events should be approved and tracked by the local business unit within Cornerstone.</p>	
4. Monitoring External Training Completion	Moderate
<p>Management Action Plan: An SOP will be developed for how to submit and approve training requests. This will include requirements for employees to provide evidence of attendance.</p>	

Training, Licensing and Certification Audit, cont.

Observations	Risk Rating
5. Tuition Assistance and Reimbursement Approval and Payment	Moderate
<p>Management Action Plan: L&D will evaluate the current “Tuition Assistance and Reimbursement Policy” to determine if 30 days is sufficient time for submission and approval. The current policy will be reinforced with reminder communications.</p>	
6. Approval of Internal Training in Cornerstone	Low
<p>Management Action Plan: L&D and HCM Systems have agreed to no longer allow proxy enrollment and this functionality will no longer be available for training coordinators. All internal training requests via Cornerstone LMS must and will be approved by a supervisor or manager.</p>	
7. Administrative Access to Cornerstone	Low
<p>Management Action Plan: L&D will re-identify all Training Coordinators across the Authority. Once these individuals are identified, L&D and HCM Systems will conduct a comprehensive training on how to utilize Cornerstone LMS. Comprehensive SOPs will also be developed.</p>	

We are satisfied with management’s responses and planned actions, and will perform follow-up on the observations in the course of routine follow-up procedures.

Contract Monitoring & Compliance Audit Part II

The scope of the Contract Monitoring & Compliance Audit included:

- Determine Contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in-place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval process, and
- Identify process improvement opportunities and recommend internal control enhancements to improve the Contractor management process.

Internal Audit selected a sample of four contracts from various departments to evaluate contract monitoring and compliance. Part I of the Contract Monitoring & Compliance Audit was presented during the April Audit Committee meeting. Part II of this audit contains the remaining three contracts. The Authority enters into many contracts each year, as illustrated by the contractual services expenditures in the following table:

Contractual Services Expenditures ¹	
FY 2013 Actual	\$68,430,000
FY 2014 Actual	\$68,172,000
FY 2015 Actual	\$66,241,000
FY 2016 Approved	\$79,244,000

¹Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget; FY 2015 Consolidated Annual Financial Report

Contract Monitoring & Compliance Audit Part II, cont.

Authority-wide Observations	Risk Rating
1. COR/COTR Training	High
<p>Management Action Plan: Department of Procurement will implement several steps to COR/COTR training and compliance monitoring:</p> <p><u>Phase I:</u> Procurement jointly with each COR/COTR for all active contracts will review and develop a contract compliance monitoring checklist for each of 160 active Goods and Services contracts. The items in the checklist will consist of key deliverables, milestones, key vendor performance, and key contractual obligations that should be actively monitored. Then COR/COTR will be responsible for monitoring the items in the checklist and submit a report to Procurement at the beginning of each quarter.</p> <p><u>Phase II:</u> Procurement along with the Office of Chief Operating Officer (OCCO), Learning and Development (L&D), and Information Technologies (IT) will implement Vendor Performance Management Training program for COR/COTR.</p> <p><u>Phase III:</u> Procurement will source and implement a Vendor Performance Management application (an added module to the eSourcing application that Procurement will source and implement in early FY2017) to automate the contract compliance and vendor performance monitoring and reporting.</p>	

Contract Monitoring & Compliance Audit Part II, cont.

Contract # 14-PR-DFS-08: Department of Facilities, Janitorial Services

M&N Contractors, LLC (M&N) provides janitorial services for office spaces, lockers and lunch rooms, the fleet building, trailers, the boat house, welding shops, pumping stations, and blower buildings at DC Water’s Blue Plains Wastewater Treatment Plant, O Street Pumping Station, and Bryant Street Pumping Station. During the first two years of the contract, DC Water added DC Water’s Heat Exchange Building, DETS Trailer, the Central Maintenance Facility, and BP1 Warehouse to the scope of the contract.

Contract Overview	
Contractor	M&N Contractors, LLC
Award Date	10/24/2014
Original Contract Period	October 21, 2014 -- October 20, 2015
Contract Award	\$673,640.52
Type of Contract	Firm fixed price, four (4) one (1) year option periods
COR	Director, Department of Facilities
COTR	Manager, Department of Facilities

DC Water is currently exercising its option to extend the contract in Option Year No. 1.

Contract Monitoring & Compliance Audit Part II, cont.

M&N Contractors, LLC Contract Observations	Risk Rating
1. Employee Clearances and Background Checks	High
<p>Management Action Plan: The COTR of M&N contract will confirm with the vendor that this contract requirement is being performed by the vendor. Procurement will also issue a memo to all COTRs authority wide to monitor key contractual requirements with vendors.</p>	
2. Personally Identifiable Information	Moderate
<p>Management Action Plan: Per Facility's request, the vendor has stopped submitting reports. Procurement will issue a contract amendment to remove this requirement from the contract.</p>	
3. Documentation and Monitoring of Janitorial Services	Moderate
<p>Management Action Plan: Facilities will require M&N Contractors to maintain logs that monitor and document all scheduled services provided within the contract. These logs will include monthly high cleaning, quarterly floor maintenance, and semi-annual cafeteria/kitchenette cleaning of COF.</p>	
4. COR/COTR Designation	Low
<p>Management Action Plan: Procurement will implement a new process of verifying and updating COR/COTR list semiannually (June and January) Authority wide. On 6/15/16, Procurement has requested and received COR/COTR verification and updates from departments and will update the COR/COTR where needed by 7/5/16.</p>	

Contract Monitoring & Compliance Audit Part II, cont.

Contract # WAS-12-033-AA-RE: Department of Fleet Management, Fleet Management Services

G4S Integrated Fleet Services, LLC (G4S) was awarded the contract to perform fleet management, maintenance, repair, and operational services for DC Water. After the award date of this contract, G4S was acquired by the private equity firm Alvarez & Marsal Capital Partners in November 2014 and changed their name from G4S Integrated Fleet Services, LLC to Centerra Group, LLC (Centerra).

Contract Overview	
Contractor	Centerra Group, LLC
Award Date	10/10/2012
Contract Period	11/1/2012 – 10/31/2013
Contract Award	\$1,368,819. 54
Type of Contract	Firm fixed labor rates, and up to four (4) additional one-year option periods
COR / COTR	Director, Department of Facilities

The scope of this contract includes the specialized functional areas, the maintenance and repair operations, support areas and the typical fleet requirements of DC Water to be supported by the Contractor. DC Water is currently exercising its option to extend the contract in Option Year No. 3.

Contract Monitoring & Compliance Audit Part II, cont.

Centerra Integrated Services Contract Observations	Risk Rating
1. Invoice and Payments	High
<p>Management Action Plan: The Department of Fleet Management has implemented a plan in coordination of Finance, A/P, Controller, Support Services AGM and Centerra that states that all payments sent to Finance must be approved by Fleet before payment is rendered, must be accurate and submitted on-time.</p>	
2. Outdated Contract Requirements	High
<p>Management Action Plan: Centerra is in its last option year of the contract in FY 2017. The contract for FY 2017 will be modified with Procurement, as it is anticipated to go to before the Board for approval in September.</p>	
3. Timeliness of Preventative Maintenance	Moderate
<p>Management Action Plan: Fleet Management is also conducting a business process re-review for revamping PM scheduled times based on equipment type and OEM recommendations.</p>	

Contract Monitoring & Compliance Audit Part II, cont.

Contract # WAS-12-007-AA-SH: Biosolids Management

Nutri-Blend, Inc. (Nutri-Blend) provides labor, equipment and supplies for hauling and utilization of biosolids to the Authority. Nutri-Blend also provides professional services biosolids management resources or personnel required by DC Water to meet its operating and project needs.

Contract Overview	
Contractor	Nutri-Blend, Inc.
Award Date	4/27/2012
Contract Period	May 1, 2012 – April 30, 2013
Contract Award	\$11,457,422.50
Type of Contract	Firm fixed-price, with fees for each line of business coverage for the base year and four (4) optional engagement years
Contract Admin/ COTR	Director, Resource Recovery

DC Water is currently exercising its option to extend the contract and is in the Option Year No. 3.

Contract Monitoring & Compliance Audit Part II, cont.

Nutri-Blend, Inc. Contract Observations	Risk Rating
1. Contract Monitoring	Moderate
<p>Management Action Plan: DC Water will request a monthly report of any incidents or obtain evidence of screening prior to employing a driver to haul biosolids on behalf of DC Water. This will be incorporated into the Monthly Biosolids Coordination meeting with Nutri-Blend.</p>	
2. Documentation of Permit Requirements	Moderate
<p>Management Action Plan: The COR and COTR will examine the level of reporting required in the contract. There are rarely permit site issues as reported in the MES inspectors report during the Monthly Biosolids Coordination Meeting. However, DC Water will validate that any discussions are documented to ensure all permits are up to date.</p>	
3. Management Reporting Requirements	Low
<p>Management Action Plan: There is no need for this provision since MES inspects the storage facilities often, more than quarterly. Staff will revise this language for the next contract to eliminate report, but require access by MES.</p>	

We are satisfied with management’s responses and planned actions, and will perform follow-up on the observations in the course of routine follow-up procedures.

ROCIP Savings Analysis

The Finance and Budget Committee requested a review of the current reporting and savings calculations associated with the ROCIP program, as prepared by the Aon Group (“Aon”), a contracted third party administrator for the program. Our procedures were developed and based upon the program and savings summaries provided by Aon and also incorporated a review of respective general ledger accounts used to transact the expenditures of the program. In addition to specific project and contractor supporting records, we obtained actuarial reports issued by Aon to support our understanding of the program, as well as general ledger support and other documentation.

Our scope included the following:

- Evaluate consistency in ROCIP procedures and controls;
- Determine how ROCIP results are reported to stakeholders;
- Evaluate how ROCIP is managed at the department-level;
- Evaluate how funding estimates are planned and recorded;
- Evaluate how Aon is utilized to manage ROCIP reporting;
- Test Aon’s AonWrap application input on a sample basis; and
- Test the safety inspection process on a sample basis.

ROCIP Savings Analysis

February 2016	AON Total	RSM Total
Expected Contractor Insurance Costs	\$ 69,621,033	\$ 69,621,033
Expected Losses	\$ (17,726,004)	\$ (17,726,004)
Expected Fixed Costs	\$ (29,523,561)	\$ (29,523,561)
Total Estimated Program Costs	\$ (47,249,565)	\$ (47,249,565)
Formula errors (*)	\$ (1,507,678)	\$ -
Original Project Savings	\$ 20,863,790	\$ 22,371,468
Earned Contractor Insurance Costs	\$ 70,422,943	\$ 70,422,943
Actual Losses	\$ (10,780,135)	\$ (10,780,135)
Actual Fixed Costs	\$ (31,916,086)	\$ (31,916,086)
Estimated Additional Fee & Premiums	\$ (4,500,028)	\$ (4,500,028)
Total Actual Program Costs	\$ (47,196,249)	\$ (47,196,249)
Formula errors (*)	\$ (545,825)	\$ -
Adjusted Project Savings	\$ 22,680,869	\$ 23,226,694

In general, we were able to validate that the estimated project savings reported are reasonably stated. Below is a comparison of the February 2016 reported amounts to RSM's validated / recalculated amounts. Our validation procedures were based on a sample of contracts, and there may be additional errors within the supporting data that could further impact the project savings.

As a result of our procedure, we have provided observations and recommendations to assist management with developing procedures to further enhance controls and provide for additional monitoring activities.

ROCIP Savings Analysis, cont.

Observations	Risk Rating
1. Liability Trend and Adjustment	High
<p>Management Action Plan: ROCIP funding includes anticipated claims costs. Tracking adjusted contract expenses early will better assist us with assessing how it impacts budgets. Management will review DETS construction change orders with contract value increases at a minimum, quarterly, to ensure proper adjustment to the liability of the program.</p>	
2. General Ledger Reconciliation	Moderate
<p>Management Action Plan: Management will develop appropriate expense types in order for the General ledger accounts to be created to record all relevant expense types and facilitate periodic reconciliation on a quarterly basis. In addition, PO's will be established to improve the payment tracking processes.</p>	
3. Data Entry Errors and Missing Supporting Documentation	Moderate
<p>Management Action Plan: Annually (approximately 6 post policy year end), Risk Management will request formal Contractor payroll audits from the Insurance Carrier. The Authority's ROCIP 4 Broker/Administrator has committed to carrying out this task going forward. We will also develop appropriate methods for verifying & spot checking data.</p>	
4. SRS Database for Safety Inspections	Moderate
<p>Management Action Plan: The current database provider contract will expire in 2017 and there is a Steering Committee currently furthering our goal of exploring alternative systems. When the SRS system is inaccessible or off line for any reason a manual process is followed.</p>	

Hotline Update

Last audit committee meeting we reported that 10 cases were open. Since the last audit committee meeting:

Hotline Calls	
Calls Received	8
Fraud Claims	4
Other	4
Cases Closed	6
Cases Currently Open	12

We held our quarterly meeting with the Office of General Counsel, Labor Relations and Security to discuss on-going investigations.

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 		DC Water & Sewer Authority Proposed Internal Audit Plan WORKING DRAFT - as of July 28, 2016					
Legend							
X	Required Internal Audit Activity						
X	Proposed Future Audit						
X	Audit In Progress						
X	Audit Issued						
X	Follow Up In Progress						
X	Audit Closed						
Audit Universe		Last Audit	2013	2014	2015	Proposed 2016	Preliminary 2017
Overall Internal Audit Management							
Risk Assessment for Audit Plan Development					X		
Update Risk Assessment and Audit Plan Development						X	X
Quality Control - Board Meetings, Status Reporting					X	X	X
Hotline Management					X	X	X
Follow-up and Cycle Audits							
Open Action Items - Remediation and Follow-up Procedures					X	X	X
Blue Horizons - Strategic Plan Monitoring						X	X
Contract Monitoring & Compliance Review Part I		2014		X		X	
Contract Monitoring & Compliance Review Part II						X	
Audits by Department and/or Division							
Office of the General Manager							
Intellectual Property		2015			X		
Organization Policies & Procedures		2010					
Blue Plains (Wastewater Treatment)							
Maintenance Services							
Maintenance Services - Operations		2012					
Maintenance Services - Work Order Management						X	
Wastewater Treatment - Operations							
Chemical Purchasing		2013	X				
Process Control System (PCS)		2013	X		X		
Customer Services							
Customer Services							
Customer Billing & Collections		2011				X	
Retail Rates Pre- and Post-Implementation Monitoring		2015			X	X	
Emergency Management							
Emergency Management - Mitigation & Response		2014		X			
Emergency Management - Recovery		2014		X			
Sewer Services							
Sewer Services - Construction & Repair		2014		X			
Sewer Services - Emergency Maintenance		2013	X				
Utility Services - Drinking Water							
Pumping & Storage Water Leakage Review		2011					
Utility Services - Water Distribution		2013	X				
Utility Services - Water Maintenance		2013	X				
Support Services							
Facilities							
Facilities - Work Order Management							X
Fleet							
Fleet - Operations		2013	X				
Fleet - Intergovernmental Support (Ambulance Services)							X
Human Capital Management							
Employee Benefit Plans		2014		X			
Employee Recruitment and On-Boarding							X
Human Capital Management - Operations		2011					
Training, Certification and Licensing						X	
Occupational Safety and Health							
OSHA		2014		X			
Safety Programs, Training & Compliance		2010					
Procurement							
Materials Management - Disposal of Assets		2014		X			
Materials Management - Operations and Inventory		2014		X			X
Procurement Operations		2010					
Business Development Plan						X	
Procurement Pre-Award Selection Process		2015			X		
Purchasing Cards (P-Card Program)		2013	X				X
Department of Engineering & Technical Services							
Long-Term Control Plan							
Clean Rivers Project Management		2014		X			
Clean Rivers - Vendor / Contractor Monitoring & Project Administration					X		
Engineering and Technical Services							
Engineering - Vendor / Contractor Monitoring & Project Administration		2015			X		
Engineering - Construction Management						X	
Engineering - Design and Program Management & Permitting		2013	X				X
Finance							
Financial Accounting and Reporting							
Payroll - General Operations		2012					
Timekeeping		2015			X		
Overtime						X	
Budget, Planning and Analysis							
Annual Budgeting & Planning						X	
Treasury, Debt and Risk Management							
Cash Receipts		2013	X				
Investments and Cash Management		2013	X				
Rolling Owner Controlled Insurance Program (ROCIIP)						X	
Information Technology							
Governance: Planning and Organization:							
Information Technology - Remediation and Follow-Up					X	X	X
Vendor Risk Management / Compliance and Monitoring (Shadow IT)		2015			X		
Information Security Policy Review		2015			X		
Incident Management & Response Review						X	X
Human Resource/Employee Privacy Review						X	X
Enterprise SDLC Review		2013	X				
Enterprise Project Governance Maturity Assessment		2012				X	
Crisis Management / Business Continuity Program		2014		X			X
Technical & Operations: Information Security and Application Support:							
Operational Applications ITGC - SCADA		2015			X		
Network Penetration Testing (Corp/SCADA/Wifi)		2015	X		X		
Customer Data Collection and CIS (Integrated)							
DB/OS Privileged User		2010					X
Software and Asset Management		2014	X		X		
Help Desk Operations		2012					
GIS System		2014		X			
Internal Network & Telecommunications		2013	X				
General Counsel							
Legal Operations - Case Management		2014		X			
Regulatory Compliance Monitoring		2013	X				
Contingency and Requested Audits and Projects							



Internal Audit Report Training, Licensing and Certification Audit

April 2016



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Training, Licensing and Certification
Internal Audit Report
Issued: April 2016



TRANSMITTAL LETTER

April 2016

The Audit Committee of DC Water
 5000 Overlook Avenue, SW
 Washington, DC 20032

Pursuant to the approved 2016 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of Training, Licensing and Certification. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on July 28th, 2016. Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations and opportunities related to our internal audit of the Training, Licensing and Certification process.
Background	This provides an overview of the Training, Licensing and Certification process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Detailed Observations	This section gives a description of the observations noted during our work and recommended actions as well as management’s response, responsible party, and estimated completion date.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with this review.

Respectfully Submitted,

Internal Auditors



Training, Licensing and Certification
 Internal Audit Report
 Issued: April 2016

EXECUTIVE SUMMARY

Background

Training, licensing and certification requirements at DC Water are driven by regulations and identified by the Department of Human Capital Management's (HCM) Learning and Development (L&D) branch in conjunction with each Department. DC Water's Learning Management System, Cornerstone, is used exclusively for internal training requests and approvals. External training is requested by individuals, separate of Cornerstone, requiring various levels of approval from the Department and L&D.

Some training requirements are determined by union agreements, which the Authority must satisfy. The agreements address safety, training, licensing, certification and upward mobility opportunities.

License and Certification information is maintained in various systems and formats. HCM utilizes both the human capital management system, Ceridian Latitude, and a spreadsheet to monitor employee's licenses and certifications. Driver's licenses and Commercial driver's licenses (CDLs) are monitored through FleetWave, the fleet management system.

In addition to internal and external training opportunities, DC Water offers a Tuition Assistance and Reimbursement program for employees. DC Water employees must apply and be approved prior to taking the course or receiving funds.

Objective and Scope

Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated February 10, 2016, and were limited to those procedures described therein.

Our scope included the following:

- Evaluate how training is managed at the Department-level and Authority-level, including the monitoring and documentation of training requirements and completion;
 - Determine compliance with required safety training;
 - Annual training requirements (cyber-security, harassment, etc.);
- Determine if the licensing and certification requirements are identified and monitored to ensure compliance;
- Evaluate how the Authority utilizes Cornerstone and other systems of record to identify, authorize and track the required training, licensing and certification, and monitor employee completion;
- Evaluate consistency in training, licensing and certification controls across the Authority;
- Evaluate compliance with union agreements;
- Review how training budgets are established and monitored, and
- Evaluate the training assistance and reimbursement process and determine alignment with the Educational Assistance and Reimbursement Policy.

Overall Summary / Highlights

The observations identified during our assessment are summarized on the next few pages. We have assigned relative risk or value factors to each observation. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

Fieldwork was performed January 2016 through March 2016

Summary of Observation Ratings *(See Appendix A for definitions)*

	Number of Observations by Risk Rating		
	High	Moderate	Low
Training, Licensing and Certification Audit	3	2	2

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



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

Following is a summary of all observations noted in the areas reviewed (see “Detailed Observations” section for additional information). Definitions of the rating scales are included in the Appendices.

Summary of Observations	
Observations	Rating
<p>1. IDENTIFICATION OF REQUIRED CERTIFICATIONS AND LICENSES AND MONITORING FOR COMPLETION</p> <p>The process to track required certifications and licenses for DC Water employees is very manual. As a result, the listing is currently incomplete or outdated.</p>	High
<p>2. IDENTIFICATION AND MONITORING OF TRAINING REQUIREMENTS</p> <p>Identification, monitoring and enforcing the completion of training requirements varies Authority-wide. Inconsistencies exist in documentation of training requirements because there is no standard process for gathering this information from each Department. Efforts have been made to utilize Cornerstone to track trainings that are occurring at DC Water; however, progress has been limited based on the level of effort and number of resources required to create the curriculums.</p>	High
<p>3. TRAINING, TUITION, AND CONFERENCE APPROVAL AND PAYMENT</p> <p>In accordance with the established policies and procedures, training is not always being approved by L&D and the Department head prior to payment and registration.</p>	High
<p>4. MONITORING EXTERNAL TRAINING COMPLETION</p> <p>L&D maintains a spreadsheet that contains requested and approved external training courses being attended by DC Water employees; however, HCM does not have a process in place to verify that the employee attended the training.</p>	Moderate



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions (continued)

Observations	Rating
<p>5. TUITION ASSISTANCE AND REIMBURSEMENT APPROVAL AND PAYMENT</p> <p>Tuition assistance and reimbursement applications were being approved without having obtained all of the proper signatures and some applications were not maintained by L&D.</p>	<p>Moderate</p>
<p>6. APPROVAL OF INTERNAL TRAINING IN CORNERSTONE</p> <p>Employees can currently enroll in an internal training course by submitting a request in Cornerstone, getting assigned a course by the employee's Manager or enrolled via proxy by a Training Coordinator or L&D with administrative rights. If an employee is enrolled by via proxy by the Training Coordinator or L&D, the approval process is circumvented in Cornerstone. In such instances, Supervisors or Managers may not be aware of what trainings their employees are taking. Typically, Training Coordinators are administrative personnel, but this varies from Department to Department.</p>	<p>Low</p>
<p>7. ADMINISTRATIVE ACCESS TO CORNERSTONE</p> <p>L&D held a training session for Training Coordinators and individuals with administrative access in Cornerstone. Not all administrative users attended the training, thought they still have administrative rights in Cornerstone. Currently, administrative access is granted to those designated as Training Coordinators within the Department. This is typically a role outside of the individual's job description.</p> <p>Additionally, comprehensive Standard Operating Procedures (SOPs) for how to utilize Cornerstone do not exist. This has led to instances of duplicate events and sessions in Cornerstone. HCM Systems and L&D have begun the process of documenting desktop procedures.</p>	<p>Low</p>



BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

Training, licensing and certification requirements for employees at DC Water and Sewer Authority (“DC Water” or the “Authority”) are driven by laws, regulations, and by job description. Additional training requirements are identified by the Human Capital Management’s (HCM) Learning and Development (L&D) branch in conjunction with each Department. DC Water’s Learning Management System, Cornerstone, is used exclusively for internal training requests and approvals. All DC Water employees have profiles in Cornerstone and have the ability to request internal training. External training is requested by individuals, outside of Cornerstone, requiring various levels of approval from the Department and L&D, based on the cost of the training.

Some training requirements are determined by union agreements, which the Authority must satisfy. The Authority is currently involved with five collective bargaining agreements for Union employees. The agreements address safety, training, licensing, certification and upward mobility opportunities. These union agreements are managed by the Labor Relations team of the Department of Human Capital Management (HCM). They are as follows:

- American Federation of Government Employees, Local 872
- American Federation of Government Employees, Local 2553
- American Federation of Government Employees, Local 631
- American Federation of State, County, and Municipal Employees, Local 2091
- National Association of Government Employees

A more detailed breakdown of the training-related requirements from the Union Agreements can be found in Appendix C.

License and Certification information is maintained in various systems and formats. HCM utilizes both the human capital management system, Ceridian Latitude, and a spreadsheet to monitor employee’s licenses and certifications. Driver’s licenses and Commercial driver’s licenses (CDLs) are monitored through FleetWave, the fleet management system.

Training and Development Policy and Process

The purpose of DC Water’s Training and Development Policy is to empower employees to become more productive and innovative by offering training programs to enhance performance and improve the quality of services being provided. HCM is responsible for the overall administration of this policy. L&D is responsible for assessing employee training needs through formal and informal processes and planning effective programs to fulfill those needs. Some certifications and licenses are required by law, and the remainder of required courses and licenses are identified on a need-driven basis. All internal training requests and approvals are maintained in Cornerstone. External training requests and approvals are handled by individual Departments and must be approved by the employee’s Supervisor, Manager, and/or Director as well as the L&D Manager. The external training approval and external training completion processes are documented in the flowcharts in Appendix B.

Training budgets are established during the annual budgeting process for each Department based on historical expenditures and expected future needs. Although L&D is not directly involved in creating each Department’s training budget, budget codes are included on the “Outside Training Request Form” for Accounts Payable to charge the expense to the appropriate general ledger code.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Cornerstone

Cornerstone is the Learning Management System that L&D uses to document training completion. Although L&D is involved in both the internal and external approval processes, Cornerstone is used exclusively for internal training approval and requests; however, there are multiple methods to sign up for internal training. Employee profiles are created for every employee at DC Water and new users are added weekly, which includes updates to existing users' profiles. In order to create, update, and/or delete data in Cornerstone, a user must have administrative access. There are currently 13 administrative users in the system, which are approved by HCM Systems. There are different levels of administrative user access (i.e. there is an administrative profile for the L&D, for different department users, and direct supervisors and managers).

New user set-up and internal training approval that is initiated by the employee, initiated by L&D or a Training Coordinator, or Assigned by a Manager are all processes that use Cornerstone, and have been mapped out in the flowcharts in Appendix B.

License and Certification

DC Water provides the opportunity to attain all required certifications. HCM has the responsibility to identify the required certifications by job description. HCM utilizes both the human capital management system, Ceridian Latitude, and a spreadsheet to monitor employee's licenses and certifications. Fleet Management utilizes FleetWave, the fleet management system, to monitor Driver's licenses and Commercial driver's licenses (CDLs).

Tuition Assistance and Reimbursement

The purpose of DC Water's Education Assistance and Reimbursement Policy is to provide financial assistance to support the endeavors in acquiring additional knowledge and skill in order for employees to continue to provide high quality service. Tuition Assistance qualifies as payments made to accredited institutions to cover tuition costs prior to the completion of the course. Tuition Reimbursements are made by the Authority to employees who have already paid for and satisfactorily completed a course offered by an accredited educational institution. To participate in both of these programs, an employee must apply with an "Education Assistance and Reimbursement Program Application". The application is first approved by their Department head and then by the L&D Manager. Once accepted into the program, the employee must complete a "Course Assistance or Reimbursement Form" which must be approved by the L&D Manager at least 30 days prior to the start of the course. The employee is responsible for completing the course and meeting the grade requirements under the policy. L&D will track the employee's progress with a spreadsheet to monitor when the course is completed, and a transcript must be provided within 45 days of completion of the course.

The tuition assistance and reimbursement approval and payment processes for external training are documented in the flowcharts in Appendix B.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Statistics and Financial Information

The revised FY 2014 and approved FY 2015 training budgets are summarized in the table below. The Authority's total training budget increased by 3.9% from FY 2014 to FY 2015.

Training Type	FY 2014		FY 2015	
	Revised Budget*	% of Total Budget	Approved Budget*	% of Total Budget
In-House	\$554,000	36%	\$519,000	33%
Contractual Training – by Department	881,000	57%	976,000	61%
Safety Training	100,000	7%	100,000	6%
Total	\$1,535,000	100%	\$1,595,000	100%

Source: FY 2014 Revised and FY 2015 Approved Operating Budgets
 *Rounded to the nearest thousand



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BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Statistics and Financial Information (continued)

The Authority consistently spends less than the amount budgeted across the majority of departments on employee training. Conferences, which are budgeted separately, may have a training component, which is not captured below. The revised and actual FY 2014 and FY 2015 training budgets by department are as follows:

Department Training Budgets	FY 2014			FY 2015		
	Revised Budget	Actual	Variance	Revised Budget**	Actual	Variance
Finance and Budget	\$30,000	\$19,479	\$(10,521)	\$30,000	\$23,249	\$(6,751)
Risk Management	1,000	80	(920)	1,000	-	(920)
Engineering and Technical Services	50,000	25,731	(24,269)	50,000	32,050	(17,950)
Clean Rivers	7,800	524	(7,276)	12,300	9,743	(2,558)
Permit Operations	-	1,830	1,830	-	1,009	1,009
Wastewater Treatment Operations	206,800	9,022	(197,778)	250,000	9,014	(240,986)
WWT Process Engineering	60,000	39,656	(20,344)	128,000	(10,538)	(138,538)
Maintenance Services	81,000	66,442	(14,558)	156,000	47,690	(108,310)
Customer Service	20,000	20,330	330	25,000	3,037	(21,963)
Water Services	120,000	8,625	(111,375)	120,000	18,096	(101,904)
Sewer Services	44,000	7,885	(36,115)	24,000	26,784	2,784
Distribution and Conveyance Systems	70,700	94,748	24,048	70,100	65,206	(4,894)
Procurement	30,000	9,747	(20,253)	30,000	4,820	(25,180)
AGM Support Services	-	-	-	-	-	-
Human Capital Management	553,500	352,685	(200,815)	519,000	316,826	(202,174)
Occupational Safety and Health	58,300	5,486	(52,814)	10,000	9,193	(807)
Facilities Management	12,000	12,845	845	6,000	4,265	(1,735)
Department of Security	-	-	-	-	11,679	11,679
Fleet Management	5,500	-	(5,500)	5,500	1,795	(3,705)
Office of the Board Secretary	7,000	-	(7,000)	3,000	-	(3,000)
General Manager	26,800	22,813	(3,987)	15,000	9,737	(5,263)
General Counsel	65,000	-	(65,000)	50,000	-	(50,000)
External Affairs	17,000	2,151	(14,849)	15,000	60	(14,940)
Internal Audit	-	-	-	-	-	-
Informational Technology	69,000	77,201	8,201	69,000	143,554	74,554
Total	\$1,535,400	\$ 777,279	\$(758,121)	\$1,588,900	\$727,269	\$(861,631)

Source: FY 2015 Revised and FY 2016 Approved Operating Budgets

**The revised budget for FY 15 was \$6,100 less than the original, approved FY 15 budget.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The objectives of the Training, Licensing and Certification audit were to obtain an understanding of how training, licensing and certification is managed and distributed among employees. The audit scope is based on the following objectives:

- Evaluate how training is managed at the Department-level and Authority-level, including the monitoring and documentation of training requirements and completion;
 - Determine compliance with required safety training;
 - Annual training requirements (cyber-security, harassment, etc.);
- Determine the licensing and certification requirements are identified and monitored to ensure compliance;
- Evaluate how the Authority utilizes Cornerstone and other systems of record to identify, authorize and track the required training, licensing and certification, and monitor employee completion;
- Evaluate consistency in training, licensing and certification controls across the Authority;
- Evaluate compliance with union agreements;
- Review how training budgets are established and monitored, and;
- Evaluate the training assistance and reimbursement process and determine alignment with the Education Assistance and Reimbursement Policy.

Approach

Our audit approach consisted of the following phases:

Understanding of the Process

The purpose of this phase was to gain an understanding of DC Water's training, licensing and certification process. Internal Audit conducted walkthroughs with Learning and Development, Labor Relations, and the HCM Systems Team.

This phase included process walkthroughs with management from each of the departments identified above and inquiry of documentation.

Specific procedures performed include:

- Inquiry of Learning and Development's role in determining, maintaining, and enforcing training requirements;
- Determination of how training is budgeted, and
- Obtained training data and conducted an inquiry of Cornerstone data entry controls with the HCM Systems.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Detailed Testing

The purpose of this phase was to test compliance and internal controls based on our understanding of the Training, Licensing and Certification process. This phase included the execution of applicable tests of compliance with the DC Water Training and Development Policy and Union Agreements. Additionally, we conducted Department-specific training testing for Departments who had un-remediated prior audit findings related to training. This included Sewer Services, Water Services and the Office of Emergency Management. The time period covered by testing was FY 2015 and FY 2016 from October 1, 2015 through March 31, 2016.

Specific procedures performed included validating that:

- Training requirements were assessed and reviewed by the Authority;
- Employees acquired proper approval before participating in trainings, internal or external;
- Completion of training by the employee was documented by the Authority, and
- New managers and supervisors participated in training programs designed to educate management officials on employees requiring Employee Assistance Program (EAP) assistance.

Reporting

At the conclusion of this audit, we summarized our observations related to training, licensing and certification at DC Water. We have reviewed the results of our testing with management.



DETAILED OBSERVATIONS

Training, Licensing and Certification Internal Audit			
1.	<u>Identification and Monitoring of Required Certifications and Licenses</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>Currently, the HCM Compensation team maintains a spreadsheet to track required certifications and licenses for DC Water employees. As the process is very manual, the listing is currently incomplete or outdated. We identified the following issues:</p> <ul style="list-style-type: none"> The effective date and / or the expiration date of the license was not always captured. The license or certification number was not always documented. Employees who have current certifications and licenses were missing from the listing. Copies of certificates or licenses were not always maintained, as documented as a note on the tracking spreadsheet. The spreadsheet is only reviewed every 3 to 4 months specifically for non-CDL drivers, CDL drivers and Wastewater Treatment certificates. The spreadsheet currently has one line item per employee. Employees may have multiple certifications or licenses, which would make it difficult to filter and track by expiration date. <p>Without proper monitoring of required licenses and certifications, the Authority cannot ensure that all employees are qualified for the duties they perform.</p>	<p>We are aware that DC Water has developed a goal, as part of the Blue Horizons 2020 strategic plan, to maintain all regulatory license and certification requirements by job positions. Specific tasks have been identified to address this goal, which would also address some of the issues identified. These tasks include:</p> <ol style="list-style-type: none"> Determine DC Water required certifications and/or licenses linked to essential job functions as defined in job descriptions. Research and validate regulatory agencies' certifications and/or licenses requirements for each position. Develop, maintain and audit DC Water and regulatory required licenses and certifications by position and assigned employee. Determine the business systems and additional resources required to track, maintain and report compliance with regulatory and DC Water required certifications and/or licenses 	<p>Response:</p> <ol style="list-style-type: none"> A complete list of all licenses and certifications has been compiled. This data also includes all relevant renewal and accreditation info. We are currently in the process of validating this information with all stakeholders to make sure that its accurate and all relevant updates to JDs done. After step 2 is complete, we will set up a tracking and monitoring regime in Cornerstone. HCMS in collaboration with L&D are investigating the possibility of doing the latter. <p>Responsible Party: L&D, HCMS, Compensation</p> <p>Target Date: 12/31/2016</p>



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DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
2.	<u>Identification and Monitoring of Training Requirements</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>Currently, employees must take specific trainings as required by the union agreements, as part of new hire training and by position. However, identification, monitoring and enforcing the completion of training requirements varies Authority-wide. We identified the following situations:</p> <ul style="list-style-type: none"> • Not all Departments have documented required training by position requirements. • Some Departments have identified required training by position, but these are not monitored for completion. • Some Departments have identified required training by position and are monitoring completion manually through spreadsheets. • Some Departments have established required training by position, but these have not been uploaded to Cornerstone for monitoring and documentation of completion. • Of the five supervisors and managers selected, we were unable to validate that four of them had completed the Employee Assistance Program (EAP) training, as required by the union agreement. Per inquiry with HCM, EAP training is incorporated into the "Drug and Alcohol Training for Supervisors". Documentation either did not exist or could not be located for these four employees. Additionally, it was determined that new supervisor or manager training has not occurred in recent years. 	<p>Similar to the effort to identify license and certification requirements, L&D should work with the Departments to complete the following tasks:</p> <ol style="list-style-type: none"> 1. Determine requirements by job position for each Department, including authority-wide trainings such as: EAP, New Manager or Supervisor training, Safety and Emergency Management. 2. Establish Curriculum in Cornerstone based on Department and Job Description. 3. Utilize the re-occurrence function within Cornerstone to set reminders for annual or re-occurring training requirements. 4. Conduct training for employees and Training Coordinators on how to properly utilize Cornerstone. 5. Determine responsibility for monitoring training completion (L&D and the Departments) and reporting for non-compliance. 	<p>Response:</p> <p>Efforts have begun to identify training by position, e.g. in the area of safety.</p> <p>L&D will work with all stakeholders to identify and input in Cornerstone, all job required technical training for all positions within each respective business unit.</p> <p>L&D is currently working on Cornerstone training for all training coordinators.</p> <p>Responsible Party: L&D</p> <p>Target Date: 9/30/2017</p>



DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
2.	<u>Identification and Monitoring of Training Requirements - continued</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>These inconsistencies exist in documentation of training requirements because there is no standard process for gathering this information from each Department. Efforts have been made to utilize Cornerstone to track trainings that are occurring at DC Water; however, progress has been limited based on the level of effort and number of resources required to create the curriculums.</p> <p>If training requirements are not properly identified or monitored, employees may not meet job requirements or training requirements established by the unions.</p>		



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DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
3.	<u>Training, Tuition and Conference Approval and Payment</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>In accordance with the established policies and procedures, training is not always being approved by L&D and the Department head prior to payment and registration.</p> <p>Out of 25 training-related expenditures tested, eight circumvented the L&D approval process, totaling approximately \$63,275. Of the eight expenditures, two were paid for with a purchase cards, to the amount of \$1,210. These training-related expenditures included off-site trainings, college courses, and conferences. College course should have been previously approved in accordance with the "Education Assistance and Reimbursement Policy" and external trainings should have been approved in accordance with the "Training and Development Policy".</p> <p>Currently, to attend a conference, an employee must submit a "Travel Authorization and Expense Form" as evidence of approval; however, many of these conferences have a certification or training component and currently are not communicated, approved or monitored by L&D. In this situation, DC Water is unable to capture any certifications that may have been obtained or document any evidence of completion for a training.</p>	<p>All training should be approved by L&D and the Department head prior to payment and registration, in accordance with the established policies and procedures.</p> <p>HCM, in conjunction with Executive Management, should establish a formal approval process for conference attendance. This process may include revisions to the "Travel Authorization and Expense Form", that would require L&D to review conferences that contain a training or certification component. L&D should then be able to track and capture certifications that are obtained upon employee completion.</p>	<p>Response: Directors and Managers are and should have final approval of all training for their employees.</p> <p>DC Water has a process for approval for employees to attend a conference. HCM will develop a definition for when a conference qualifies as a training event and a process for capturing that information in Cornerstone. All conferences defined as a training event should be approved and tracked by the local business unit within Cornerstone LMS. Administrative work surrounding training and conferences is localized.</p> <p>Responsible Party: AGM Support Services, DC Water Leadership, HCM</p> <p>Target Date: 9/30/2016</p>





DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
4.	<u>Monitoring External Training Completion</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>In accordance with Article 30 of the Union Agreement, "the employee has the responsibility for attending training as scheduled. Failure to attend or repeated tardiness may result in the denial of future training, repayment of training costs by the employee and/or disciplinary action".</p> <p>Employees are permitted to attend an external training, which may be pre-paid for by DC Water. Currently, L&D maintains a spreadsheet that contains requested and approved external trainings courses being attended by DC Water employees; however, HCM does not have a process in place to verify that the employee attended the training. L&D relies upon the employee to provide a copy of the certification, if applicable. DC Water may pay for courses that the employee did not attend.</p>	<p>L&D should verify that the employee attended the training by requiring a transcript, attendance sheet or proof of completion from the employee or training vendor. L&D should then update the employee's training records in Cornerstone to document the external training or in Ceridian Latitude to document the certification acquired.</p>	<p>Response:</p> <p>L&D will create an SOP for all training requests. In this SOP, employees will be informed of the following:</p> <ul style="list-style-type: none"> a) External training requests must be submitted at least 30 days in advance. b) Valid proof of attendance at an external training event must be submitted within 10 days of completion/attendance. Examples of valid proof of attendance are: <ul style="list-style-type: none"> - Attendance sheet - Certificate of completion - Training agenda or workbook - Official name tag w/training vendor logo - Any combination of the items above c) A training event will be created in Cornerstone when the external training request is approved for an employee. Only when valid proof of attendance has been submitted, will L&D mark the training as completed on that employee's transcript. d) If certificates of completion are submitted, they will follow the normal process of being uploaded to that employee's file via Livelink (HCMS) <p>Responsible Party:</p> <p>L&D and HCMS</p> <p>Target Date:</p> <p>August 30, 2016</p>



DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
5.	<u>Tuition Assistance and Reimbursement Approval and Payment</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>The DC Water's Education Assistance and Reimbursement Policy Section 4.1 states that, "Requests to participate [in training] must be submitted by the employee and processed by the L&D branch at least 30 days prior to the course start date".</p> <p>For 4 out of the 12 tuition assistance or reimbursements samples, the employee did not submit their "Course Assistance or Reimbursement Form" at least 30 days prior to the start of the course. Two of the four exceptions were submitted less than a week before the start of the course. The other two were submitted more than 3 months after the start of the course. L&D still approved the payment for course as evidenced by the signature on the "Course Assistance or Reimbursement Form".</p> <p>For 3 out of 5 tuition reimbursement samples, the "Educational Assistance and Reimbursement Application" could not be located. It was estimated that these documents were received outside of the InfoPath workflow and were not kept on record. If the applications are not maintained, DC Water is not able to evidence that tuition reimbursements were approved.</p> <p>For 3 out of the 7 tuition assistance samples, L&D did not sign the "Educational Assistance and Reimbursement Program Application". This is required as evidence of approval for the employee to register for the college courses.</p>	<p>An employee's application should not be approved unless he/she obtains all of the proper signatures.</p> <p>L&D should consider evaluating the policy, to determine if 30 days is reasonable for submission for approval. If L&D determines this timeline is still valid, the application or policy should be updated to determine situations in which employees are allowed to submit the "Course Assistance and Reimbursement Form" outside of the 30 day window. Exceptions to the policy should be documented on the application. All applications and forms should be maintained on record.</p>	<p>Response:</p> <p>L&D will evaluate the current "Tuition Assistance and Reimbursement Policy" to determine if 30 days is sufficient time for submission and approval.</p> <p>In the meantime, L&D will enforce the current policy by rejecting/returning any and all tuition assistance forms and applications that are not submitted at least 30 days prior to the start of the course per the policy.</p> <p>L&D will also send a reminder communication to employees encouraging them to adhere to the policy stipulation.</p> <p>Also, L&D has partnered with IT to rename the current forms to ascertain the request, i.e. if the employee is requesting reimbursement for a course that has been completed, he/she will complete a "Course Reimbursement Form" rather than the aforementioned "tuition</p> <p>Responsible Party: Learning & Development</p> <p>Target Date: 9/30/2016</p>



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DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
6.	<u>Approval of Internal Training in Cornerstone</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>Employees can currently enroll in an internal training course by submitting a request in Cornerstone, getting assigned a course by the employee's Manager or enrolled via proxy by a Training Coordinator or L&D with administrative rights. If an employee is enrolled via proxy by the Training Coordinator or L&D, the approval process is circumvented in Cornerstone. In such instances, Supervisors or Managers may not be aware of what trainings their employees are taking. Typically, Training Coordinators are administrative personnel, but this varies from Department to Department.</p>	<p>L&D should standardize employee enrollment for internal training throughout the Authority within Cornerstone by requiring at least Supervisor or Manager approval on all trainings.</p>	<p>Response: L&D and HCM Systems have agreed to no longer allow proxy enrollment and this function will no longer be available for training coordinators. All internal training requests via Cornerstone LMS must and will be approved by a supervisor or manager.</p> <p>Responsible Party: L&D and HCMS</p> <p>Target Date: 6/30/2016</p>



DETAILED OBSERVATIONS (CONTINUED)

Training, Licensing and Certification Internal Audit			
7.	<u>Administrative Access to Cornerstone</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>L&D held a training session for Training Coordinators and individuals with administrative access in Cornerstone. Not all administrative users attended the training, although they still have administrative rights in Cornerstone. Currently, administrative access is granted to those designated as Training Coordinators within the Department. This is typically a role outside of the individual's job description.</p> <p>Additionally, comprehensive Standard Operating Procedures (SOPs) for how to utilize Cornerstone do not exist. This has led to instances of duplicate events and sessions in Cornerstone. HCM Systems and L&D have begun the process of documenting desktop procedures.</p> <p>Lack of training for administrative users could lead to improper use of Cornerstone and duplicate or inaccurate training information.</p>	<p>L&D and HCM Systems should continue to develop SOPs for the use of Cornerstone and ensure that all individuals with administrative access are properly trained.</p>	<p>Response: Learning & Development will re-identify all Training Coordinators across the Authority. Once these Training Coordinators are determined, L&D and Systems will partner to conduct comprehensive training on how to utilize Cornerstone LMS. During this session, Training Coordinators will also be given comprehensive SOPs so that they will be able to train others within their respective departments. L&D will also distribute and post job aides on the functionality of Cornerstone LMS for individual employees.</p> <p>Responsible Party: L&D and HCMS</p> <p>Target Date: 12/31/2016</p>

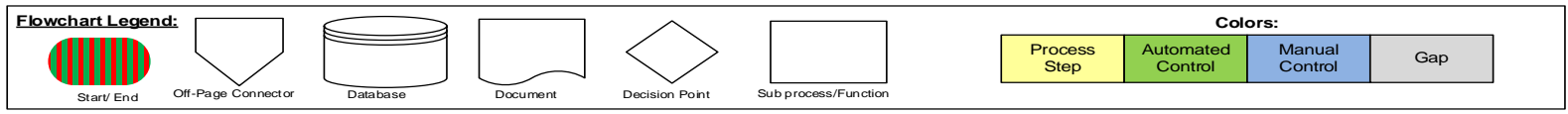
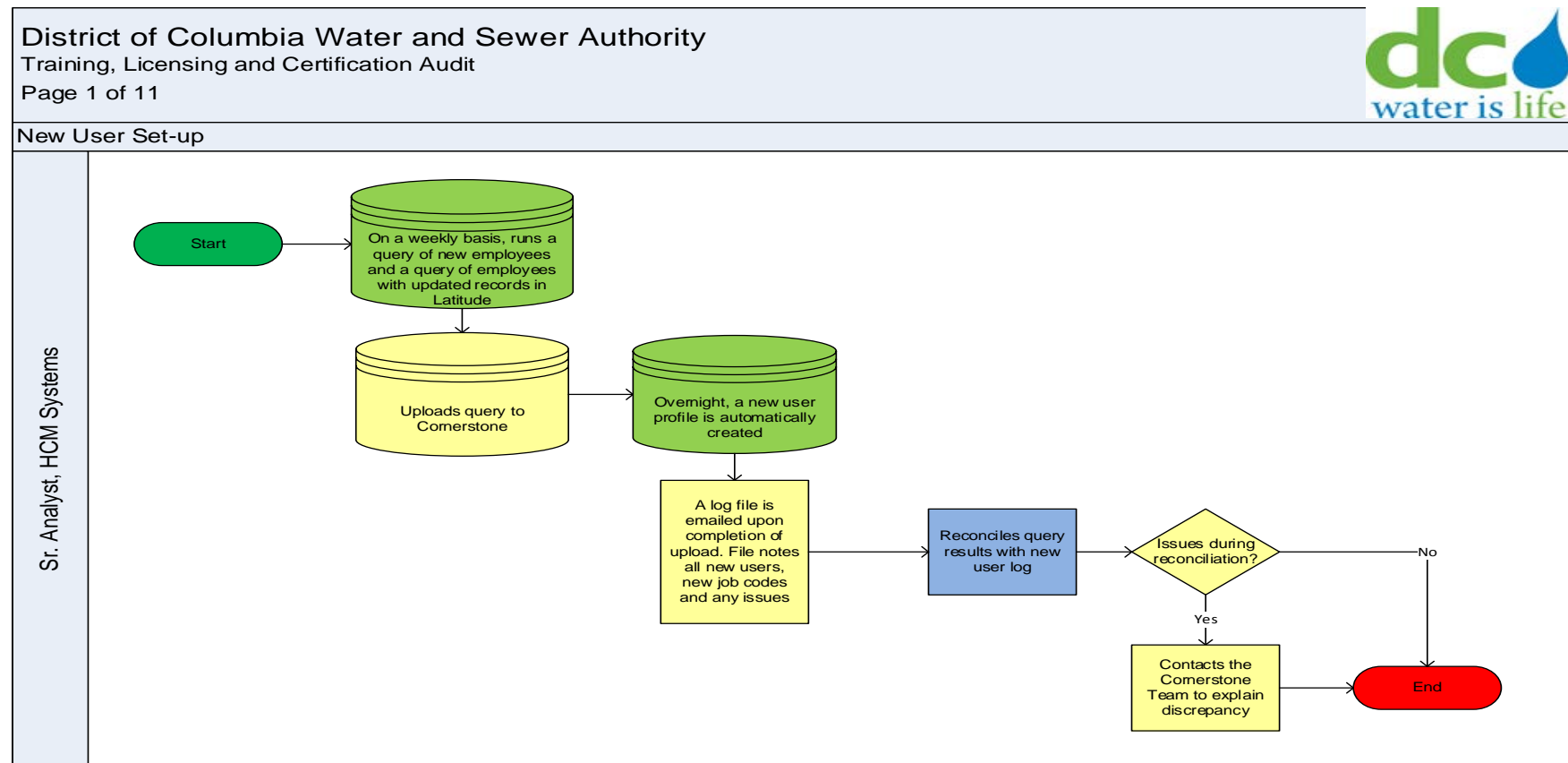


APPENDIX A – RATING DEFINITIONS

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

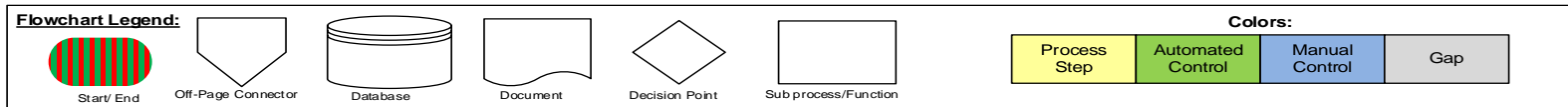
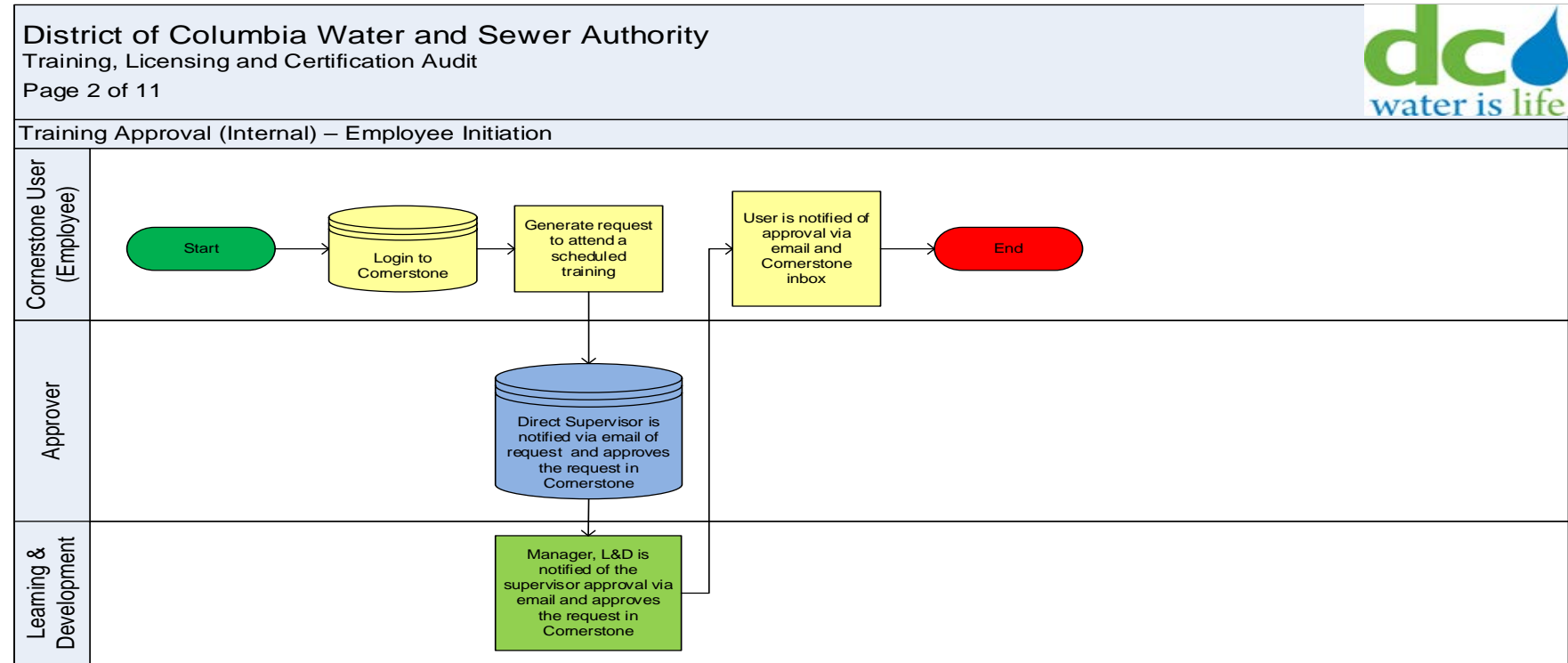


APPENDIX B – FLOWCHARTS



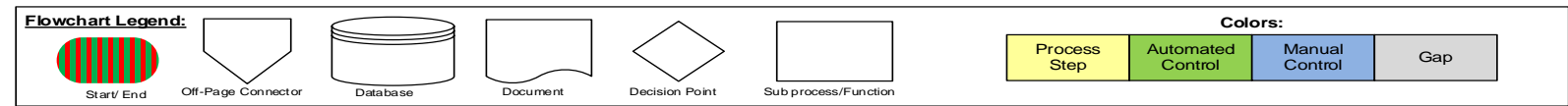
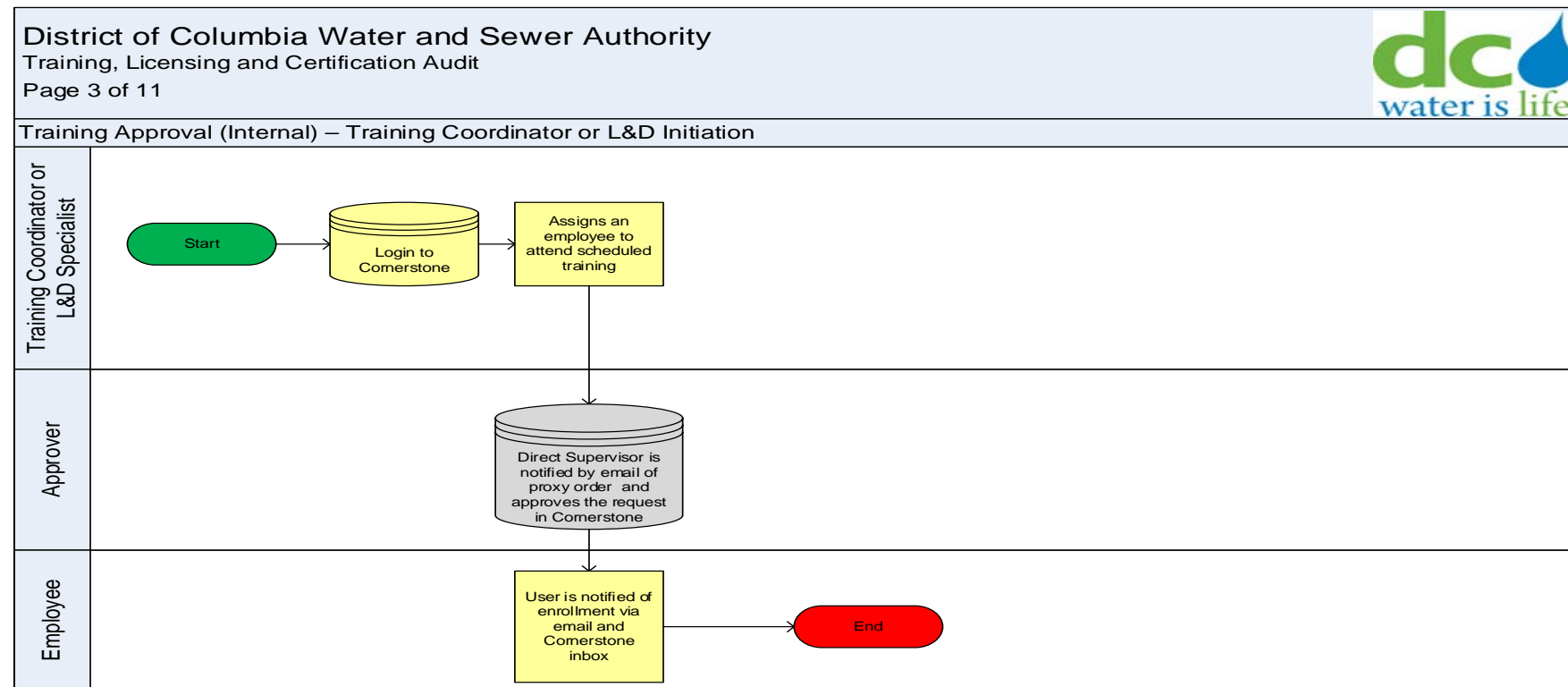


APPENDIX B – FLOWCHARTS (CONTINUED)



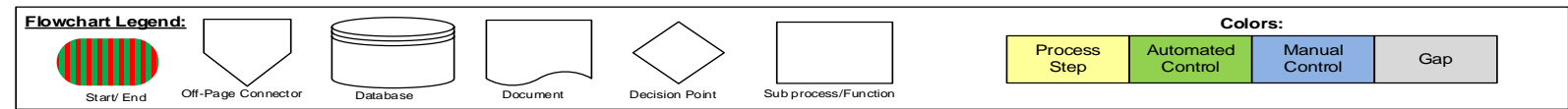
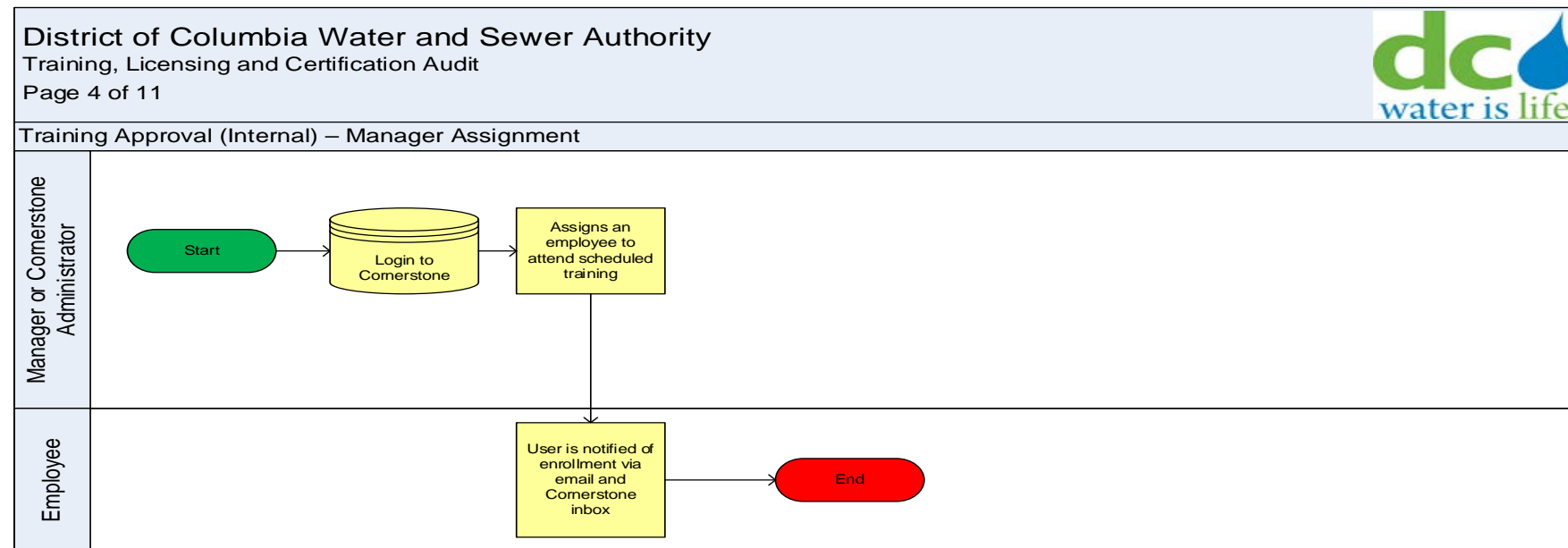


APPENDIX B – FLOWCHARTS (CONTINUED)



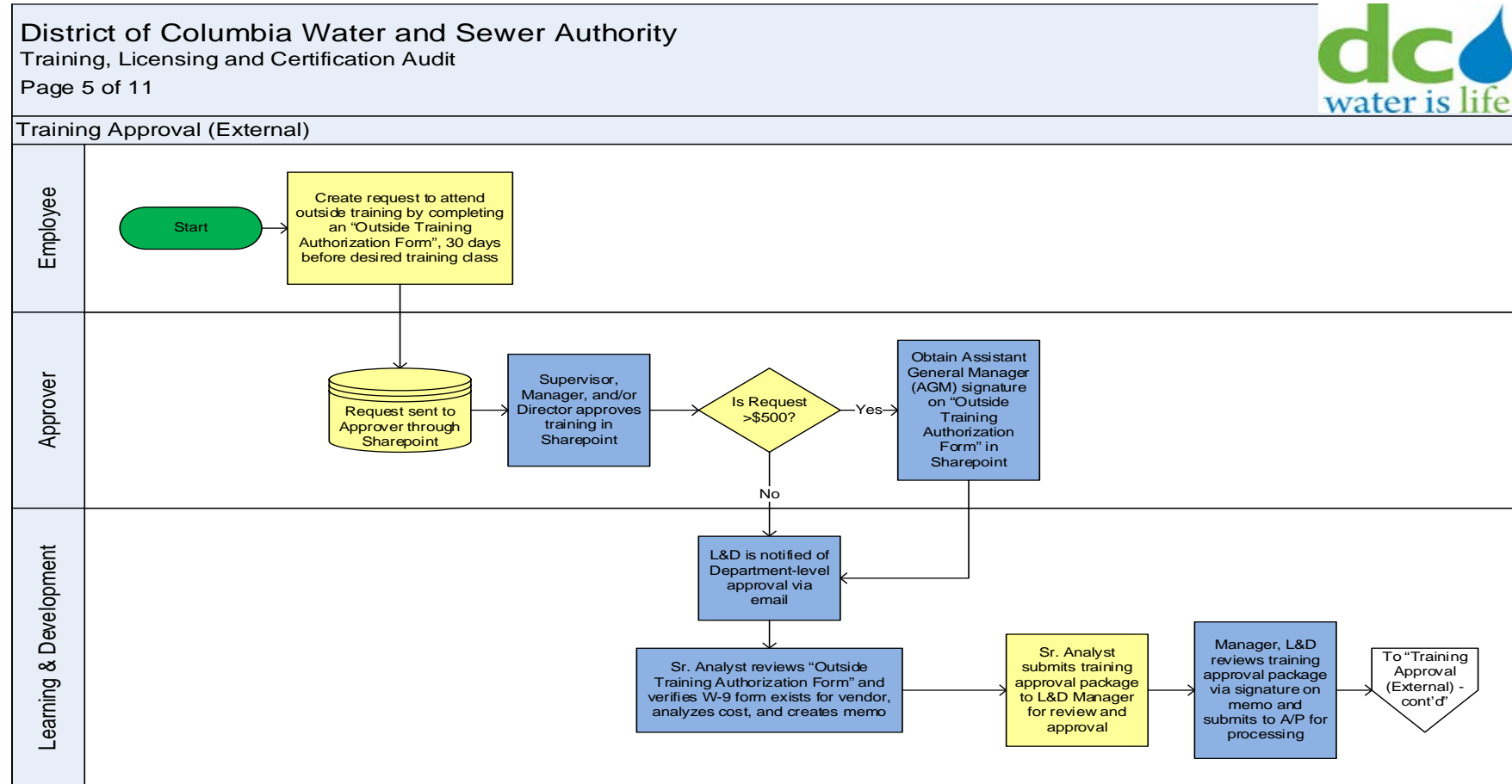


APPENDIX B – FLOWCHARTS (CONTINUED)

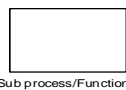
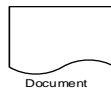
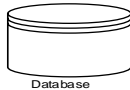
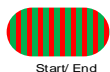




APPENDIX B – FLOWCHARTS (CONTINUED)



Flowchart Legend:



Start/ End

Off-Page Connector

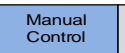
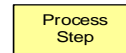
Database

Document

Decision Point

Sub process/Function

Colors:



Process Step

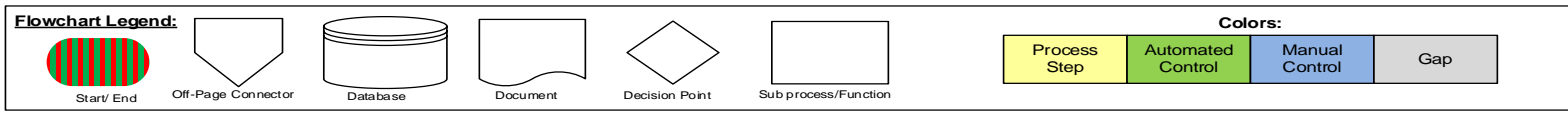
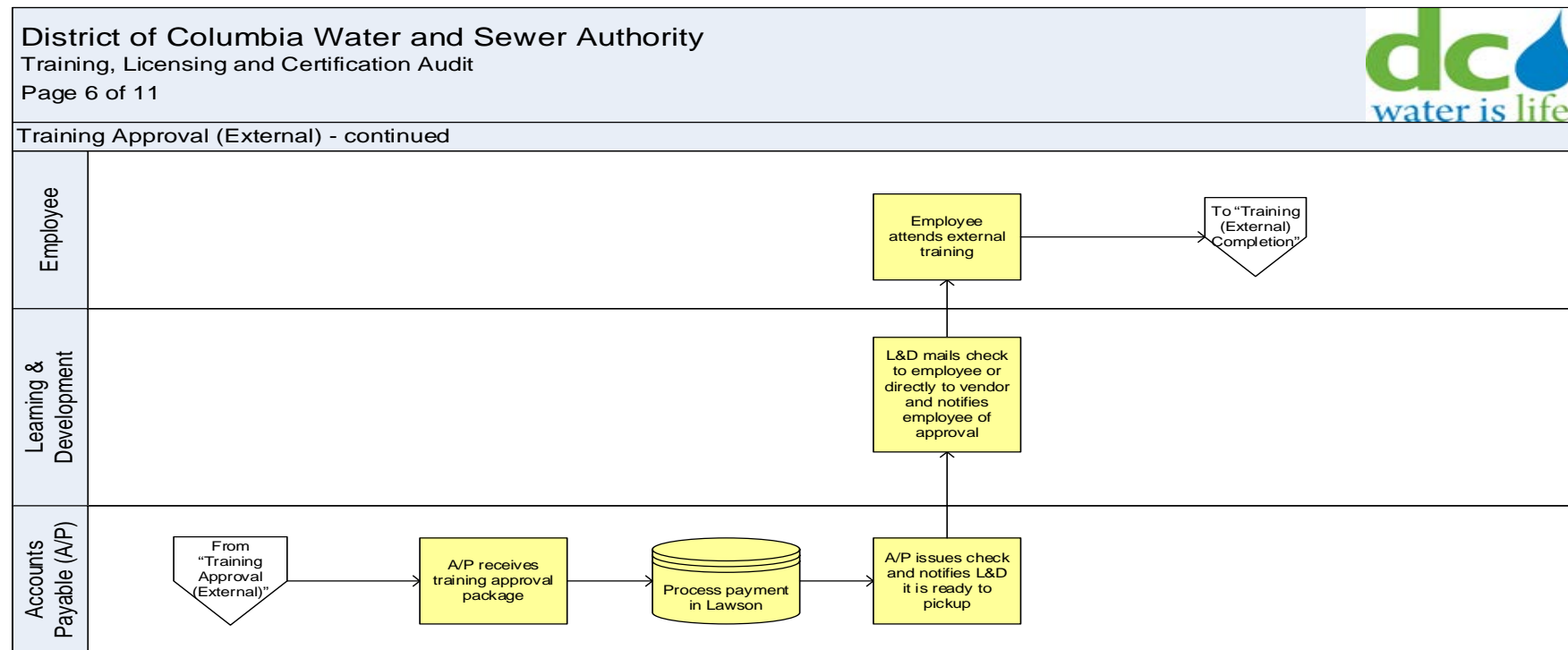
Automated Control

Manual Control

Gap

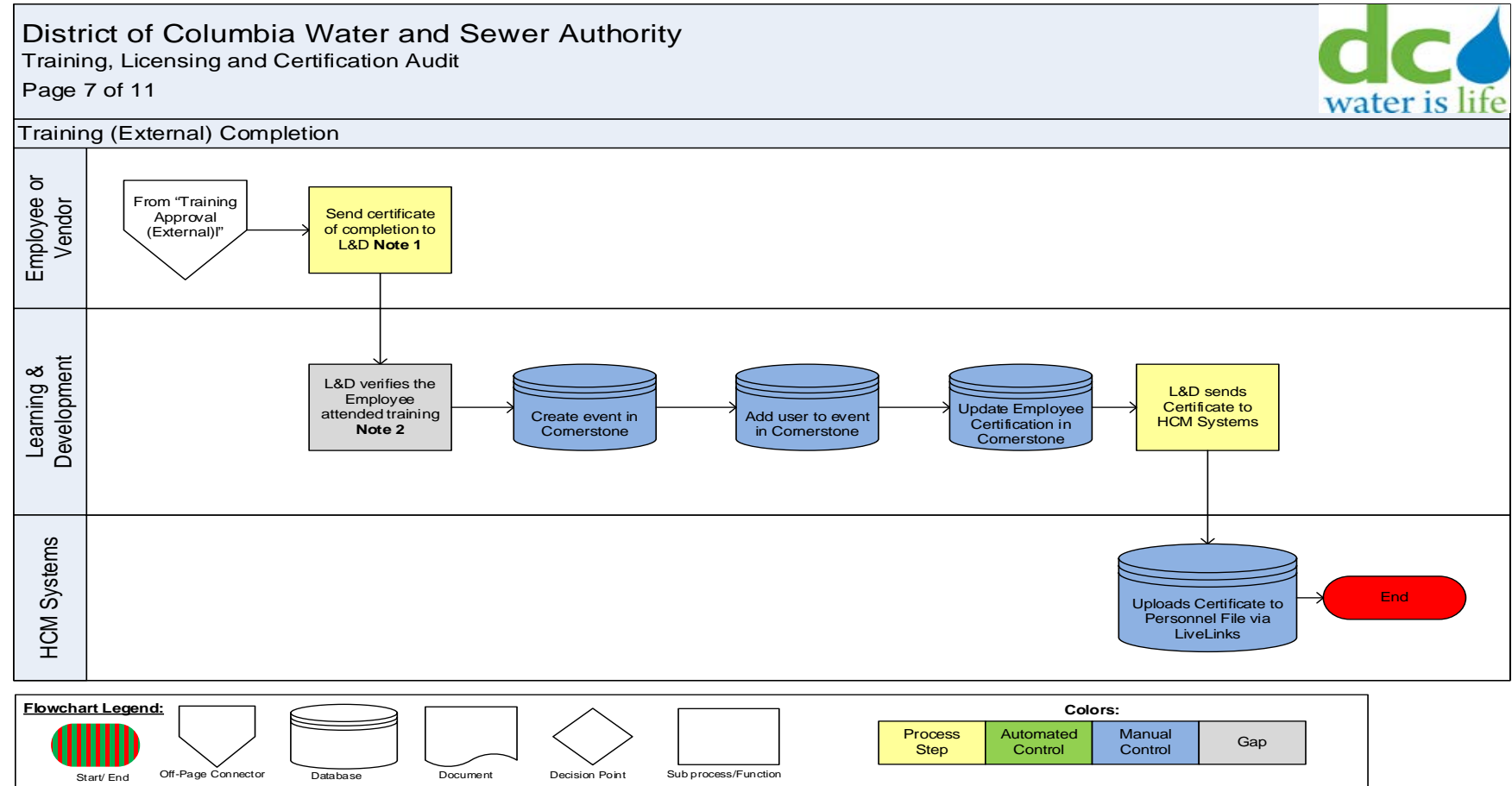


APPENDIX B – FLOWCHARTS (CONTINUED)





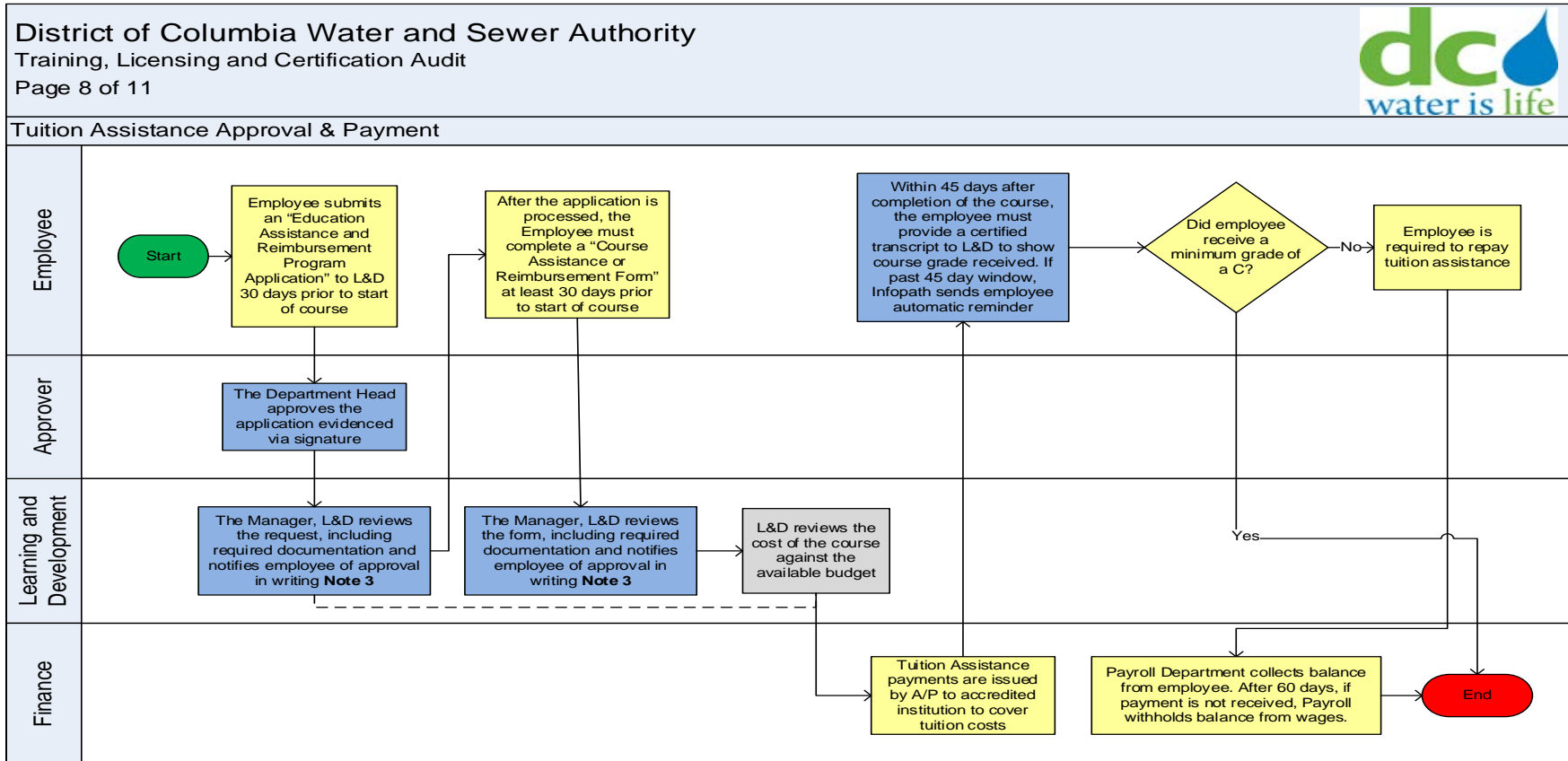
APPENDIX B – FLOWCHARTS (CONTINUED)



Note 1: This is an employee driven task, L&D will not be sent a certificate of completion unless the external training course resulted in a certification being acquired.
Note 2: L&D needs to verify the employee attended the training to prevent employees from receiving the check and cancelling the course, keeping the money and later claiming they are unable to pay back if L&D ever finds out they didn't attend the training.



APPENDIX B – FLOWCHARTS (CONTINUED)



Flowchart Legend:

- Start/ End (Red oval)
- Off-Page Connector (White pentagon)
- Database (Cylinder)
- Document (Wavy bottom rectangle)
- Decision Point (Diamond)
- Sub process/Function (White rectangle)

Colors:

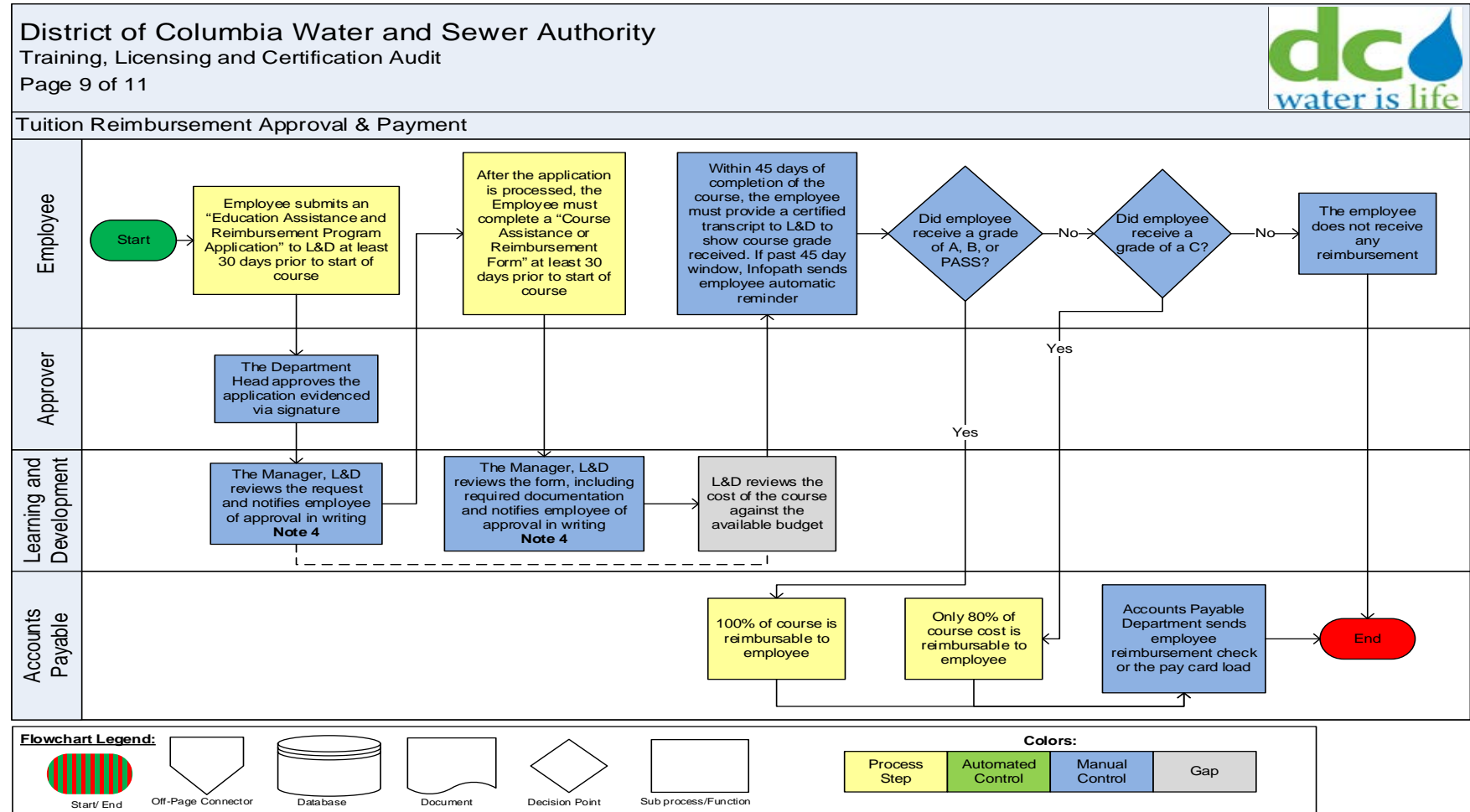
- Process Step (Yellow)
- Automated Control (Green)
- Manual Control (Blue)
- Gap (Grey)

Note 3: Required documentation includes the acceptance letter, school accreditation information, program description, financial aid, copy of the invoice, and the signed "DC Water and Education Assistance and Reimbursement Policy".





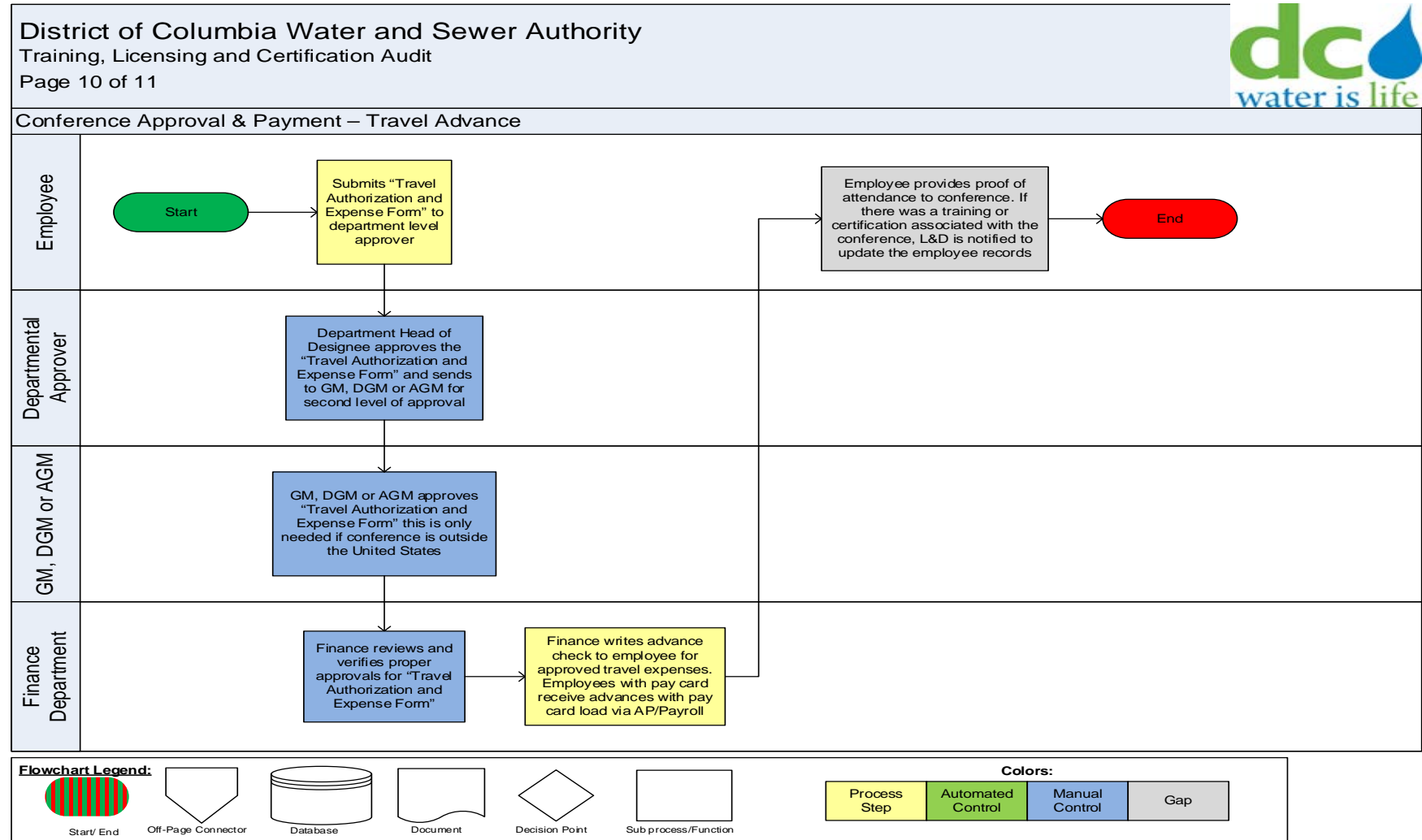
APPENDIX B – FLOWCHARTS (CONTINUED)



Note 4: Required documentation includes the acceptance letter, school accreditation information, program description, financial aid, copy of the invoice, and the signed "DC Water and Education Assistance and Reimbursement Policy".

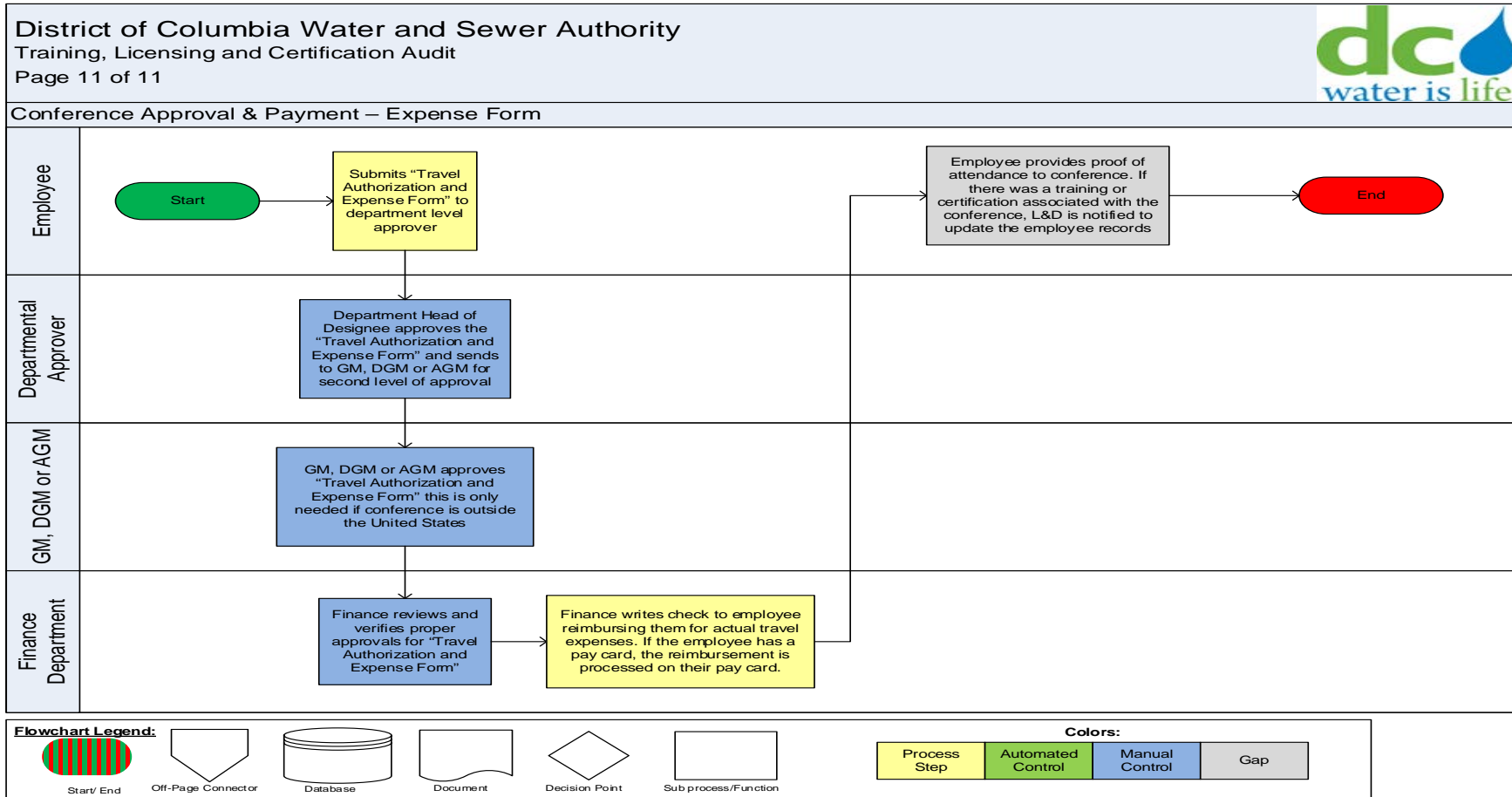


APPENDIX B – FLOWCHARTS (CONTINUED)





APPENDIX B – FLOWCHARTS (CONTINUED)






APPENDIX C – TRAINING-RELATED UNION REQUIREMENTS

The following table contains a summary of the training-related union requirements, which are consistent across all union agreements.

Article	Section	Topic	Summary
12	F	Health and Safety Training	Safety training to employees as necessary for performance of their job.
12	H	Safety Committee	A Safety Committee reviews safety training requirements (union representatives are on committee).
16	H	Education Awareness Program (EAP) Training	All Authority Managers and Supervisors participate in specialized EAP training program prior to referring employees to the EAP.
17	E	Alcohol and Drug Policy	Mandatory comprehensive training for all employees on alcohol and drug policy - at least one hour for alcohol misuse and one hour for drug abuse.
30		Basic Training	Training for safe/ effective performance of his/her job is provided at the Authority's expense and during working hours if possible. Management shall grant administrative leave and financial assistance for educational and training purposes if the education or experience to be acquired is career-related and of value to the Authority and/or employees.
32		Union Training	Administrative leave shall be authorized when requested by union representatives to attend training approved by the Authority that is designed to advise representatives on matters within scope of Authority's personnel rules, regulations, and matters pertaining to employee representation.
33	B	New Technology	Authority shall consult with the union prior to the acquisition or implementation of new technology that may adversely impact employees. If training is necessary, training should be held during working hours at the Authority's expense. The Union shall be provided with the opportunity to exercise its right to bargain, but shall not delay technology implementation.
34		Licensing and Certification	If certification is required by the Authority: All employees in a position where required will receive proper training from the Authority at the Authority's expense. If certification is required by a regulatory agency: The Authority must provide an opportunity for training and relevant education or practical instruction at the Authority's expense If employee does not pass within the timeframe set forth, they shall not continue to perform the job for which certification is required No work if permit or license is revoked/suspended



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Internal Audit Report - DRAFT Contract Monitoring & Compliance Audit Part II

July 2016



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Contract Monitoring & Compliance Audit – Part II
Internal Audit Report
Issued: July 2016



TRANSMITTAL LETTER

July 2016

The Audit Committee of DC Water
 5000 Overlook Avenue, SW
 Washington, DC 20032

Pursuant to the approved 2016 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of Contract Monitoring & Compliance Part II. For this phase, we reviewed 3 of 4 contracts selected, and have included the results for each. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on July 28th, 2016. Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations and opportunities related to our internal audit of the contract monitoring and compliance process.
Overview, Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Contract Background and Detailed Observations	For each contract selected, we have provided an overview of the contract, including general statistics and financial information, as well as the observations noted during our work. Recommended actions and managements actions plans are also included.

We would like to thank the staff and all those involved in assisting us in connection with this review.

Respectfully Submitted,

DC Water Internal Audit



Contract Monitoring & Compliance Audit – Part II
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EXECUTIVE SUMMARY

Background

Internal Audit selected a sample of four contracts from various departments of operations to test for compliance. This report is Part II of the Contract Monitoring & Compliance Audit, and contains 3 of the contracts selected by Internal Audit. Part I of this audit containing the 4th contract was presented in April, 2016.

Contract # 14-PR-DFS-08: Department of Facilities, Janitorial Services

M&N Contractors, LLC (M&N) provides janitorial services for office spaces, lockers and lunch rooms, the fleet building, trailers, the boat house, welding shops, pumping stations, and blower buildings at DC Water’s Blue Plains Wastewater Treatment Plant, O Street Pumping Station, and Bryant Street Pumping Station. During the first two years of the contract, DC Water added DC Water’s Heat Exchange Building, DETS Trailer, the Central Maintenance Facility, and BP1 Warehouse to the scope of the contract.

Contract # WAS-12-033-AA-RE: Department of Fleet Management, Fleet Management Services

Centerra Group, LLC (Centerra) performs fleet management, maintenance, repair, and operational services for DC Water. DC Water has an additional contract with Centerra for parts supply. The Authority has a continuous need for a contractor to manage the preventative/predictive maintenance, repair, towing, emergency services and other fleet operations as required by the Department of Fleet Management (DFM).

Contract # WAS-12-007-AA-SH: Department of Wastewater Treatment – Operations, Biosolids Management

Nutri-Blend, Inc. provides labor, equipment and supplies for hauling and utilization of biosolids to the Authority. Biosolids are loaded onto vehicles at Blue Plains and hauled directly to the utilization sites, or stored at an approved Contractor site, and then thereafter hauled directly to the utilization site. Maryland Environmental Services (MES) physically validates every load that Nutri-Blend transports to the land application sites.

Objective and Scope

Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated February 11, 2016, and were limited to those procedures described therein.

Our scope included the following:

- Determine contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval processes, and
- Identify process improvement opportunities and recommend internal control enhancements to improve the contractor management process.

Fieldwork was performed February 2016 through June 2016.

Overall Summary

The observations identified during our assessment are summarized on the next page. We have assigned relative risk or value factors to each observation. Ratings are not assigned to opportunities as these items represent best practices and/or recommended initiatives. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. Only observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

Overall Rating (See Appendix A for definitions)

	Number of Observations by Risk Rating		
	High	Moderate	Low
Contract Monitoring & Compliance Audit – Part II	3	6	2

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



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

The following table outlines the observations by type of issue that was identified and risk rating.

Observation Themes			
	Number of Observations by Risk Rating and Category		
	High	Moderate	Low
Contract Monitoring	1	2	0
COR/COTR Training and Designation	1	0	1
Contractor Compliance	1	4	1

The following is a summary of all observations noted in the areas reviewed. Definitions of the rating scales are included in the Appendices.

Observations and Improvement Opportunities	
Authority-wide Contract Compliance and Monitoring	
Observation	Rating
1. COR/COTR TRAINING The Contracting Officer Representatives (CORs) and Contracting Officer's Technical Representatives (COTRs) are not formally trained upon assignment of contract responsibilities or on an annual basis.	High
M&N Contractors – Department of Facilities	
Observations	Rating
1. EMPLOYEE CLEARANCES AND BACKGROUND CHECKS The request for proposal (RFP) for Janitorial Services, which was awarded to M&N Contractors, LLC, required that "Personnel employed by the contractor shall be screened and be required to obtain a police clearance." There was not a process in place to validate that M&N personnel obtained police clearances.	High



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions (continued)

M&N Contractors – Department of Facilities	
Observations	Rating
<p>2. PERSONALLY IDENTIFIABLE INFORMATION</p> <p>Currently, the contract requires that the M&N Contractors, LLC provide a monthly payroll summary for each of its employees covered under this contract, including providing social security numbers. By obtaining this personally identifiable information, DC Water may be liable or at risk for improper distribution of this information.</p>	Moderate
<p>3. DOCUMENTATION AND MONITORING OF JANITORIAL SERVICES</p> <p>Currently, M&N only provides reports of the bathroom cleanings at each assigned location and notifies the COTR via email when there is a change in the schedule which would result in changes to the weekly or quarterly schedules. The bathroom cleaning schedules are the only logs obtained to support the invoice. There is no evidence or documentation for any other required cleanings.</p>	Moderate
<p>4. COR/COTR DESIGNATION</p> <p>The Contracting Officers Representative (COR) identified in the contract with M&N Contractors, LLC is an employee that is no longer with the Authority. The new Director of Facilities, is the acting COR but this has not been formally updated within Procurement.</p>	Low



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions (continued)

M&N Contractors – Department of Facilities - Process Improvement	
<u>Opportunity</u>	<u>Recommendation</u>
<p>Safety Requirements - The utilization of anti-skid / slip resistant floor finish to refinish floors by M&N was not explicitly stated in the contractor's safety manual. This was a safety measure that was required per the contract.</p>	<p>The Authority should request that M&N provide an updated safety manual and ensure that all contract requirements were met.</p>



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions (continued)

Centerra Group, LLC – Department of Fleet Management	
Observations	Rating
<p>1. OUTDATED CONTRACT REQUIREMENTS</p> <p>The implementation of FleetWave during the course of the contract has made much of the contract obsolete, since many reporting and monitoring responsibilities have shifted from the Contractor to DC Water. Shifting responsibility away from the Contractor has given DC Water more transparency into the fleet management process and real-time access to key performance indicators (KPIs) and performance information. However, DC Water is at risk of being unable to enforce the current fleet management process because it is not fully documented in the executed contract.</p>	High
<p>2. INVOICES AND PAYMENTS</p> <p>DC Water does not remit payment of the Contractor's invoices within 30 days of receiving the invoice in accordance with the contract.</p>	Moderate
<p>3. TIMELINESS OF PREVENTATIVE MAINTENANCE (PM)</p> <p>Preventative Maintenance (PM) is not being performed in accordance with the contract. Without completing timely PMs, DC Water is at risk of requiring more emergency maintenance of vehicles, which makes availability of the fleet less predictable.</p>	Moderate



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

Nutri-Blend, Inc. – Department of Wastewater Management – Operations	
Observations	Rating
<p>1. CONTRACT MONITORING</p> <p>DC Water did not verify that Nutri-Blend is maintaining a Department of Transportation compliant substance abuse program, as required in the Substance Abuse Section of Article 2.2.N of the contract. The program should include both drug and alcohol testing on a pre-employment, post-accident, reasonable suspicion and random basis.</p> <p>Nutri-Blend’s Safety and Communications Plan that was submitted with the proposal includes details of the Contractor’s substance abuse program. The Safety and Communications Plan meets the requirements outlined in the Substance Abuse Section of Article 2.2N of the contract.</p> <p>If DC Water does not validate the existence of the program, there is a risk that drivers may not be meeting the specifications or qualify to haul biosolids or operate a vehicle safely.</p>	Moderate
<p>2. DOCUMENTATION OF PERMIT REQUIREMENTS</p> <p>The Contractor is not providing monthly permit status reports in compliance with the contract notifying the Authority of all permit reports required by Federal and State regulatory agencies and providing the status of acquiring additional utilization sites. However, issues regarding monthly permit status reports and utilization sites are reported during the Monthly Biosolids Coordination Meeting between the Contractor and DC Water.</p>	Moderate
<p>3. MANAGEMENT REPORTING REQUIREMENTS</p> <p>DC Water no longer requires the Contractor to submit the quarterly reports identified in “Article 1.1 - Storage of Biosolids” which requires the Contractor to submit a quarterly report that provides a written plan for the use of the biosolids in storage. Maryland Environmental Services (MES) is responsible for monitoring the storage of biosolids against any regulations and provides a monthly report, as a result the Authority does not separately monitor the Contractor in this regard.</p>	Low



Contract Monitoring & Compliance Audit – Part II
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OVERVIEW, OBJECTIVES, AND APPROACH

Overview

Internal Audit selected a sample of four contracts from various departments of operations to test for contract monitoring and compliance (the report on one of the contracts was issued in April, 2016 during the Phase I of the Contract Monitoring & Compliance Internal Audit). The internal audits for the three remaining contracts that are being issued as in connection with Phase II are managed by the Department of Facilities, Department of Fleet Management, and the Department of Wastewater Treatment – Operations.

The responsibility for ensuring goods and services contract compliance at DC Water and Sewer Authority (“DC Water” or the “Authority”) is the designated Contracting Officer Representative (COR) and/or Contracting Officer’s Technical Representative (COTR). The COR shall be responsible for all administration of the contract. The COTR is the technical expert for the contract and acts as a liaison between the Contractor and the Contracting Officer. The Authority enters into many contracts each year, as illustrated by the contractual services operating expenditures in the following table:

Contractual Services Operating Expenditures ¹	
FY 2013 Actual	\$68,430,000
FY 2014 Actual	\$68,178,000
FY 2015 Revised	\$76,944,000
FY 2016 Approved	\$79,244,000

¹Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget; FY 2015 Consolidated Annual Financial Report

Objectives

The objective of the Contract Monitoring & Compliance Audit was to obtain an understanding of how contracts are managed and assess whether the system of internal controls are adequate and appropriate, at the department level and authority-wide, for promoting and encouraging the achievement of management’s objectives in the categories of compliance. The audit scope was based on the following objectives:

- Determine Contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval process; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall Contractor management process.

Contracts managed by the Department of Engineering and Technical Services (DETS) are outside the scope of this audit, as those are being included in the Engineering – Contractor Management internal audits.

Approach

Our audit approach consisted of the following phases:

Understanding of the Process

The purpose of this phase was to gain an understanding of DC Water’s contract monitoring and compliance process for goods and services contracts. We submitted requests to the CORs and/or COTRs to gain a better understanding of the contract terms and determine how the contract is monitored.





OVERVIEW, OBJECTIVES, AND APPROACH (CONTINUED)

Understanding of the Process (continued)

Internal Audit conducted walkthroughs with the CORs and COTRs of the contracts selected, the Contractor's Project Manager, and other employees within the Department, as needed.

Detailed Testing

The purpose of this phase was to test compliance and internal controls based on our understanding of the contract terms and conditions. This phase included the execution of applicable tests of compliance with DC Water contracts. The time period covered by testing was 10/01/2014 through 03/31/2016.

For all contracts selected, we conducted the following testing:

- Performed a review of the invoice submission, approval and payment process to verify:
 - Invoices are submitted on a monthly basis and reflect the Contract # and PO #.
 - Invoices define the period of service provided.
 - Invoices describe the services provided.
 - Invoices were paid by DC Water within 30 days.
- Reviewed the Contractor's Safety Plan to ensure it met all contractual requirements and was properly approved.
- Verified that DC Water maintained a current Certificate of Insurance for the contractor.

We also conducted the following testing to verify that the Contractor was meeting specific contractual requirements:

Contract # 14-PR-DFS-08 (M&N Contractors, LLC): Department of Facilities, Janitorial Services

- Performed a review of the Contractors Daily Logs to verify that M&N is maintaining daily cleaning logs for submittal with each invoice.
- Reviewed any monitoring controls to verify the COR or COTR was validating that services provided are satisfactory.

Contract # WAS-12-033-AA-RE (Centerra Group, LLC): Department of Fleet Management, Fleet Management Services

- Verified Centerra was conducting preventative maintenance (PM) for DC Water vehicles based on the required frequency.
- Performed a review of Centerra's weekly, monthly, and annual reporting to verify the Authority is receiving timely updates as required.
- Validated Centerra was following DC Water's waste disposal process to verify proper disposal of hazardous waste.
- Validated that employees maintained the appropriate certifications.

Contract # WAS-12-007-AA-SH (Nutri-Blend, Inc.): Biosolids Management

- Reviewed prior audit reports and observations.
- Validated that quarterly and monthly reports were provided by Nutri-Blend, in accordance with the contract.

Reporting

At the conclusion of this audit, we summarized our observations related to contract compliance at DC Water. We have reviewed the results of our testing with management.

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CONTRACT BACKGROUND AND DETAILED OBSERVATIONS

Authority-Wide Contract Monitoring and Compliance Observations



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Monitoring & Compliance Audit – Part II			
Authority-Wide Contract Monitoring & Compliance			
1.	<u>COR/COTR Training</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>The Contracting Officer Representatives (CORs) and Contracting Officer's Technical Representatives (COTRs) are not formally trained upon assignment of contract responsibilities or on an annual basis. Several years ago, DC Water administered a COR/COTR training based on the Federal COR/COTR regulations, but this training was not tailored to DC Water's procurement and contract management processes and responsibilities.</p> <p>Without proper training on expectations and responsibilities, employees may not perform all responsibilities that should be encompassed in the COR/COTR roles.</p>	<p>The Authority should examine the COR/COTR selection process in place and ensure that each individual is provided adequate time and resources to perform the COR/COTR function. An appropriately tailored COR/COTR training course should be offered by DC Water that provides detailed responsibilities and expectations specific to the Authority. Additionally, the Authority should require the COR/COTR to participate in a training update every 2 years to remain current on any changes in responsibilities.</p>	<p>Response: Department of Procurement will implement several steps to COR/COTR training and compliance monitoring:</p> <p>Phase I: Implement a contract compliance monitoring process for each active contract with COR/COTR. Starting from 8/1/2016, Department of Procurement will implement a contract compliance monitoring process. Procurement jointly with each COR/COTR for all active contracts will review and develop a contract compliance monitoring checklist for each of 160 active Goods and Services contracts. The items in the checklist will consist of key deliverables, milestones, key vendor performance, and key contractual obligations that should be actively monitored. Then COR/COTR will be responsible for monitoring the items in the checklist and submit a report to Procurement at the beginning of each quarter (1/1, 4/1, 7/1, 9/1) to confirm vendor compliance. If severe deficiency is noted, then a Corrective Action Plan will be required and monitored until corrected per Procurement satisfaction. Due to the large number of active contracts, Procurement and</p>

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		<p>each department will prioritize the contracts and work to implement this new monitoring process during the next 6 months.</p> <p>Phase II: Implement Vendor Performance Management Training. Procurement along with the Office of Chief Operating Officer (OCCO), Learning and Development (L&D), and Information Technologies (IT) will implement Vendor Performance Management Training program for COR/COTR. It could consist of combination of third-party classroom training and online self-paced refresher training. Detailed training program and requirements are to be designed based on the industry's best practice. All training records and certifications of completion are to be maintained by L&D. Procurement will begin the sourcing of training program from 9/1/2016 and implement the program by 9/1/2017.</p> <p>Phase III: Automate Contract Compliance and Vendor Performance Monitoring and Reporting. Procurement will source and implement a Vendor Performance Management application (an added module to the eSourcing application that Procurement will source and implement in early FY2017) to automate the contract compliance and vendor performance monitoring and reporting. This will also produce vendor scorecards. Target implementation is 9/1/2017.</p> <p>Responsible Party: Department of Procurement</p> <p>Target Date: Phase I: Complete by 2/1/2017 Phase II: Complete by 9/1/2017 Phase III: Complete by 9/1/2017</p>
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CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

M&N Contractors, LLC

Department of Facilities, Janitorial Services

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CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Background

Contract # 14-PR-DFS-08

M&N Contractors, LLC (M&N) provides janitorial services for office spaces, lockers and lunch rooms, the fleet building, trailers, the boat house, welding shops, pumping stations, and blower buildings at DC Water’s Blue Plains Wastewater Treatment Plant, O Street Pumping Station, and Bryant Street Pumping Station.

Contract Overview	
Contractor	M&N Contractors, LLC
Award Date	10/24/2014
Original Contract Period	October 21, 2014 -- October 20, 2015
Contract Award	\$673,640
Type of Contract	Firm fixed price, four (4) one (1) year option periods
COR	Director, Department of Facilities
COTR	Manager, Department of Facilities

During the base year, DC Water had three contract modifications that added the Heat Exchange Building, DETS Trailer, and the Central Maintenance Facility to the scope of the contract. Additionally, in option year one (1) the Authority added BP1 Warehouse to the scope. There are currently 28 sites covered by the scope of the contract. M&N is currently a certified Local Small Business Enterprise.

Statistics and Financial Information

DC Water is currently exercising its option to extend the contract in Option Year No. 1. The M&N contract makes up approximately 39% of the Department of Facilities’ total contractual services operating expenditures budget for FY 2016, as illustrated below:

Approved FY 2016 Department of Facilities Operating Expenditures Budget	
M&N budget for Option Year 1 ²	\$750,000
Total operating expenditures budget - Department of Facilities ³	\$8,276,000
M&N budget % of total Department operating expenditures budget	9.06%
Total contractual services budget – Department of Facilities ³	\$1,929,000
M&N budget % of total Department contractual services budget	38.9%

²Source: M&N Option Year 1 Fact Sheet of the Executed Contract

³Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget





CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations

M&N Contractors – Department of Facilities			
1.	<u>Employee Clearances and Background Checks</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: High		
	<p>The request for proposal (RFP) for Janitorial Services, which was awarded to M&N Contractors, LLC, required that "Personnel employed by the contractor shall be screened and be required to obtain a police clearance." This requirement in the RFP gives DC Water the right to request an arrest or criminal history report from the vendor.</p> <p>As there is not a requirement to monitor compliance, there was not a process in place to validate that M&N personnel obtained police clearances and there is not a process in place to validate that any new M&N employees assigned to work on DC Water have obtained the appropriate clearances. Contractors that have access to multiple DC Water buildings and offices may not have been properly vetted by the vendor.</p>	<p>DC Water should evaluate when police clearances are required and if required for particular contractors, how and when DC Water should monitor and verify the contractor conducted proper background checks and police clearances. This should be evaluated based on the contractor's scope of work, working hours and accessibility to DC Water properties and records.</p>	<p>Response: The COTR of M&N contract will confirm with the vendor that this contract requirement is being performed by the vendor. Procurement will also issue a memo to all COTRs authority wide to monitor key contractual requirements with vendors. Reference Management Action Plan for the COR / COTR Training.</p> <p>Responsible Party: Department of Facilities and Procurement</p> <p>Target Date: August 1, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

M&N Contractors – Department of Facilities			
2.	<u>Personally Identifiable Information</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Moderate		
	<p>Currently, the contract requires that the M&N Contractors, LLC provide a monthly payroll summary for each of its employees covered under this contract, listed by location at each DC Water facility. The contract currently requires the payroll summary to include social security numbers. The COTR is receiving these payroll reports via email and maintaining hardcopies. By obtaining personally identifiable information, DC Water may be liable or at risk for improper distribution of this information.</p>	<p>Facilities should coordinate with the Procurement Department to revise this requirement in the contract and immediately request that M&N stop providing these reports with social security numbers.</p>	<p>Response: Per Facility's request, the vendor has stopped submitting reports. Procurement will issue a contract amendment to remove this requirement from the contract.</p> <p>Responsible Party: Department of Facilities and Procurement</p> <p>Target Date: July 15, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

M&N Contractors – Department of Facilities			
3.	<u>Documentation and Monitoring of Janitorial Services</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>M&N Contractors, LLC are responsible for maintaining daily records of personnel and their work assignments, which is to be submitted with each monthly invoice. Additionally, reports on all cleaning requirements must be submitted to the COR within five (5) days after completion of the tasks.</p> <p>Currently, M&N only provides reports of the bathroom cleanings at each assigned location and notifies the COTR via email when there is a change in the schedule which would result in changes to the weekly or quarterly schedules. The bathroom cleaning schedules are the only logs obtained to support the invoice. There is no evidence or documentation for any other required cleanings.</p> <p>There is currently a heavy reliance on the on the on-site Project Manager, an M&N employee, to validate that work is completed based on the agreed upon frequencies outlined in the RFP. Since the only information provided to DC Water is the bathroom cleaning reports, DC Water is not able to validate work is performed other than by performing spot checks.</p> <p>Other controls exist for reporting non-compliance or issues with the janitorial services, such as the housekeeping checklist completed by DC Water employee or by utilizing Maximo to submit facilities and/or janitorial requests. However, documentation does not exist to validate that M&N Completed the cleaning tasks required as part of the RFP and contract.</p>	<p>Facilities should require the Contractor to submit a schedule of planned periodic cleanings based on the requirements outlined in the RFP and maintain an approved log of periodic cleanings, in addition to the daily bathroom logs. This would include but is not limited to monthly or quarterly periodic cleaning tasks (high/low dusting, stripping/refinish floors, etc.).</p> <p>At the beginning of the contract and the beginning of the new option year, M&N provided DC Water with an "Annual Work Plan". This work plan only included tasks for first 60 days and served more as a contract start-up checklist for the on-site Project Manager. However, this checklist could be revised to document all activities required in the contract and could be utilized by M&N's on-site supervisor validate and document performance. The COR and/or COTR should utilize these logs to document any spot checks that are conducted to evidence monitoring of contractor performance.</p>	<p>Response: Management will require M&N Contractors to maintain logs that monitor and document all scheduled services provided within the contract. These logs will include monthly high cleaning, quarterly floor maintenance, and semi-annual cafeteria/kitchenette cleaning of COF.</p> <p>Responsible Party: Manager, Facilities Services</p> <p>Target Date: June 30, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

M&N Contractors – Department of Facilities			
4.	<u>COR/COTR Designation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>The Contracting Officers Representative (COR) identified in the contract with M&N Contractors, LLC is an employee that is no longer with the Authority. The new Director of Facilities, is the acting COR but this has not been formally updated with Procurement. It is the responsibility of the COR and/or the COTR to notify the Procurement Department of any change. If the COR or COTR designation is not accurate, the COR may not have the proper contractual authority to execute his duties.</p>	<p>Per the Procurement Manual, the Contracting Officer must delegate authority to the appropriate COR. The COR and/or COTR for the M&N contract should notify Procurement for the need to change this designation and then Procurement should update the COR/COTR Memo.</p>	<p>Response: Procurement will implement a new process of verifying and updating the COR/COTR list Authority-wide on a semiannual basis (June and January). On 6/15/16, Procurement has requested and received COR/COTR verification and updates from departments and will update the COR/COTR where needed by 7/15/16.</p> <p>Responsible Party: Procurement</p> <p>Target Date: July 15, 2016</p>



PROCESS IMPROVEMENT RECOMMENDATIONS

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M&N Contractors – Department of Facilities	
<u>Opportunity</u>	<u>Recommendation</u>
<p>Safety Requirements - The utilization of anti-skid / slip resistant floor finish to refinish floors by the Contractor was not explicitly stated in the contractor's safety manual. This was a safety measure that was required per the contract.</p>	<p>The Authority should request that the Contractor provide an updated safety manual and ensure that all contract requirements were met.</p>

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CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Centerra Group, LLC

Department of Fleet Management, Fleet Management Services Contract



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Background

Contract # WAS-12-033-AA-RE

G4S Integrated Fleet Services, LLC (G4S) was awarded the contract to perform fleet management, maintenance, repair, and operational services for DC Water. After the award date of this contract, G4S was acquired by the private equity firm Alvarez & Marsal Capital Partners in November 2014 and changed their name from G4S Integrated Fleet Services, LLC to Centerra Group, LLC (Centerra).

Contract Detail	
Contractor	Centerra Group, LLC
Award Date	10/10/2012
Original Contract Period	11/1/2012 – 10/31/2013
Contract Award	\$1,368,820
Type of Contract	Firm fixed labor rates, and up to four (4) additional one-year option periods
COR / COTR	Director, Department of Facilities

The Contractor is responsible for:

- All specialized functional areas; and
- The maintenance and repair operations, support areas and the typical fleet requirements of DC Water to be supported by the Contractor.

The Department of Fleet Management (“Fleet Management”) has a re-repair clause in the executed contract to protect DC Water from poor Contractor performance on vehicles. The Authority is currently exercising its option to extend the contract in Option Year 3. Centerra utilizes four subcontractors that are all Local Small Business Enterprises.

DC Water currently has two contracts with Centerra. One is for fleet management, maintenance, repair, and operational services, which is the focus of this audit. The other Centerra contract is for the supply of parts and materials, which we did not review. All Centerra employees are required, per the executed contract, to receive an extensive Safety Training Program, which assigns a competent official with safety responsibility and oversight, documents a hazard identification and communication plan, emergency response plan, medical plan, outlines accident investigation and reporting procedures, and outlines specific programs related to the work to be performed at DC Water.

The Authority has a continuous need for a contractor to manage the preventative/predictive maintenance, repair, towing, emergency services and other fleet operations as required by the Department of Fleet Management.



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Background (Continued)

Fleet Management System

DC Water and Centerra use a fleet management system, FleetWave, for the fleet management process. DC Water employees can access reports and Contractor performance measured through multiple key performance indicators in the system. FleetWave maintains all inventory levels for equipment. Centerra uses FleetWave to track work orders and monitor tasks. DC Water can then validate all work orders in the system and reconcile to monthly invoices to ensure DC Water is billed for tasks that were actually complete and parts that were utilized.

Centerra also utilizes FleetWave to create and maintain a preventative maintenance schedule. To satisfy the four month and annual preventative maintenance (PM) requirements per the contract, PM is broken down into B Service PM and C Service PM. B Service satisfies all contract requirements for four month PM and C Service satisfies all requirements for annual PM. DC Inspections are monitored separately for annual completion in FleetWave.

Statistics and Financial Information

DC Water is currently exercising its option to extend the contract and is in Option Year No. 3. The Centerra contract makes up approximately 50% of the Department of Fleet Managements total contractual services operating expenditures budget for FY 2016, as illustrated below:

Approved FY 2016 Department of Fleet Management Operating Expenditures Budget	
Centerra budget for Option Year 3 ²	\$1,816,900
Total operating expenditures budget - Department of Fleet Management ³	\$5,732,000
Centerra budget as a % of total Department operating expenditures budget	31.70%
Total contractual services expenditures budget - Department of Fleet Management ³	\$3,631,000
Centerra budget as a % of total Department contractual services budget	50.00%

²Source: Centerra Option Year 3 Fact Sheet of the Executed Contract

³Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

Centerra Group, LLC – Department of Fleet Management			
1.	<u>Outdated Contract Requirements</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: High		
	<p>The implementation of FleetWave during the course of the contract has made much of the contract obsolete, since many fleet management maintenance reporting and monitoring responsibilities have shifted from the Contractor to DC Water. Shifting responsibility away from the Contractor has given DC Water more transparency into the fleet management process and real-time access to key performance indicators (KPIs) and performance information. As a result, DC Water no longer has to rely on the Contractor for reporting. However, this leaves DC Water with the risk of being unable to enforce the current fleet management process because it is not fully documented in the executed contract. However, DC Water has SOPs outside of the contract around fleet management maintenance that details their current process. The areas of the contract that do not completely and accurately reflect the current fleet management process at this time pertain to preventative maintenance and reporting. Preventative maintenance now has a frequency requirement based on vehicle type, rather than the standard four month and one year intervals laid out in the contract. In addition, the performance reports that the contract states Centerra must provide are no longer required due to the real-time information available in FleetWave. See Appendix B for the full breakdown of outdated contract elements.</p>	<p>The Fleet Management team along with Procurement should re-write the Contract with Centerra to fully capture the functionality of the FleetWave system and to reflect the current balance of responsibility between DC Water and the Contractor. PM maintenance frequency requirements should be updated to reflect FleetWave's required intervals. Performance reports should be created as part of the invoice review process as evidence that the proper KPIs have been considered in calculating the appropriate payment amount. Contract specified KPIs in the performance Article should include those currently tracked by the Fleet Director in FleetWave.</p>	<p>Response: The Department of Fleet Management (“Fleet Management”) is moving from an outsourced contract to an in-house operation in 2018 and the current model was developed to handle both streams in our industry. The Department of Fleet Management has modified numerous amounts of its KPIs to better fit a maintenance services contract not just a preventive maintenance offering. Fleet Management has spoken with Procurement, Finance, Support Services AGM and the COO concerning bringing this operation in-house. As we move towards more integrated services and in conjunction with the new facility being erected in late FY2018 the Department of Fleet Management will be able to increase its service offerings as well as develop personnel to manage these services in a more effective and efficient way. Centerra is in its last</p>

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Centerra Group, LLC – Department of Fleet Management		
		<p>option year of the contract in FY 2017 and fleet anticipates having the needed KPI's, Dashboards and other calculations in place prior to this taking affect. The contract for FY 2017 will be modified with Procurement, as it is anticipated to go before the Board for approval in September. As well, the FleetWave system is a real-time SQL based system which offers Fleet Management the ability to manage in the moment. Although reports can be run our interactive dashboards and KPI's are setup to track the activities of our onsite vendors. Although Fleet Management holds its contractors to their requirements it is also flexible in the needs of operational departments which has not resulted in penalties or negative findings against the contractor. Fleet Management appreciates the work that Centerra has done in assisting Fleet moving toward a more Predictive/Preventive Integrated Technology Maintenance Services Contract model and away from just a Preventive Maintenance model.</p> <p>Responsible Party: Department of Fleet Management</p> <p>Target Date: September 30, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

Centerra Group, LLC – Department of Fleet Management			
2.	<u>Invoice and Payments</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Moderate		
	<p>DC Water Department of Fleet Management does not remit payment of the Contractor's invoice within 30 days of receiving the invoice in accordance with the contract. All four of the invoices selected for testing did not meet the 30 day requirement. Additionally, when the March 2016 invoice was incorrect, the Department of Fleet Management requested a revised invoice from Centerra over two weeks from the receipt of the original invoice. The contract states that “payment shall be made within 30 days upon receipt of a complete and correct invoice.” These delays occurred because the invoices were sent directly to Fleet Management and not to Finance. Additionally, the invoice review process took a significant level of effort in order to verify the invoice matched the detailed information in Fleetwave and that discounts were properly captured.</p> <p>In addition, we tested the October 2015 invoice as one of our four invoice samples, which was the last month in Option Year 2 of the contract. The invoice; however, had hourly rates listed from both the Option Year 2 and Option Year 3 pricing schedule per the contract. DC Water was charged a dollar amount outside of the contract requirements in the last month of the Option Year. The rate changes were insignificant; however, the process should be improved to ensure appropriate rates are utilized.</p>	<p>The Department of Fleet Management should pull the necessary KPI reports and review the invoicing period prior to receiving the invoice from the Contractor. The purpose of this review should be to determine any deductions that should be applied to the period's invoice based on performance measurements, so that when the Authority receives the invoice from the Contractor, the turnaround time of payment is within the 30 days required by the DC Water's contract.</p>	<p>Response: The Department of Fleet Management agrees with this assessment and the following steps have been taken to mitigate the risk of repeating these actions. The Department of Fleet Management has implemented a plan in coordination of Finance, A/P, Controller, Support Services AGM and Centerra that states that all payments sent to Finance must be approved by fleet before payment is rendered, must be accurate and submitted on-time. They must first undergo a review from the Fleet Program Manager upon receipt then a review takes place with the Centerra representative after which payment approval is submitted. Fleet Management reviews this process bi-weekly, prior to receipt of the invoice, online as well along with meeting with Contractor to timeliness and accuracy.</p> <p>Responsible Party: Department of Fleet Management</p> <p>Target Date: August 1, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

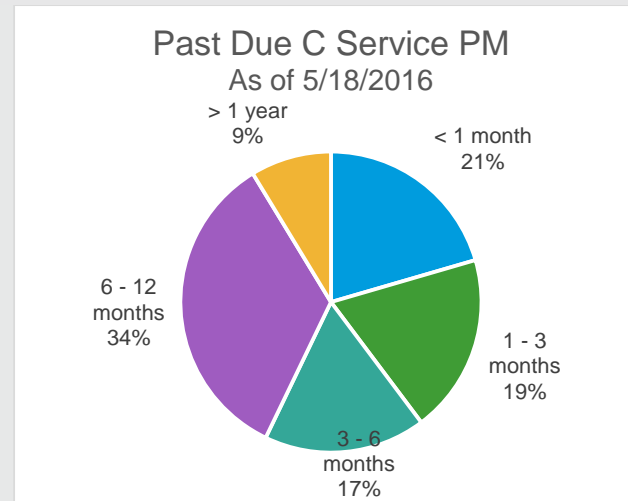
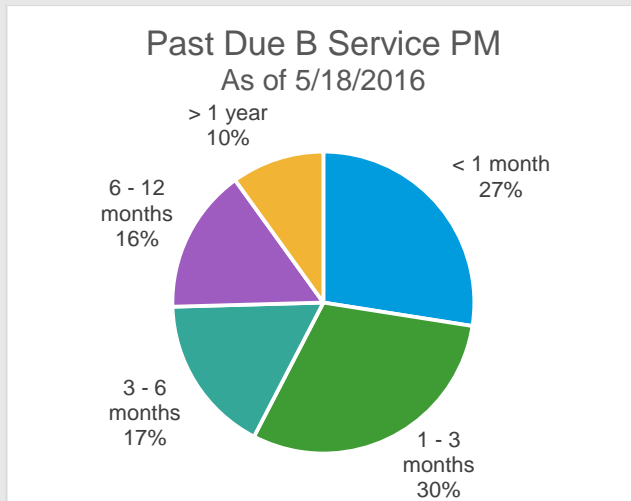
Centerra Group, LLC – Department of Fleet Management			
3.	<u>Timeliness of Preventative Maintenance</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Moderate		
	<p>Preventative Maintenance (PM) is not being performed timely. Per the contract, PM is required to be completed every 4 months as well as annually. Without completing timely PMs, DC Water is at risk of requiring more emergency maintenance of vehicles which makes availability of the fleet less predictable. Vehicles within FleetWave are classified by subtype and each subtype has assigned required intervals for B Service and C Service PM that may vary from 4 month and annual cycles. B Service PM covers the tasks required for 4 month PM and C Service PM covers the tasks required for the annual PM per the contract. DC Inspections (DCIs) are part of the annual PM contract requirement and are monitored separately from B and C Service for annual completion in FleetWave.</p> <p>In a sample of 25 vehicles, 8 vehicles were overdue for a DCI (over one year) at some point in time during FY 2015 or FY 2016. All 25 vehicles had been overdue for a B Service PM (over 4 months) and 13 had been overdue for a C Service PM (over 1 year) in the same timeframe. As of May 18, 2016, FleetWave reported that 161 vehicles were overdue for C Service PM and 342 vehicles were overdue for B Service PM based on the FleetWave required frequencies. No DCIs were overdue as of May 18, 2016 from our sample of 25 vehicles. The median number of days overdue for a B Service PM was 65 days, and 143 days for C Service PM.</p> <p>Inaccurate monitoring of PM due dates in FleetWave may be a root cause of late PMs. Although the Contractor can view the next PM date in FleetWave at any time, email notifications from the system are sent to drivers 45 days, 15 days, and one day before a vehicle is due for PM. The PM next service dates are calculated based on the original seed</p>	<p>The Department of Fleet management should adjust the intervals used by FleetWave to determine the next PM date. Currently, the seed date is being used to calculate the next PM due date. The next PM due date should instead be calculated based on the last PM service date. In order to keep DCIs timely, DCIs should be tracked separately from PM dates. When a driver gets a notification for DCI due, they should be required to bring the vehicle in for PM first, which will in turn affect their next PM due date.</p>	<p>Response: As per the recommendation this is a requirement and is in place. The DCI's are in concert with the PM's because it minimizes the impact to departmental operations. As well, DC Water gets no preference for governmental inspection which means that these units must be seen by DC Water prior to inspection. DC Water also pays for inspections so it is paramount that we manage this process expeditiously. Fleet Management is also conducting a business process re-review for revamping PM scheduled times based on equipment type and OEM recommendations.</p> <p>Responsible Party: Department of Fleet Management</p> <p>Target Date: August 1, 2016</p>

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Centerra Group, LLC – Department of Fleet Management

date, which is the original B Service/ C Service date in the system. This means that if a vehicle was brought in to be serviced and was past due, its next due date will be in less than 120 days (or the vehicle's required interval) because it is based on the seed date and not the date the vehicle was last serviced (and vice versa if brought in to be serviced early). Therefore, FleetWave may be notifying some drivers prematurely if they brought their vehicle in late for its last service and some drivers too late if they brought their vehicle in early for its last service for B Service and C Service PM. As of October 2015, DCI costs \$35 per inspection. If a vehicle fails inspection, it will need to be re-inspected for an additional \$35. In addition to the cost, long wait times are expected at inspection centers, so a DCI affects fleet availability. In order to cut down on costs, DC Water wants the PM schedule to be tied to DCIs to decrease the potential of a failed DCI. For this reason, DC Water ties next PM due date to the seed date. However, this creates inaccuracies in the overdue PM statistics that are being tracked in the system.



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CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Nutri-Blend, Inc.

Resource Recovery – Wastewater Treatment Operations, Biosolids Hauling Contract



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Background (Continued)

Contract # WAS-12-007-AA-SH

Nutri-Blend, Inc. (Nutri-Blend) provides labor, equipment and supplies for hauling and utilization of biosolids to the Authority. Nutri-Blend also provides professional services biosolids management resources or personnel required by DC Water to meet its operating and project needs.

Contract Overview	
Contractor	Nutri-Blend, Inc.
Award Date	4/27/2012
Original Contract Period	May 1, 2012 – April 30, 2013
Contract Award	\$11,457,422
Type of Contract	Firm fixed-price, with fees for each line of business coverage for the base year and four (4) optional engagement years
Contract Admin/ COTR	Director, Resource Recovery

The Contractor is responsible for:

- Installing GPS tracking systems in all trucks;
- Providing labor, supervision, equipment, materials, tools, insurance, bonds, tipping, processing and/or disposal fees, etc. to haul, store, maintain, prop, and utilize varying quantities of biosolids removed from DC Water’s Blue Plains Waste Water Treatment Plant (WWTP or “Blue Plains”); and
- Loading of biosolids onto vehicles at Blue Plains and hauling directly to the utilization sites, or storing at an approved Contractor site, and then thereafter hauling directly to the utilization site.

The Contractor must obtain and maintain all permits required for processing, storing, hauling and utilizing/disposing of biosolids, as issued by D.C. Water National Biosolids Partnership Environment Management System (EMS) Program. On a bi-annual basis, the National Biosolids Partnership (NBP) conducts an audit of the Biosolids EMS program. As part of this audit, NBP reviews land application sites, the Contractor’s work, procedures and Biosolids Program Manual, and validates truck driver licenses/certifications. DC Water has earned a gold status for these reviews for the past 10 years.



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Contract Background (Continued)

Maryland Environmental Services (MES) is a separate contractor that acts as the primary oversight in the field of operations. MES Inspectors physically validate every load that Nutri-Blend transports to the land application sites. MES maintains a database that the inspectors have access to in the field to compare to DC Water's records for discrepancies. Scale Logic, a scale database system, is also used to help track invoicing and regulatory compliance. Drivers receive a ticket when they load their trucks which includes time of departure from Blue Plains, tons of biosolids, and destination site. The MES inspectors at the land application sites scan the barcode on the ticket upon a driver's arrival. Nutri-Blend does not utilize any subcontractors on the contract.

Statistics and Financial Information

DC Water is currently exercising its option to extend the contract and is in Option Year No. 3. It is anticipated that the contract award will decrease in the future due to the introduction of Bloom. Currently, the Nutri-Blend contract makes up approximately 64% of the Department of Wastewater Treatment – Operations total contractual services operating expenditures budget for FY 2016, as illustrated below:

Approved FY 2016 Department of Wastewater Treatment – Operations Operating Expenditures Budget	
Nutri-Blend budget for Option Year 3 ²	\$5,800,000
Total operating expenditures budget – Wastewater Treatment - Operations ³	\$86,972,000
Nutri-Blend budget as a % of total Department operating expenditures budget	6.67%
Total contractual services expenditures budget – Wastewater Treatment - Operations	\$9,086,000
Nutri-Blend budget as a % of total Department contractual services budgets ³	63.83%

²Source: Nutri-Blend Option Year 3 Fact Sheet of the Executed Contract

³Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations

Nutri-Blend, Inc. – Department of Wastewater Management – Operations			
1.	<u>Contract Monitoring</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Moderate		
	<p>DC Water does not verify that Nutri-Blend is maintaining a Department of Transportation compliant substance abuse program, as required in the Substance Abuse Section of Article 2.2.N of the contract. The program should include both drug and alcohol testing on a pre-employment, post-accident, reasonable suspicion and random basis.</p> <p>Nutri-Blend’s Safety and Communications Plan that was submitted with the proposal includes the details of the Contractors substance abuse program. The Safety and Communications Plan meets the requirements outlined in the Substance Abuse Section of Article 2.2N of the contract.</p> <p>If DC Water is not validating the existence of the program, there is a risk that drivers may not be meeting specifications or qualify to haul biosolids or operate a vehicle safely.</p>	<p>DC Water should request a monthly report of any incidents or obtain evidence of screening prior to employing a driver to haul biosolids on behalf of DC Water. This could be incorporated into the Monthly Biosolids Coordination meeting with Nutri-Blend.</p>	<p>Response: This is only reviewed during the NBP EMS audits. DC Water will request a monthly report of any incidents or obtain evidence of screening prior to employing a driver to haul biosolids on behalf of DC Water. This will be incorporated into the Monthly Biosolids Coordination meeting with Nutri-Blend.</p> <p>Responsible Party: Director of Resource Recovery</p> <p>Target Date: September 1, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

Nutri-Blend, Inc. – Department of Wastewater Management – Operations			
2.	<u>Documentation of Permit Requirements</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Moderate		
	<p>The Contractor is not providing monthly permit status reports in compliance with the contract notifying the Authority of all permit reports required by Federal and State regulatory agencies and provide the status of acquiring additional utilization sites. However, issues regarding monthly permit status reports and utilization sites are reported during the Monthly Biosolids Coordination Meeting between the Contractor and DC Water. MES auditors may review these permits once every five years as part of their audit. Currently, there is no documentation to evidence these items are discussed.</p> <p>The Contractor keeps all their working permits for tasks such as Burning and Welding, Lockout/Tag out, Confined Space, and Switching and Tagging in a filing cabinet off site. The Authority maintains the right to inspect these working permits for validity but has not done so since the origination of the contract.</p> <p>Additionally, the Authority does not validate that the Contractor has all the permits required for processing, storing, hauling, and utilizing / disposing of biosolids. MES Inspectors are responsible for reviewing the "field manuals" daily, which contain a copy of permits. The Authority relies solely on their reports, which are discussed at the monthly Biosolids Coordination Meeting, to identify any issues with the permits. However, there is not documentation evidencing these reports being discussed.</p> <p>There is a lack of documentation to evidence the Contractor is operating with the proper permits required by Federal and State regulatory agencies.</p>	<p>The COR and COTR should examine the level of reporting required in the contract. According to the COR and COTR, there are rarely permit site issues as reported in the MES inspectors report during the Monthly Biosolids Coordination Meeting; however, DC Water should validate that any discussions are documented to ensure all permits are up to date.</p>	<p>Response: The COR and COTR will examine the level of reporting required in the contract. Inspectors monitor this on a daily basis in the field with inspection of the field manuals. We did not feel it necessary to have this report. There are rarely permit site issues as reported in the MES inspectors report during the Monthly Biosolids Coordination Meeting. However, DC Water will validate that any discussions are documented to ensure all permits are up to date.</p> <p>Responsible Party: Director of Resource Recovery</p> <p>Target Date: September 1, 2016</p>



CONTRACT BACKGROUND AND DETAILED OBSERVATIONS (CONTINUED)

Detailed Observations (Continued)

Nutri-Blend, Inc. – Department of Wastewater Management – Operations			
3.	<u>Management Reporting Requirements</u>	<u>Recommendation</u>	<u>Management’s Action Plan</u>
	Observation Rating: Low		
	<p>DC Water no longer requires the Contractor to submit the quarterly reports identified in "Article 1.1 - Storage of Biosolids" that requires the Contractor to submit a quarterly report that provides a written plan for the use of the biosolids in storage. Maryland Environmental Services (MES) is responsible for monitoring the storage of biosolids against any regulations and provides a monthly report, as a result the Authority does not separately monitor the Contractor in this regard. The Authority does require the Contractor to clear out storage sites once a year usually around November to increase storage space for the winter. The Contractor is currently not in compliance with the contract.</p>	<p>The contract language should be modified to remove the reporting requirement in "Article 1.1 - Storage of Biosolids" that requires the Contractor to submit these quarterly reports.</p>	<p>Response: There is no need for this provision since MES inspects the storage facilities often, more than quarterly. Staff will revise this language for the next contract to eliminate report, but require access by MES. Staff will modify the contract language to remove the reporting requirement in "Article 1.1 - Storage of Biosolids" that requires the Contractor to submit these quarterly reports.</p> <p>Responsible Party: Director of Resource Recovery</p> <p>Target Date: September 1, 2016</p>



APPENDIX A – RATING DEFINITIONS

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



APPENDIX B – CENTERRA CONTRACT ARTICLES

The following areas of the Centerra executed contract do not completely and accurately reflect the current fleet management process:

1.5.1 Four (4) Month PM Tasks

Various 4 month PM tasks are required of the Contractor. These tasks are all satisfied by the B Service PM performed and monitored in FleetWave. However, within FleetWave vehicles are classified by subtype, and each subtype is assigned a required frequency for B Service PM. This frequency is not always 4 months as stated in the contract. Frequency ranges from every 28 days to every 180 days based on the specific needs of each subtype, so not all vehicles are required B Service at exactly a 4 month frequency per FleetWave. Due to the implementation of FleetWave, DC Water customized maintenance frequencies based on individual vehicle specifics to make for more proper vehicle care, but the contract does not reflect that.

1.5.2 Yearly PM Tasks

Various yearly PM tasks are required of the Contractor. These tasks are all satisfied by the C Service PM performed and monitored in FleetWave along with the DC Inspection monitored separately in FleetWave. However, within FleetWave vehicles are classified by subtype, and each subtype is assigned a required frequency for C Service PM. This frequency is not always one year as stated in the contract. Frequency ranges from every 90 days to every 365 days based on the specific needs of each subtype, so some vehicles are required at a higher frequency per FleetWave than the contract specifies. DC Water runs the risk of being unable to enforce FleetWave monitored PM schedules since the contract does not require C Service PM more than once a year.

1.8 Performance

The contract details that the Contractor will be rated quarterly based on several key performance indicators (KPIs). As FleetWave tracks KPIs constantly, quarterly reviews are no longer performed. However, without a report with all necessary KPIs included quarterly, we cannot verify whether the necessary KPIs are being considered to assess the quality of work Centerra performs. If performance is not tracked, damages cannot be collected for underperformance. The Fleet Director routinely tracks overall availability of the fleet, availability of Priority 1 Vehicles, response time to road calls, and PM schedules according to the proper time frame on his dashboard in FleetWave.

1.23.1 Weekly Reports

The Contractor is required to generate weekly reports for DC Water per the contract regarding the week's activities, concerns and issues. Now that DC Water has real-time access to all Contractor activity, the Contractor is not generating reports weekly. However, documentation does not exist and thus we are not able to validate that DC Water is monitoring the appropriate KPIs and collecting damages when Centerra does not meet performance expectations.

1.23.2 Monthly Reports

The Contractor is required to generate monthly reports for DC Water per the contract regarding the month's activities, concerns and issues. Now that DC Water has real-time access to all Contractor activity, the Contractor is not generating reports monthly. However, documentation does not exist and thus we are not able to validate that DC Water is monitoring the appropriate KPIs and collecting damages when Centerra does not meet performance expectations.

1.23.3 Annual Reports


The Contractor is required to generate annual reports for DC Water per the contract regarding the year's activities and overall performance. Now that DC Water has real-time access to all Contractor activity, the Contractor is not generating reports annually. However, documentation does not exist and thus we are not able to validate that DC Water is monitoring the appropriate KPIs and collecting damages when Centerra does not meet performance expectations.



APPENDIX B – CENTERRA CONTRACT ARTICLES (CONTINUED)

1.33 AFMS Requirements

The Contractor is required to utilize the in-house Automated Fleet Management System (AFMS) to capture activity and support operations. The various capabilities of the in-house AFMS are laid out in this Article. The contract requires Centerra to provide updates in the form of reports and not presented in query format straight from the AFMS. As noted above, no reports are being provided to DC Water by the Contractor.



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ROCIP Savings Analysis

June 2016

ROCIP Savings Analysis
Issued: June 2016



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TRANSMITTAL LETTER

June 2016

The Audit Committee of DC Water
 5000 Overlook Avenue, SW
 Washington, DC 20032

Pursuant to the approved 2016 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”, we hereby present our Savings Analysis of the Rolling Owner Controlled Insurance Program (“ROCIP”). We will be presenting this report to the Finance & Budget Committee and the Audit Committee of DC Water at the next scheduled meetings, on July 28, 2016. Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations and opportunities related to our analysis of the ROCIP savings as reported by the contracted Third-Party Administrator, Aon Group (“Aon”).
Background	This provides an overview of the ROCIP program and process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Savings Analysis	This provides an analysis of DC Water’s ROCIP program, and the accumulated savings estimated by Aon between 2004 and 2015.
Detailed Observations	This section gives a description of the process and control observations noted during our work and recommended actions as well as management’s response, responsible party, and estimated completion date.
Appendices	This sections provides additional information regarding ROCIP, including detailed savings summaries, as prepared by Aon, for October 2015, February 2016, and June 2016.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with this review, including DC Water staff and personnel from Aon.

Respectfully Submitted,

Internal Auditors

EXECUTIVE SUMMARY

Overview

The Finance and Budget Committee requested a review of the current reporting and savings calculations associated with the ROCIP program, as prepared by the Aon Group (“Aon”), a contracted third party administrator for the program. The ROCIP program has grown substantially over time and is now set to enter the fourth version of the program. The premise of the ROCIP program is that approved contractors agree to reduce their accepted bid amounts by the insurance costs they would otherwise bear individually if coverage were issued in accordance with the DC Water requirements. All participating contractors are subject to DC Water monitoring and adherence to safety inspection and related safety practices as established by DC Water. DC Water then uses its expanded insurance buying capacity to provide workers compensation and general liability protection to participating contractors at levels of coverage not always available to the contractors on a stand-alone basis.

The success of the ROCIP program is recognized nationally in the insurance community and the resulting long term partnership with its insurance carrier points to its effectiveness. Claim management is also a key component of the ROCIP program. Internal ROCIP committee meetings are held monthly with all representatives of the program, engineering, safety, insurance broker and consultants. An annual program review is also held with these participants.

The support provided by the outgoing third party administrator, Aon, was a key source of information for this assessment. Internal Audit also extends its appreciation to DC Water’s Finance and Risk Management teams for input to specific questions on information and documentation spanning from the program’s inception in 2004. It is hoped that the successor administrator, Wells Fargo, will build from the results and observations noted within this analysis and continue to enhance the program into the future.

Objective and Scope

Our procedures were developed and based upon the program and savings summaries provided by Aon and also incorporated a review of respective general ledger accounts used to transact the expenditures of the program. In addition to specific project and contractor supporting records, we obtained actuarial reports issued by Aon to support our understanding of the program, as well as general ledger support and other documentation.

Our scope included the following:

- Evaluate consistency in ROCIP procedures and controls;
- Determine how ROCIP results are reported to stakeholders;
- Evaluate how ROCIP is managed at the department-level;
- Evaluate how funding estimates are planned and recorded;
- Evaluate how Aon is utilized to manage ROCIP reporting;
- Test Aon’s AonWrap application input on a sample basis; and
- Test the safety inspection process on a sample basis.

Fieldwork was performed November 2015 through February 2016.

Overall Summary

In addition to the analysis provided, the process and control observations identified during our assessment are summarized on the next page. We have assigned relative risk or value factors to each observation. Ratings are not assigned to opportunities as these items represent best practices and/or recommended initiatives. Risk ratings are defined in the Appendix.

Overall Summary (See Appendix A for definitions)			
	Number of Observations by Risk Rating		
	High	Moderate	Low
ROCIP	1	3	0

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

EXECUTIVE SUMMARY (CONTINUED)

Overall Summary

The following is a summary of the observations noted. Detailed observations, with recommended actions and management’s response are included, beginning on page 13.

Observations and Improvement Opportunities	
Observations	Rating
1. Liability Trend and Adjustment. During our fieldwork and testing of claims expenses, we noted that the estimated liability for ROCIP expenses was not adjusted over the life of the program as the Contract Values changed, or other new information was presented, such as when the actuarial claims reserve was prepared.	High
2. General Ledger Reconciliation. During our fieldwork, we noted that a reconciliation between Aon’s premium, claim and transaction records and the DC Water general ledger (G/L or Lawson) does not occur.	Moderate
3. Data Entry Errors and Missing Supporting Documentation. During our testing of Aon’s records, we noted data entry errors as well as older contracts where supporting documentation was not readily available.	Moderate
4. SRS Database for Safety Inspections. The SRS database, DC Water’s in-house tracking module, was not complete for inspections performed, containing instances where sign offs did not occur or there was incomplete documentation. We further noted that there was a period of time where the Aon supervisor was unable to access the system to perform these sign offs and document any remediation or follow up efforts performed.	Moderate

Process Improvement Opportunities have also been provided to management for consideration.

BACKGROUND, OBJECTIVES AND APPROACH

Background

The Rolling Owner Controlled Insurance Program (“ROCIP”) is an insurance program that is paid for and provided by DC Water, covering its prime contractors and their subcontractors for construction work on Blue Plains and off the plant. The program was inceptioned in 2004 and has had three phases to-date, covering approximately 140 projects totaling approximately \$3 billion in contracts. ROCIP 1 (“R1”) covers 10/2004 – 4/2012; ROCIP 2 (“R2”) covers 10/2009 – 4/2015; ROCIP 3 (“R3”) covers 10/2012 – 10/2017; the phases allow 3 years to enroll and 5 years to complete, so there is overlap in the coverage periods. Phase 4 is currently in the initial enrollment stage. The primary goal of any Owner Controlled Insurance Plan is to gain economies of scale on insurance costs, due to increased limits and coverage specific to project sites. Such a plan also provides access to contractors who may not be able to obtain the required coverage limits on their own.

The history of the ROCIP program has expanded from a group of 400 contractors in R1 to a level of 800 in R2 to 500 in R3. The insurance carrier for all three phases is ACE/ESIS. The administration of the program transitioned from a paper intensive reporting process to web portal data entry during this period.

ROCIP Administration

Since the inception of ROCIP in 2004, the program administrator has been Aon Group. During routine rebid of the contract, DC Water recently awarded the ROCIP administrator role to Wells Fargo. ACE/ESIS will continue as the insurance carrier. All previous ROCIP programs will continue to be reported by Aon until all projects are final and closed out. The observations we provide are intended to be applied equally to future and runoff obligations in an effort to support greater monitoring and reporting to the various committees.

Savings Estimates

The current ROCIP reporting emphasizes the pro-forma savings that is assumed to be present if contractors were to obtain separately quoted insurance coverage outside of an owner-controlled plan. At the bid stage of each project, the contractors provide an estimate of what the insurance costs would be were they to obtain coverage on their own. Then, Aon’s AonWrap system reviews those estimates for reasonableness by using estimated payrolls and applying the pricing structure of the separately quoted individual contractor insurance coverage. Once determined reasonable, that estimate is used as the basis of the Original Projected Savings amount. These are not hard dollar savings, but ‘soft’ savings, and as such are not recorded in the general ledger. The actual program premiums and administrator fees are recorded as paid, and routinely compared to the savings estimate for evaluation. Additionally, the savings estimate includes a loss element for any insurance claims incurred. Aon uses a loss estimate at the feasibility stage of each ROCIP which are based upon insurance company loss picks. Loss picks are used as an underwriting element of what premium rate to charge the insured. For Aon’s monthly reporting, the loss amounts shift from the loss pick amount to reported losses, the sum of paid amounts plus adjustor case reserve estimates. An actuarial estimate for future claims as well as those incurred but not reported (“IBNR”) is not included in Aon’s reporting, but is provided annually to DC Water. Fees estimated at each monthly reporting period by the third-party should be supported by a detailed schedule for what vendors and amounts are included in this value. This detail can then be reconciled to the general ledger to ensure all amounts are being reported and/or evaluated for reasonableness against estimates.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Savings Estimates as of October 2015

Below is a summary of the original and adjusted project savings as presented by Aon, as of October 2015, for each phase of the program. These are the estimates that our analysis sought to validate. Additional details of the amounts included in these estimates can be found in the Appendix.

	ROCIP 1	ROCIP 2	ROCIP 3	Total
Expected Contractor Insurance Costs	\$ 15,574,237	\$ 23,077,683	\$ 30,969,113	\$ 69,621,033
Expected Losses	\$ (3,893,545)	\$ (7,258,571)	\$ (5,801,390)	\$ (16,953,506)
Expected Fixed Costs	\$ (7,521,034)	\$ (10,790,422)	\$ (11,498,553)	\$ (29,810,009)
Total Estimated Program Costs	\$ (11,414,579)	\$ (18,048,993)	\$ (17,299,943)	\$ (46,763,515)
Formula errors (*)	\$ -	\$ -	\$ (1,507,678)	\$ (1,507,678)
Original Project Savings	\$ 4,159,658	\$ 5,028,690	\$ 12,161,492	\$ 21,349,840
Earned Contractor Insurance Costs	\$ 18,574,457	\$ 30,419,227	\$ 19,656,222	\$ 68,649,906
Actual Losses	\$ (5,080,887)	\$ (4,899,029)	\$ (676,841)	\$ (10,656,757)
Actual Fixed Costs	\$ (8,083,879)	\$ (10,824,976)	\$ (13,006,231)	\$ (31,915,086)
Estimated Additional Fee & Premiums	\$ -	\$ (3,811,187)	\$ (287,346)	\$ (4,098,533)
Total Actual Program Costs	\$ (13,164,766)	\$ (19,535,192)	\$ (13,970,418)	\$ (46,670,376)
Formula errors (*)	\$ -	\$ 1,276,506	\$ (240,305)	\$ 1,036,201
Adjusted Project Savings	\$ 5,409,691	\$ 12,160,541	\$ 5,445,499	\$ 23,015,731

Source: Aon ROCIP Summary, presented 10/21/2015

(Note * Formula errors have been corrected/noted in the table above in order to match the Original and Adjusted Project Savings amounts presented by Aon.)

Safety Oversight

DC Water has enlisted the support of its insurance company and an outside subcontractor to routinely visit, inspect, and review the site operations for the many ongoing projects associated with each ROCIP. This component instills a safety culture and serves as a deterrent to escalating claim costs now borne solely by DC Water. Reports issued for each site visit are shared at a monthly ROCIP committee meeting and the Finance & Budget committee. Contractors are enlisted in the program's design and are evaluated for compliance to safety standards and identified observations.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objective and Approach

Objective

The objective of the ROCIP Savings Analysis project was to validate the reported ROCIP program savings, as presented to the Finance and Budget Committee by the third-party administrator, Aon. We used the October 21, 2015, reporting date and program summaries as our base period for the analysis. Any control deficiencies or process improvement opportunities noted during the course of the project are also provided.

Approach

Our audit approach consisted of the following phases:

Understanding of the Process

During the first phase of our approach, we conducted interviews with key personnel within the Risk Management and Finance departments, as well as met with the Aon account manager to gain an understanding of the program and how the savings estimates were derived. We also met with the Safety Manager to understand the process for project site inspections. High-level flowcharts of these processes are included in the appendix.

Savings Analysis and Limited Control Testing

We obtained and reviewed support for the various inputs of the ROCIP original and adjusted project savings calculations for reasonableness and completeness of data. The specific procedures performed included, but were not limited to the following:

- Evaluate consistency in ROCIP procedures and controls;
- Determine how ROCIP results are reported to stakeholders;
- Evaluate how ROCIP is managed at the department-level;
- Evaluate how funding estimates are planned and recorded;
- Evaluate how Aon is utilized to manage ROCIP reporting;
- Test Aon's AonWrap application input on a sample basis, including:
 - Compare initial payroll to input amounts from Form 3;
 - Compare insurance cost offset amount to reported amounts;
 - Compare Oct 2015 ending payroll to input amounts;
 - Compare claims data to DC Water G/L;
 - Compare contractor insurance estimates to Form 1A provided upon enrollment; and
 - Recalculate spreadsheets for accuracy.
- Test the safety inspection process on a sample basis; and
- Identify control or process improvements.

Reporting

At the conclusion of our fieldwork, we summarized the results of our analysis and any detailed observations into a report, and discussed the results with management. Those results, along with management's action plans, are presented in this report, and will be provided to the Audit Committee and Finance and Budget Committee at a regularly scheduled meeting.

SAVINGS ANALYSIS

We selected a sample of contracts from each ROCIP phase and requested the Form 1 enrollment forms as well as Form 3 payroll reports for each period. For R1, these items were hard copy. For R2 and R3, these items were located online, as entered directly by the contractors. This data is subject to audits by the insurance carrier, and was used in our validation of the initial expected contractor insurance costs, as well as the actual payroll amounts that were used to calculate actual insurance premiums. We also obtained a detailed schedule of initial and revised premiums, fees, and claim loss reports from Aon, as well as detailed expense logs from DC Water in order to perform a high-level reconciliation. The results of various procedures and analysis are presented below and on the following pages.

Table 1: Spreadsheet Accuracy. As previously noted in the background section, there were formula errors in the Savings Summary for R2 and R3 as presented on October 21, 2015, by Aon. The original and corrected summaries are presented below for comparison. As a result of these corrections, the adjusted project savings (as presented and before any validation procedures) decreased by \$1,036,201 (\$23,015,731 - \$21,979,530), or approximately 4.5%.

ROCIP 2, as of October 2015:	As presented	Adjusted
Expected Contractor Insurance Costs	\$ 23,077,683	\$ 23,077,683
Expected Losses	\$ (7,258,571)	\$ (7,258,571)
Expected Fixed Costs	\$ (10,790,422)	\$ (10,790,422)
Total Estimated Program Costs	\$ (18,048,993)	\$ (18,048,993)
Formula errors (*)	\$ -	
Original Project Savings	\$ 5,028,690	\$ 5,028,690

Earned Contractor Insurance Costs	\$ 30,419,227	\$ 30,419,227
Actual Losses	\$ (4,899,029)	\$ (4,899,029)
Actual Fixed Costs	\$ (10,824,976)	\$ (10,824,976)
Estimated Additional Fee & Premiums	\$ (3,811,187)	\$ (3,811,187)
Total Actual Program Costs	\$ (19,535,192)	\$ (19,535,192)
Formula errors (*)	\$ 1,276,506	
Adjusted Project Savings	\$ 12,160,541	\$ 10,884,035

ROCIP 3, as of October 2015:	As presented	Adjusted
Expected Contractor Insurance Costs	\$ 30,969,113	\$ 30,969,113
Expected Losses	\$ (5,801,390)	\$ (5,801,390)
Expected Fixed Costs	\$ (11,498,553)	\$ (11,498,553)
Total Estimated Program Costs	\$ (17,299,943)	\$ (17,299,943)
Formula errors (*)	\$ (1,507,678)	
Original Project Savings	\$ 12,161,492	\$ 13,669,170

Earned Contractor Insurance Costs	\$ 19,656,222	\$ 19,656,222
Actual Losses	\$ (676,841)	\$ (676,841)
Actual Fixed Costs	\$ (13,006,231)	\$ (13,006,231)
Estimated Additional Fee & Premiums	\$ (287,346)	\$ (287,346)
Total Actual Program Costs	\$ (13,970,418)	\$ (13,970,418)
Formula errors (*)	\$ (240,305)	
Adjusted Project Savings	\$ 5,445,499	\$ 5,685,804

SAVINGS ANALYSIS (CONTINUED)

Table 2: Data Entry Errors. As a result of our fieldwork and validation testing on a sample basis, we noted data entry errors that were corrected by Aon and resulted in updated summaries, presented in February 2016 to the ROCIP Committee. In addition to these input errors, actual program costs incurred to-date as of February 2016 were updated due to the normal passage of time and project progression. The primary changes that resulted from formula and input errors as of February were as follows:

- Expected Fixed Costs for R1 were reduced, and Actual Programs costs were increased, due to Contract Value and actual payroll input errors, resulting in additional fees but reduced premiums, respectively.
- A duplicate claim for R2 that has been removed, resulting in lower actual losses than originally reported.
- Additional fees for R2 triggered as a result of Contract Values potentially exceeding \$770M.

Due to the timing differences between reports, both the original projected savings and the adjusted savings are presented in order to gain a fuller picture of where the final project savings may fall. The adjusted project savings could fluctuate as the remaining projects progress and close. A reconciliation of the general ledger and spot checking the contract values and payrolls reported against independent contractor compliance reports could provide more support for the numbers presented by the third-party administrator.

ROCIP Savings, as of October 2015:	R1	R2	R3
Expected Contractor Insurance Costs	\$ 15,574,237	\$ 23,077,683	\$ 30,969,113
Expected Losses	\$ (3,893,545)	\$ (7,258,571)	\$ (5,801,390)
Expected Fixed Costs	\$ (7,521,034)	\$ (10,790,422)	\$ (11,498,553)
Total Estimated Program Costs	\$ (11,414,579)	\$ (18,048,993)	\$ (17,299,943)
Formula errors (*)			
Original Project Savings	\$ 4,159,658	\$ 5,028,690	\$ 13,669,170
Earned Contractor Insurance Costs			
Earned Contractor Insurance Costs	\$ 18,574,457	\$ 30,419,227	\$ 19,656,222
Actual Losses	\$ (5,080,887)	\$ (4,899,029)	\$ (676,841)
Actual Fixed Costs	\$ (8,083,879)	\$ (10,824,976)	\$ (13,006,231)
Estimated Additional Fee & Premiums	\$ -	\$ (3,811,187)	\$ (287,346)
Total Actual Program Costs	\$ (13,164,766)	\$ (19,535,192)	\$ (13,970,418)
Formula errors (*)			
Adjusted Project Savings	\$ 5,409,691	\$ 10,884,035	\$ 5,685,804

ROCIP Savings, as of February 2016:	R1	R2	R3
Expected Contractor Insurance Costs	\$ 15,574,237	\$ 23,077,683	\$ 30,969,113
Expected Losses	\$ (4,666,043)	\$ (7,258,571)	\$ (5,801,390)
Expected Fixed Costs	\$ (7,234,586)	\$ (10,790,422)	\$ (11,498,553)
Total Estimated Program Costs	\$ (11,900,629)	\$ (18,048,993)	\$ (17,299,943)
Formula errors (*)			
Original Project Savings	\$ 3,673,608	\$ 5,028,690	\$ 13,669,170
Earned Contractor Insurance Costs			
Earned Contractor Insurance Costs	\$ 18,574,457	\$ 31,026,642	\$ 20,821,844
Actual Losses	\$ (5,080,887)	\$ (4,674,114)	\$ (1,025,134)
Actual Fixed Costs	\$ (8,084,879)	\$ (10,824,976)	\$ (13,006,231)
Estimated Additional Fee & Premiums	\$ -	\$ (3,954,202)	\$ (545,826)
Total Actual Program Costs	\$ (13,165,766)	\$ (19,453,292)	\$ (14,577,191)
Formula errors (*)			
Adjusted Project Savings	\$ 5,408,691	\$ 11,573,350	\$ 6,244,653

Note: * The previous formula errors remain corrected, and additional errors noted in February summaries have also been corrected above. The original uncorrected summaries provided to the ROCIP Committee are located in the appendix, along with the most recent summaries presented as of June 2016.

SAVINGS ANALYSIS (CONTINUED)

Table 3: Reconciliation to General Ledger. As more fully described in Observation #1, DC Water does not currently reconcile general ledger activity to the Aon supporting schedules or carrier loss reports. As the Aon data and general ledger data or supporting schedules were not presented in a consistent format, we were unable to fully reconcile the third-party information to DC Water's general ledger. Below is a high-level summary of the transactions we were able to work with management to identify/classify as of September 2015 in the general ledger, compared to the Aon summaries as of October 2015. Based on the amounts below, the ledger's liability funding entries (\$46.4M) is slightly less total estimated program costs from the Aon October report (\$46.8M). Total Actual Program Costs (\$46.7M) are higher than the funding entries (\$46.4M) as of October, even though R2 and R3 were not yet closed, indicating there may be additional funding entries needed in the ledger. Reconciling the ledger with Aon's records in more detail would identify these trends and potential funding issues, as well as explain timing issues between the line items – for example, Aon's report shows Actual Losses of \$10.66M, but the ledger shows \$8.52M in paid losses. These variances would be identified for resolution upon reconciliation. Recommendations have been made to improve this process in the Detailed Observations section of this report.

General Ledger Recap	ROCIP 1	ROCIP 2	ROCIP 3	Total
Funding / Budget Entries	\$ (15,902,293)	\$ (15,015,024)	\$ (15,516,756)	\$ (46,434,073)
Aon Estimated Premium / Fees	\$ 8,084,879	\$ 14,753,744	\$ 12,260,942	\$ 35,099,565
Paid Losses - 10/31/2015	\$ 4,849,476	\$ 3,264,188	\$ 406,136	\$ 8,519,800
Transfers from R2 to R1	\$ (2,244,529)	\$ 2,244,529	\$ -	\$ -
Other program activity	\$ 5,212,468	\$ (6,276,644)	\$ (1,822,088)	\$ (2,886,264)
Ending Balance 09/30/2015	\$ -	\$ (1,029,207)	\$ (4,671,765)	\$ (5,700,972)

Source: Lawson G/L, provided by Finance

Aon Summary - October 2015	ROCIP 1	ROCIP 2	ROCIP 3	Total
Expected Contractor Insurance Costs	\$ 15,574,237	\$ 23,077,683	\$ 30,969,113	\$ 69,621,033
Expected Losses	\$ (3,893,545)	\$ (7,258,571)	\$ (5,801,390)	\$ (16,953,506)
Expected Fixed Costs	\$ (7,521,034)	\$ (10,790,422)	\$ (11,498,553)	\$ (29,810,009)
Total Estimated Program Costs	\$ (11,414,579)	\$ (18,048,993)	\$ (17,299,943)	\$ (46,763,515)
Original Project Savings	\$ 4,159,658	\$ 5,028,690	\$ 13,669,170	\$ 22,857,518
Earned Contractor Insurance Costs	\$ 18,574,457	\$ 30,419,227	\$ 19,656,222	\$ 68,649,906
Actual Losses	\$ (5,080,887)	\$ (4,899,029)	\$ (676,841)	\$ (10,656,757)
Actual Fixed Costs	\$ (8,083,879)	\$ (10,824,976)	\$ (13,006,231)	\$ (31,915,086)
Estimated Additional Fee & Premiums	\$ -	\$ (3,811,187)	\$ (287,346)	\$ (4,098,533)
Total Actual Program Costs	\$ (13,164,766)	\$ (19,535,192)	\$ (13,970,418)	\$ (46,670,376)
Adjusted Project Savings	\$ 5,409,691	\$ 10,884,035	\$ 5,685,804	\$ 21,979,530

SAVINGS ANALYSIS (CONTINUED)

Table 4: Estimated Liabilities. Insurance premiums are calculated primarily based upon payroll and administrative fees are based upon contract values. As such, these numbers are used to estimate savings, but are also used to calculate the estimated program liabilities and record them in the general ledger. The tables below illustrate the Estimated and Actual Contract Values and Payroll as of October 2015 and February 2016.

ROCIP Savings, as of October 2015:	R1	R2	R3	ROCIP Savings, as of February 2016:	R1	R2	R3
Original Contract Value (CV) Estimate	\$ 480,768,408	\$ 688,356,540	\$ 942,770,000	Original Contract Value (CV) Estimate	\$ 480,768,408	\$ 688,356,540	\$ 942,770,000
Awarded CV Amount	\$ 598,974,427	\$ 1,211,697,495	\$ 1,091,560,847	Awarded CV Amount	\$ 598,974,427	\$ 1,211,326,675	\$ 1,183,307,159
% of CV projects closed	100.0%	39.3%	n/a	% of CV projects closed	100.0%	39.3%	n/a
Original Payroll Estimate	\$ 105,759,436	\$ 151,741,316	\$ 161,227,376	Original Payroll Estimate	\$ 105,759,436	\$ 151,741,316	\$ 161,227,376
Reported Payroll - Actual to-Date	\$ 102,013,149	\$ 220,406,567	\$ 70,020,584	Reported Payroll - Actual to-Date	\$ 102,013,149	\$ 224,009,636	\$ 91,351,037

We noted, upon discussion with management and review of the general ledger that the anticipated program liabilities were recorded in the general ledger as a percentage of the original Contract Values. As the CV changed due to change orders or other factors, the liability was not updated to reflect these changes. As a result, during fiscal year 2015 the budgeted expenses for R2 were understated by approximately \$1M because 1) the estimates were not evaluated on a periodic basis against actual contract values for reasonableness, and 2) there was no periodic reconciliation between Aon and the general ledger. The table below illustrates the cost trends for the ROCIP program, as a % of awarded contract value and actual reported payroll.

ROCIP Savings, as of October 2015:	R1	R2	R3	ROCIP Savings, as of February 2016:	R1	R2	R3
Total Actual Program Costs	\$13,164,766	\$19,535,192	\$13,970,418	Total Actual Program Costs	\$13,165,766	\$19,453,292	\$14,577,191
Program Costs as a % of CV	2.2%	1.6%	1.3%	Program Costs as a % of CV	2.2%	1.6%	1.2%
Program Costs as a % of Payroll	12.9%	8.9%	20.0%	Program Costs as a % of Payroll	12.9%	8.7%	16.0%

For comparison, a 2007 report by the Finishing Contractors Association (Vienna, VA) stated that OCIP coverage can reduce project costs by approximately 1-2% compared to the traditional insurance process. A more recent (Sept 2014) article in ExpertLaw stated that the Risk and Insurance Management Society performed a study that OCIP-provided insurance cost would be less than \$20 per \$1,000 or 2% of revenue. Based on the trends above and the available research, recording an initial liability at 1.5-2% of the estimated contract value appears to be reasonable. However, as the contract value changes, and the actual costs are incurred, any estimates, as well as the %, should be re-evaluated and adjusted accordingly. It should be noted that R2 and R3 are in their early stages and less than 50% complete, so the liability should be more conservative toward the R1 trend, since that phase is closed. It is our understanding that management intends to record R4 at 2.2%, as a result of the R1 actual costs as a % of CV, illustrated above.

SAVINGS ANALYSIS (CONTINUED)

Table 5: Estimated Losses. During our analysis, we noted that the savings calculation by Aon uses a loss estimate at the feasibility stage of each ROCIP which are based upon insurance company loss picks. Loss picks are used as an underwriting element of what premium rate to charge the insured. For Aon's monthly reporting, the loss amounts shift from the loss pick amount to reported losses, the sum of paid amounts plus adjustor case reserve estimates. An actuarial estimate for claims incurred but not reported ("IBNR") is not included in Aon's reporting, but is provided annually (as of October) to DC Water, as a part of Ultimate Losses. If the actuary's ultimate loss estimates were used instead on Aon's loss pick estimates, the amount of the adjusted savings would vary. As with any estimate, there are several factors to consider with either estimation method and the estimates change throughout the program periods. Below is the calculation of savings using the actuarial ultimate losses as compared to the Aon loss pick estimates as of February 2016. Note that the estimated actuarial ultimate losses are lower than the Aon estimated expected losses by \$1.1M, but \$5.8M higher as compared to actual losses incurred to-date.

ROCIP Savings, as of February 2016:	R1	R2	R3	Total
Expected Contractor Insurance Costs	\$ 15,574,237	\$ 23,077,683	\$ 30,969,113	\$ 69,621,033
Expected Losses	\$ (4,666,043)	\$ (7,258,571)	\$ (5,801,390)	\$ (17,726,004)
Expected Fixed Costs	\$ (7,234,586)	\$ (10,790,422)	\$ (11,498,553)	\$ (29,523,561)
Total Estimated Program Costs	<u>\$ (11,900,629)</u>	<u>\$ (18,048,993)</u>	<u>\$ (17,299,943)</u>	<u>\$ (47,249,565)</u>
Original Project Savings	<u>\$ 3,673,608</u>	<u>\$ 5,028,690</u>	<u>\$ 13,669,170</u>	<u>\$ 22,371,468</u>
Add: Expected Losses reported				
				\$ 17,726,004
Deduct: Actuarial Estimate of Ultimate Losses*				
				<u>\$ (16,600,873)</u>
Adjusted Estimated Project Savings after Ultimate Losses				
				<u><u>\$ 23,496,599</u></u>
* Estimated Ultimate Losses are reported in the aggregate rather than by ROCIP Phase.				
Earned Contractor Insurance Costs	\$ 18,574,457	\$ 31,026,642	\$ 20,821,844	\$ 70,422,943
Actual Losses	\$ (5,080,887)	\$ (4,674,114)	\$ (1,025,134)	\$ (10,780,135)
Actual Fixed Costs	\$ (8,084,879)	\$ (10,824,976)	\$ (13,006,231)	\$ (31,916,086)
Estimated Additional Fee & Premiums	\$ -	\$ (3,954,202)	\$ (545,826)	\$ (4,500,028)
Total Actual Program Costs	<u>\$ (13,165,766)</u>	<u>\$ (19,453,292)</u>	<u>\$ (14,577,191)</u>	<u>\$ (47,196,249)</u>
Adjusted Project Savings	<u>\$ 5,408,691</u>	<u>\$ 11,573,350</u>	<u>\$ 6,244,653</u>	<u>\$ 23,226,694</u>
Add: Actual Losses Reported				
				\$ 10,780,135
Deduct: Actuarial Estimate of Ultimate Losses*				
				<u>\$ (16,600,873)</u>
Adjusted Estimated Project Savings after Ultimate Losses				
				<u><u>\$ 17,405,956</u></u>
* Estimated Ultimate Losses are reported in the aggregate rather than by ROCIP Phase.				

SAVINGS ANALYSIS (CONTINUED)

Savings Analysis Summary.

In general, we were able to validate that the estimated project savings reported are reasonably stated. Below is a comparison of the February 2016 Aon-reported amounts to RSM's validated / recalculated amounts. Our validation procedures were based on a sample of contracts, and there may be additional errors within the supporting data that could further impact the project savings. A key consideration going forward will be to monitor the actual amounts against the estimates as the projects progress, as well as reconcile the amounts reported to supporting schedules or other data, including the Authority's general ledger, as well as checking formulas for accuracy. Aon's total losses as of February 2016 were expected at \$17.7 million, but actual incurred to-date were only \$10.8 million. If the losses were to reach the estimated amounts, with all other variables remaining the same (Earned insurance costs, fees, premiums, etc.), the actual project savings would be much lower than originally anticipated. In addition, the actual premiums and fees are trending higher than the current estimates given the projects for R2 and R3 are not yet complete. These amounts should be reconciled to actual payments and monitored as the projects close to determine if the program is adequately funded for future costs. On the following pages, we have added observations to this report to assist management with developing procedures to further enhance controls and provide for these monitoring activities.

February 2016	AON Total	RSM Total
Expected Contractor Insurance Costs	\$ 69,621,033	\$ 69,621,033
Expected Losses	\$ (17,726,004)	\$ (17,726,004)
Expected Fixed Costs	\$ (29,523,561)	\$ (29,523,561)
Total Estimated Program Costs	\$ (47,249,565)	\$ (47,249,565)
Formula errors (*)	\$ (1,507,678)	\$ -
Original Project Savings	\$ 20,863,790	\$ 22,371,468
Earned Contractor Insurance Costs	\$ 70,422,943	\$ 70,422,943
Actual Losses	\$ (10,780,135)	\$ (10,780,135)
Actual Fixed Costs	\$ (31,916,086)	\$ (31,916,086)
Estimated Additional Fee & Premiums	\$ (4,500,028)	\$ (4,500,028)
Total Actual Program Costs	\$ (47,196,249)	\$ (47,196,249)
Formula errors (*)	\$ (545,825)	\$ -
Adjusted Project Savings	\$ 22,680,869	\$ 23,226,694

DETAILED OBSERVATIONS

ROCIP Savings Analysis			
1.	<u>Liability Trend and Adjustment</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>During our fieldwork and testing of claims expenses, we noted that DC Water has historically recorded a percentage of Contract Value to estimate the overall ROCIP claims liability. The estimated liability was not adjusted over the life of the program as the Contract Values changed through approved change orders, or the actuarial reserve was prepared.</p> <p>This can result in, and did result in an underestimated liability of the program. R2 expenses were underestimated by approximately \$1M as a result of change orders that were approved and contractor added to the program after the initial enrollments. The increase occurred primarily as a result of the additional fees that are triggered after the contract values reach a higher tier.</p> <p>Further, we noted that the liability has historically been recorded at 1.5% of CV; the actual R1 trend (as closed) was 2.2%. R2 is currently (Feb 2016) at 1.6%, and R3 is at 1.2%. These variances, over time, could be significant given the contract values. As such, the actual trends should be monitored to ensure that an adjustment to the liability isn't needed. See the analysis section of this report for details on these trends.</p>	<p>The claims liability and reserve need to be adjusted as the Contract Values are changed, and when the actuarial reports are issued. This will help to plan for budgetary needs as well as provide a better estimate of the anticipated program savings.</p> <p>Trend analysis for the actual expenses compared to contract values should be performed on a periodic basis (at least quarterly) to ensure that the liability estimate continues to be reasonable.</p>	<p>Response: Management agrees with this recommendation. ROCIP funding includes anticipated claims costs. Tracking adjusted contract expenses early will better assist us with assessing how it impacts budgets. Management will review DETS construction change orders with contract value increases at a minimum quarterly, to ensure proper adjustment to the liability of the program.</p> <p>Responsible Party: OCFO</p> <p>Target Date: December 31, 2016</p>

DETAILED OBSERVATIONS (CONTINUED)

ROCIP Savings Analysis			
2.	<u>General Ledger Reconciliation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>During our fieldwork, we noted that a reconciliation between Aon's premium, claim and transaction records, as well as the carrier loss records, and the DC Water general ledger (G/L or Lawson) does not occur. Risk Management does use an internal tracking sheet to monitor the transactions for accuracy, but that isn't reconciled to the ledger, either. The G/L contains reconciling items that Aon does not include. Aon's records will contain estimates that may not be recorded in the G/L. Identifying and understanding these reconciling items is critical to ensuring the liability and expense budgets are adequately forecasted and comparisons to actual data will be meaningful and relevant. Anything that DC Water records in the G/L that Aon does not consider should be included that in an adjusted savings calculation.</p> <p>We further noted that the G/L does not capture specific contractor data or include a breakdown of expense types. This makes it challenging to reconcile claims expenses to specific contractors/projects or reconcile Aon expense line items to the G/L. Per discussion with Finance, it would be time consuming to breakdown the ledger by contractor using sub-codes, and there aren't enough resources to manage that type of data entry / tracking. Since ESIS's system tracks claims and activities by contractor, and Aon's system tracks premiums by contractor, as long as DC Water is reconciling expense line items in some manner, they may not need to get that granular. However, it may prove to be difficult to reconcile in 'batches'.</p> <p>Management may decide to develop a reasonable threshold that as long as they come within x% on a monthly / quarterly basis, it can be considered reconciled. At a minimum, the G/L should contain different accounts for actual expense types – premiums, additional premiums, fees, overhead, losses – so that those can be reconciled individually within a reasonable expected threshold.</p>	<p>Reconciliation between third party records and the general ledger should occur on a periodic basis, at a minimum of quarterly. More frequently may need to be considered if the volume of transactions is too great.</p> <p>Further, the general ledger sub-coding should be broken down by contractor, or at least in a manner that the records can be reconciled by category of expense (premiums, additional premiums, fees, overhead, losses, etc.) so that a reasonableness threshold can be established and monitored for trends, expectations, and the like.</p> <p>Management should also consider the use of purchase orders for the different expense vendors in order to track budgeted expense versus % of PO used, i.e., budget vs. actual using the Lawson system.</p>	<p>Response: Management agrees with this recommendation. Management will develop appropriate expense types in order for the General ledger accounts to be created to record all relevant expense types and facilitate periodic reconciliation on a quarterly basis. In addition, PO's will be established to improve the payment tracking processes.</p> <p>Responsible Party: OCFO</p> <p>Target Date: December 31, 2016</p>

DETAILED OBSERVATIONS (CONTINUED)

ROCIP Savings Analysis			
3.	<u>Data Entry Errors and Missing Supporting Documentation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>During our testing of Aon's records, we noted formula and data entry errors, as well as older contracts where supporting documentation was not readily available. Examples include formula errors in the summary tables (see Savings Analysis Table 2), certified payrolls entered for the wrong amounts and a duplicate claim that impacted premiums and actuarial estimates. Aon corrected these errors as we identified them.</p> <p>Carrier audits on performed on contracts and claims, and would identify any transactional errors.</p>	<p>We recommend that spot checking of third-party records occur against supporting documentation for contract values, certified payrolls, claims expenses and other data that impact the expenditures of the program and could result in budgetary changes.</p> <p>The source documents for this spot checking could be pulled from contract records in DETS.</p> <p>Summary schedules should be checked for mathematical accuracy before being presented to the ROCIP Committee.</p>	<p>Response:</p> <p>Management agrees with this recommendation. Annually (approximately 6 months post policy year-end), Risk Management will request formal Contractor payroll audits from the Insurance Carrier. The Authority's ROCIP 4 Broker / Administrator has committed to carrying out this task going forward. We will also develop appropriate methods for verifying & spot checking data.</p> <p>Responsible Party: OCFO</p> <p>Target Date:</p> <p>December 31, 2016</p>

DETAILED OBSERVATIONS (CONTINUED)

ROCIP Savings Analysis			
4.	<u>SRS Database for Safety Inspections</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>One way of limited DC Water's exposure to ROCIP claims is by implementing and monitoring a safety program. Each contractor and DC Water co-develop a Safety Manual that is monitored through a routine inspection process. Inspections are performed by a third-party, and then Aon has a designated supervisor and reviews all inspection reports.</p> <p>DC Water's system of record for monitoring safety compliance of contractors and subcontractors onsite is the SRS database, which is an ancillary module of the Risk Management software. We selected 30 inspections, checking for inspector and supervisor sign offs, communication of the results to the contractors and follow up actions. In multiple instances, the database was not updated for these control points. We further noted that there was a period of time where the Aon supervisor was unable to access the system to perform these sign offs and document any remediation or follow up efforts performed. There is also no documented record of the contractor or project manager receiving the results.</p>	<p>The SRS database needs to be kept updated to document when inspections are performed and by whom, as well as the review and escalation process for issues that require immediate attention. Further, if the SRS database is not providing DC Water with the level of transparency desired into this process, a different database or alternative procedures should be considered.</p>	<p>Response:</p> <p>Management agrees with this recommendation and the approval issue was immediately corrected once the same came back on line. The current database provider contract will expire in 2017 and there is a Steering Committee currently furthering our goal of exploring alternative systems. When the SRS system is inaccessible or off line for any reason the following manual process is as follows:</p> <p>The safety consultants send their safety inspection reports in an email attachment after completing the SRS Audit to the Aon Senior Risk Consultant. Aon Senior Risk Consultant reviews safety inspection reports prior to the consultants sending out to the contractors. If Aon Senior Risk Consultant make any edits or if any revisions are required, the safety inspection report will be sent back to the safety consultant. The safety consultant will make the revision as required and resubmit the safety inspection report to Aon Senior Risk Consultant. If no additional changes are required Aon Senior Risk Consultant approves the safety inspection reports for distribution.</p> <p>Safety inspection reports that require no changes are approved for distribution to the perspective construction manager, project manager and contractor. The consultant then uploads the approved report into SRS journal for record.</p> <p>The documented record of the construction manager, project manager and contractor receiving the results of a safety inspection and responding to such has been capture in the email only. SRS does support documentation of the contractors' and project managers receiving or responding to the results of a safety inspection.</p> <p>Responsible Party: OS&H</p> <p>Target Date:</p> <p>Complete</p>

PROCESS IMPROVEMENT OPPORTUNITIES

ROCIP Savings Analysis

1. Contractors are providing certified payroll and contract value data to DETS for contract compliance monitoring purposes. This data is also being provided to the ROCIP administrator separately. There is currently no reconciliation between the two. Management should consider spot checking the ROCIP data against the compliance support for consistency.
2. Given the growth of the ROCIP program, and DC Water's ongoing Capital Improvement Plan, management may want to consider identifying a ROCIP program manager within staff in order to review contractor support against third party records, reconcile third party records to general ledger, work with Accounting to ensure proper recording and classification of expenditures, etc.

APPENDIX A – RATING DEFINITIONS

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

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (OCT 2015- R2 MANAGEMENT REPORT)

OCT 2015- R2 MANAGEMENT REPORT		
DC Water ROCIP 2	Sep-15	Oct-15
Program Start/End Dates*	10/15/14 to 4/15/15	10/15/14 to 4/15/15
Base Program Term (Months)	Exception Period**	Exception Period**
Months into project	5	6
Percent Completed	50.00%	60.00%
Original CV Estimate	\$688,356,540	\$688,356,540
Awarded CV Amount	\$1,211,697,495	\$1,211,697,495
Closed Project CV Amount	\$476,479,892	\$476,479,892
Active Project CV Amount	\$735,217,603	\$735,217,603
Percentage of Closed CV to Awarded CV	39.32%	39.32%
CV Audit***	\$1,276,506	\$1,276,506
Original Payroll Estimate	\$151,741,316	\$151,741,316
Estimated Payroll from Form 3's	188,934,493	188,934,493
Reported Payroll - Actual to Date	219,256,139	220,406,567
Estimated AP due from Reported PR - ACE - WC	\$972,213	\$988,780
Estimated AP due from Reported PR - ACE - GL	\$702,154	\$714,119
Estimated AP due from Reported PR - Chartis	\$492,183	\$500,570
Estimated AP due from Reported PR - Zurich	\$266,684	\$271,228
Estimated AP due from Reported PR - West/GAIC	\$55,442	\$59,986
Total Estimated AP (all carriers)	\$2,468,676	\$2,534,681
Percentage of Actual Reported to Form 3 Estimates	116.05%	116.66%
Estimated Manhours from Form 3's	6,020,459	6,020,459
Reported Manhours - Actual to Date	7,256,082	7,286,897
Percentage of Reported to Form 3's	120.52%	121.04%
Original Contractor Insurance Costs	\$23,077,683	\$23,077,683
Earned Contractor Insurance Costs*****	\$29,841,338.00	\$30,419,227.00
Percentage of Reported to Original	129.31%	131.81%
Program Costs	Sep-15	Oct-15
Original Premium + Fees	\$10,790,422	\$10,790,422
Original Incurred Claims	\$7,258,571	\$7,258,571
Total Original Program Costs	\$18,048,993	\$18,048,993
Reported Premium + Fees*****	\$10,824,976	\$10,824,976
Incurred Claims to Date	\$4,691,272	\$4,899,029
Total Program Costs to Date	\$15,516,248	\$15,724,005
Percentage of Current Costs to Original Costs	85.97%	87.12%
Original Projected Savings	\$5,028,690	\$5,028,690
Reported Project Savings*****	\$11,836,414	\$12,160,541
Current Program Rate on Payroll	13.61	13.80
PROJECT METRICS		
Total Number of R2 Projects In Aonwrap	47	47
Awarded Open Projects	4	4
Closed Projects	43	43
Contracts awarded to MBE/LSDBE Primes	24	24
Percent MBE/LSDBE	51.05%	51.05%
Closed Contractors	617	625
Active Contractors	72	65
Excluded	82	81
Total Participants	771	771
FOOTNOTES		
Program Term - Months *	All projects must be enrolled prior to 10/15/2012 and completed by 10/15/2014, except as provided below. A six month extension in completion date until 4/15/15 will be granted for projects having delays resulting from normal construction schedule changes.	
Exception Period**	Completion of the following projects must occur no later than 10/15/16: Enhanced Nitrogen Removal Facilities, Div A - Blue Plains Tunnel BioSolids Mgmt CHP +MPT. All projects expected to be completed by Jan 2016.	
CV Audit***	Additional Fee to be charged once closed CV surpasses \$770M.	
Reported Premium + Fees ****	Total Amount of Premium, Fixed Costs, Fees + Additional Safety Personnel (Includes 5 Year anticipated safety costs)	
Reported Contractor Insurance Costs*****	Contractors' Insurance Cost Calculation as payroll is expended	
Reported Project Savings (Avoided Costs) to Date *****	Project Savings or "Avoided Costs" to date = Earned Contractor Insurance Costs MINUS Total Premium+Fixed Costs+Fees + Additional Safety Personnel + Incurred Claims to date, + Expected AP Charges	
DEFINITION: Estimated AP due to Reported Payroll	R2 WC+ GL Rate(s) & Excess layer rates * Payroll Overage/100 will be charged to DC Water. Does not include all factors that will be included in final calculation, i.e. non-subject premium charges and claim-related fees. Final audit to be performed in Q2-2016. (est)	

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (OCT 2015- R3 MANAGEMENT REPORT)

OCT 2015 - ROCIP 3 MONTHLY SUMMARY		
DC Water ROCIP 3	Sep-15	Oct-15
Program Start/End Dates*	10/15/12 to 10/15/17	10/15/12 to 10/15/17
Base Program Term (Months)	60	60
Months into project	35	38
Percent Complete	58.33%	60.00%
Original CV Estimate	\$942,770,000	\$942,770,000
Awarded CV Amount	\$1,121,067,360	\$1,091,560,847
Percentage of Awarded to Estimate	118.91%	115.78%
Closed Project CV	\$9,051,431	\$12,472,262
Original Payroll Estimate	\$161,227,376	\$161,227,376
Estimated Payroll from Form 3's	\$167,064,819	\$168,227,622
Reported Payroll - Actual to Date	\$63,886,499	\$70,020,584
Percentage of Reported to Form 3's	38.24	41.62
Anticipated AP from Estimated PR (ACE)	135,241.88	162,181.70
Anticipated AP from AIG (1st Layer XS)	65,145.86	78,122.75
Anticipated AP from XL Ins. (2nd Layer XS)	20,664.55	24,780.87
Anticipated AP from CV Staff (3rd Layer XS)	11,324.64	13,580.48
Anticipated AP from GAIC (4th Layer XS)	7,238.43	8,680.31
Total Anticipated AP based on Estimated PR	239,615.36	287,346.10
Estimated Manhours From Form 3's	4,239,479	4,239,479
Reported Manhours - Actual to Date	2,133,008	2,293,205
Percentage of Reported to Form 3's	50.31	50.31
Expected Contractor Insurance Costs	\$30,969,113	\$30,969,113
Earned Contractor Insurance Costs**	\$30,659,099	\$19,656,222
Percentage of Taken to Expected	99.00%	63.47%
Program Costs & Savings	Sep-15	Oct-15
Original Premium + Fees***	\$11,498,553	\$11,498,553
Expected Incurred Claims	\$5,801,390	\$5,801,390
Total Original Program Costs	\$17,299,943	\$17,299,943
Reported Premium + Fees***	\$13,006,231	\$13,006,231
Incurred Claims to Date	\$644,754	\$676,841
Total Program Costs To Date	\$13,851,373	\$13,923,376
Percentage of Current Costs to Original	80.07%	80.48%
Original Project Savings****	\$12,161,492	\$12,161,492
Reported Project Savings	\$16,568,111	\$5,445,499
Program Rate	47.99	28.07
Enrollment	Sep-15	Oct-15
Awarded Open Projects	38	38
In Bid Stage/Pending	5	1
Closed Projects	5	6
Contracts awarded to MBE/LSDBE Primes	12	12
Percent MBE/LSDBE	32%	32%
Closed Contractors	150	160
Active Contractors	314	366
Excluded	91	95
Total Participants	555	621
Footnotes		
Program Term - Months*	All projects must be enrolled prior to 10/15/2015 and completed by 10/15/2017, except as provided below. A six month extension in completion date until 4/15/2018 will be granted for projects having met the enrollment criteria of the program (i.e. enrolled by 10/15/15). Completion of the following two projects must occur no later than 10/15/2018: A401 - Future Sewer System Upgrades/EI01 - Plantwide Painting of Steel Pipes ☺	
Enrolled Contractor Insurance Costs**	includes expected enrolled contractors' insurance cost (program is bid net of insurance) from Aon Form 1A	
Premium + Fees***	includes all premiums and broker fee over 5 years. Includes first 3 years of safety costs and last 2 years of estimated safety costs.	
Expected Project Savings****	Contractor Insurance Costs - Costs of Program (including any AP + Incurred Claims = Savings)	

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (FEB 2016- R2 MANAGEMENT REPORT)

FEB 2016- R2 MANAGEMENT REPORT		
DC Water ROCIP 2	Jan-15	Feb-16
Program Start/End Dates*	10/15/14 to 4/15/15	10/15/14 to 4/15/15
Base Program Term (Months)	Exception Period**	Exception Period**
Months into project	9	10
Percent Completed	90.00%	99.00%
Original CV Estimate	\$688,356,540	\$688,356,540
Awarded CV Amount	\$1,211,326,675	\$1,211,326,675
Closed Project CV Amount	\$476,470,411	\$476,470,411
Active Project CV Amount	\$734,856,264	\$734,856,264
Percentage of Closed CV to Awarded CV	39.33%	39.33%
CV Audit***	\$1,275,434	\$1,275,434
Original Payroll Estimate	\$151,741,316	\$151,741,316
Estimated Payroll from Form 3's	188,934,493	188,934,493
Reported Payroll - Actual to Date	\$223,204,491	\$224,009,636
Estimated AP due from Reported PR- ACE - WC	\$1,029,070	\$1,040,664
Estimated AP due from Reported PR - ACE - GL	\$743,217	\$751,591
Estimated AP due from Reported PR - Chartis	\$520,967	\$526,836
Estimated AP due from Reported PR - Zurich	\$282,280	\$285,460
Estimated AP due from Reported PR - West/GAIC	\$71,038	\$74,218
Total Estimated AP (all carriers)	\$2,646,570	\$2,678,768
Percentage of Actual Reported to Form 3 Estimate	118.14%	118.56%
Estimated Manhours from Form 3's	6,020,459	6,020,459
Reported Manhours - Actual to Date	7,358,526	7,373,199
Percentage of Reported to Form 3's	122.23%	122.47%
Original Contractor Insurance Costs	\$23,077,683	\$23,077,683
Earned Contractor Insurance Costs*****	\$30,898,094	\$31,026,642
Percentage of Reported to Original	133.89%	134.44%
Program Costs	Jan-16	Feb-16
Original Premium + Fees	\$10,790,422	\$10,790,422
Original Incurred Claims	\$7,258,571	\$7,258,571
Total Original Program Costs	\$18,048,993	\$18,048,993
Reported Premium + Fees*****	\$10,824,976	\$10,824,976
Incurred Claims to Date	\$4,650,756	\$4,674,114
Total Program Costs to Date	\$15,475,732	\$15,499,090
Percentage of Current Costs to Original Costs	85.74%	85.87%
Original Projected Savings	\$5,028,690	\$5,028,690
Reported Project Savings*****	\$11,500,357	\$11,573,350
Current Program Rate on Payroll	13.84	13.85
PROJECT METRICS - Feb 16		
Total Number of R2 Projects in Aonwrap	47	47
Awarded Open Projects	4	4
Closed Projects	43	43
Contracts awarded to MBE/LSDBE Primes	24	24
Percent MBE/LSDBE	51.06%	51.06%
Closed Contractors	625	667
Active Contractors	65	23
Excluded	81	82
Total Participants	771	772
FOOTNOTES		
Program Term - Months *	All projects must be enrolled prior to 10/15/2012 and completed by 10/15/2014, except as provided below. A six month extension in completion date until 4/15/15 will be granted for projects having delays resulting from normal construction schedule changes.	
Exception Period**	Completion of the following projects must occur no later than 10/15/16: ENRF, Div A - Blue Plains Tunnel BioSolids Mgmt CHP +MPT. All projects expected to be completed by Jan 2016.	
CV Audit***	Additional Fee to be Charged once CV Surpasses \$770 M	
Reported Premium + Fees ****	Total Amount of Premium, Fixed Costs, Fees + Additional Safety Personnel (includes 5 Year anticipated safety costs)	
Reported Contractor Insurance Costs*****	Contractors' insurance Cost Calculation as payroll is expended	
Reported Project Savings (Avoided Costs) to Date *****	Project Savings or "Avoided Costs" to date = Earned Contractor Insurance Costs MINUS Total Premium+Fixed Costs+Fees + Additional Safety Personnel + Incurred Claims to date, + Expected AP Charges + CV Audit Charge	
DEFINITION: Estimated AP due to Reported Payroll	R2 WC+ GL Rate(s) & Excess layer rates * Payroll Overage/100 will be charged to DC Water. Does not include all factors that will be included in final calculation, i.e. non-subject premium charges and claim-related fees. Final audit to be performed in Q4-2016. (est)	

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (FEB 2016-R3 MANAGEMENT REPORT)


FEB 2016 - ROCIP 3 MONTHLY SUMMARY		
DC Water ROCIP 3	Jan-16	Feb-16
Program Start/End Dates*	10/15/12 to 10/15/17	10/15/12 to 10/15/17
Base Program Term (Months)	60	60
Months into project	38	39
Percent Complete	63.33%	65.00%
Original CV Estimate	\$942,770,000	\$942,770,000
Awarded CV Amount	\$1,183,307,159	\$1,183,307,159
Percentage of Awarded to Estimate	125.51%	125.51%
Closed Project CV	\$25,866,507	\$60,074,771
Original Payroll Estimate	\$161,227,376	\$161,227,376
Estimated Payroll from Form 3's	\$175,068,169	\$174,524,630
Reported Payroll - Actual to Date	\$86,347,991	\$91,351,037
Percentage of Reported to Form 3's	49.32	52.34
Anticipated AP from Estimated PR (ACE)	\$320,663	\$308,071
Anticipated AP from AIG (1st Layer XS)	\$154,463	\$148,397
Anticipated AP from XL Ins. (2nd Layer XS)	\$48,996	\$47,072
Anticipated AP from CV Starr (3rd Layer XS)	\$26,851	\$25,797
Anticipated AP from GAIC (4th Layer XS)	\$17,163	\$16,489
Total Anticipated AP based on Estimated PR	\$568,137	\$545,826
Estimated Manhours From Form 3's	4,453,600	4,535,623
Reported Manhours - Actual to Date	2,882,359	3,043,519
Percentage of Reported to Form 3's	64.72	67.10
Expected Contractor Insurance Costs	\$30,969,113	\$30,969,113
Earned Contractor Insurance Costs**	\$20,562,646	\$20,821,844
Percentage of Taken to Expected	66.40%	67.23%
Program Costs & Savings	Jan-16	Feb-16
Original Premium + Fees***	\$11,498,553	\$11,498,553
Expected Incurred Claims	\$5,801,390	\$5,801,390
Total Original Program Costs	\$17,299,943	\$17,299,943
Reported Premium + Fees***	\$13,006,231	\$13,006,231
Incurred Claims to Date	\$933,219	\$1,025,134
Total Program Costs To Date	\$14,507,587	\$14,577,191
Percentage of Current Costs to Original	83.86%	84.26%
Original Project Savings****	\$12,161,492	\$12,161,492
Reported Project Savings	\$5,486,922	\$5,698,828
Program Rate	23.81	22.79
Enrollment	Jan-16	Feb-16
Awarded Open Projects	39	39
Closed Projects	7	7
Contracts awarded to MBE/LSDBE Primes	20	20
Percent MBE/LSDBE	43%	43%
Closed Contractors	199	210
Active Contractors	356	360
Excluded	105	111
Total Participants	660	681
Footnotes		
Program Term - Months*	All projects must be enrolled prior to 10/15/2015 and completed by 10/15/2017, except as provided below. A six month extension in completion date until 4/15/2018 will be granted for projects having met the enrollment criteria of the program (i.e. enrolled by 10/15/15). Completion of the following two projects must occur no later than 10/15/2018: A401 – Future Sewer System Upgrades/EI01 – Plantwide Painting of Steel Pipes	
Enrolled Contractor Insurance Costs**	Includes expected enrolled contractors' insurance cost (program is bid net of insurance) from Aon Form 1A	
Premium + Fees***	Includes all premiums and broker fee over 5 years. Includes first 3 years of safety costs and last 2 years of estimated safety costs.	
Expected Project Savings****	Contractor Insurance Costs - Costs of Program (claims, fixed + any AP = Savings	

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (JUN 2016 – R2 MANAGEMENT REPORT)

JUN 2016 - R2 MANAGEMENT REPORT		
DC Water ROCIP 2	May-16	Jun-16
Original Program Start/End Dates	10/15/09 to 10/15/14	10/15/09 to 10/15/14
Extension Dates	10/15/14 to 4/15/15	10/15/14 to 4/15/15
Current Coverage - Exception Period*	Through 10/15/16	Through 10/15/16
Percent Completed	99.00%	99.00%
Original CV Estimate	\$688,356,540	\$688,356,540
Awarded CV Amount	\$1,211,326,675	\$1,211,763,526
Closed Project CV Amount	\$476,470,411	\$582,627,372
Active Project CV Amount	\$734,856,264	\$629,136,154
CV Audit***	\$1,275,434	\$1,276,697
Original Payroll Estimate	\$151,741,316	\$151,741,316
Estimated Payroll from Form 3's	187,743,864	187,743,864
Reported Payroll - Actual to Date	\$224,539,440	\$224,695,741
Estimated AP due from Reported PR - ACE - WC	\$1,048,293	\$1,050,544
Estimated AP due from Reported PR - ACE - GL	\$757,100	\$758,726
Estimated AP due from Reported PR - Chartis	\$530,698	\$531,838
Estimated AP due from Reported PR - Zurich	\$287,553	\$288,170
Estimated AP due from Reported PR - West/GAIC	\$76,311	\$76,928
Total Estimated AP (all carriers)	\$2,699,955	\$2,706,205
Percentage of Actual Reported to Form 3 Estimates	119.60%	119.68%
Estimated Manhours from Form 3's	5,887,904	5,887,904
Reported Manhours - Actual to Date	7,387,913	7,392,220
Percentage of Reported to Form 3's	125.48%	125.55%
Original Contractor Insurance Costs	\$23,077,683	\$23,077,683
Earned Contractor Insurance Costs*****	\$31,048,622	\$31,054,533
Percentage of Reported to Original	134.54%	134.57%
Program Costs	May-16	Jun-16
Original Premium + Fees	\$8,964,850	\$8,964,850
Original Incurred Claims	\$7,258,571	\$7,258,571
Total Original Program Costs	\$16,223,421	\$16,223,421
Reported Premium + Fees*****	\$10,824,976	\$10,824,976
Incurred Claims to Date	\$4,996,879	\$4,999,704
Total Program Costs to Date	\$15,821,855	\$15,824,680
Percentage of Current Costs to Original Costs	97.52%	97.54%
Original Projected Savings	\$6,854,262	\$6,854,262
Reported Project Savings*****	\$11,251,378	\$11,246,951
Current Program Rate on Payroll	13.83	13.82
PROJECT METRICS - JUN 16		
Total Number of R2 Projects in Aonwrap	47	47
Awarded Open Projects	4	3
Closed Projects	43	44
Contracts awarded to MBE/LSDBE Primes	24	24
Percent MBE/LSDBE	51.06%	51.06%
Closed Contractors	666	669
Active Contractors	21	19
Excluded	82	82
Total Participants	769	770
FOOTNOTES		
Exception Period**	Completion of the following projects must occur no later than 10/15/16: ENRF, Div A - Blue Plains Tunnel BioSolids Mgmt CHP +MPT. All projects expected to be completed 10/15/16	
CV Audit***	Additional Fee to be Charged once CV Surpasses \$770 M	
Reported Premium + Fees ****	Total Amount of Premium, Fixed Costs, Fees + Additional Safety Personnel	
Reported Contractor Insurance Costs*****	Contractors' insurance Cost Calculation as payroll is expended	
Reported Project Savings (Avoided Costs) to Date *****	Project Savings or "Avoided Costs" to date = Earned Contractor Insurance Costs MINUS Total Premium+Fixed Costs+Fees + Additional Safety Personnel + Incurred Claims to date, + Expected AP Charges + CV Audit Charge	
DEFINITION: Estimated AP due to Reported Payroll	R2 WC+ GL Rate(s) & Excess layer rates * Payroll Overage/100 will be charged to DC Water. Does not include all factors that will be included in final calculation, i.e. non-subject premium charges and claim-related fees. Final audit to be performed in Q4-2016. (est)	

APPENDIX B – ROCIP SUMMARIES PRESENTED BY AON (JUN 2016 – R3 MANAGEMENT REPORT)

JUN 2016- ROCIP 3 MONTHLY SUMMARY		
DC Water ROCIP 3	May-16	Jun-16
Program Start/End Dates*	10/15/12 to 10/15/17	10/15/12 to 10/15/17
Base Program Term (Months)	60	60
Months into project	42	43
Percent Complete	70.00%	71.67%
Original CV Estimate	\$942,770,000	\$942,770,000
Awarded CV Amount	\$1,186,847,000	\$1,187,553,739
Open Project CV	\$1,122,812,122	\$1,123,518,861
Closed Project CV	\$64,034,878	\$64,034,878
Percentage of Awarded to Estimate	125.89%	125.96%
Original Payroll Estimate	\$161,227,376	\$161,227,376
Estimated Payroll from Form 3's	\$175,736,927	\$179,157,371
Reported Payroll - Actual to Date	\$110,618,942	\$121,273,119
Percentage of Reported to Form 3's	62.95	67.69
Anticipated AP from Estimated PR (ACE)	\$336,157	\$415,402
Anticipated AP from AIG (1st Layer XS)	\$161,927	\$200,099
Anticipated AP from XL Ins. (2nd Layer XS)	\$51,364	\$63,472
Anticipated AP from CV Starr (3rd Layer XS)	\$28,149	\$34,784
Anticipated AP from GAIC (4th Layer XS)	\$17,992	\$22,233
Total Anticipated AP based on Estimated PR	\$595,588	\$735,990
Estimated Manhours From Form 3's	4,552,061	5,636,923
Reported Manhours - Actual to Date	3,667,822	3,909,256
Percentage of Reported to Form 3's	80.57	69.35
Expected Contractor Insurance Costs	\$30,969,113	\$30,969,113
Earned Contractor Insurance Costs**	\$22,271,678	\$25,355,389
Percentage of Taken to Expected	71.92%	81.87%
Program Costs & Savings	May-16	Jun-16
Original Premium + Fees***	\$12,111,231	\$12,111,231
Expected Incurred Claims	\$5,801,390	\$5,801,390
Total Original Program Costs	\$17,912,621	\$17,912,621
Reported Premium + Fees***	\$11,715,116	\$11,715,116
Incurred Claims to Date	\$1,388,331	\$1,527,498
Total Program Costs To Date	\$13,103,447	\$13,242,614
Percentage of Current Costs to Original	73.15%	73.93%
Original Project Savings****	\$12,161,492	\$12,161,492
Reported Project Savings	\$8,572,643	\$11,376,785
Program Rate	20.13	20.91
Enrollment	May-16	Jun-16
Awarded Open Projects	38	38
Closed Projects	8	8
Contracts awarded to MBE/LSDBE Primes	20	20
Percent MBE/LSDBE	43%	43%
Closed Contractors	228	232
Active Contractors	320	324
Excluded	115	115
Total Participants	663	671
Footnotes		
Program Term - Months*	All projects must be enrolled prior to 10/15/2015 and completed by 10/15/2017, except as provided below. A six month extension in completion date until 4/15/2018 will be granted for projects having met the enrollment criteria of the program (i.e. enrolled by 10/15/15). Completion of the following two projects must occur no later than 10/15/2018: A401 – Future Sewer System Upgrades; E101 – Plantwide Painting of Steel Pipes	
Enrolled Contractor Insurance Costs**	Includes expected enrolled contractors' insurance cost (program is bid net of insurance) from Aon Form 1A	
Premium + Fees***	Includes all premiums and broker fee over 5 years. Includes first 3 years of safety costs and last 2 years of estimated safety costs.	
Expected Project Savings****	Contractor Insurance Costs - Costs of Program (claims, fixed + any AP = Savings	



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