



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, April 25, 2019*

9:30 a.m.

- 1. **Call to Order**..... Floyd Holt, Chairperson
- 2. **Internal Audit Contract Update**..... Wayne Griffith, EVP, Performance
- 3. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
  - A. FY 2019 Internal Audit Plan Status Update
  - B. Status Update on Prior Audit Findings
  - C. **Occupational Safety and Health**
  - D. **Legal Operations and Caseload Management**
  - E. **Fleet Management**
  - F. Hotline Update
- 4. **Executive Session\*** ..... Floyd Holt, Chairperson
- 5. **Adjournment**..... Floyd Holt, 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



April 25, 2019

# Agenda

- FY 2019 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits:
  - Occupational Safety and Health
  - Legal Operations and Caseload Management
  - Fleet Management
- Hotline Update
- Executive Session - (As a follow up to the January meeting, management will not be present during a portion of this session.)

# AUDIT PLAN STATUS UPDATE – FY 2019

# Internal Audit Plan Status Update

Audit	Status
<b>FY 2019</b>	
Permit Operations - Reimbursable Projects	Reporting in Progress
Mail Room Procedures	Report Complete
Fleet Management	<b>Report Complete</b>
Legal Operations and Caseload Management	<b>Report Complete</b>
Occupational Safety and Health	<b>Report Complete</b>
Automated Meter Reading Final Progress Report	Planning in Progress
P-Card Cycle Audit	Planning in Progress
Cloud Security Rapid Assessment	Fieldwork in Progress
Active Directory Cloud Migration Security Review	Not Started
Wifi Security Testing	Not Started
CIS Application Security SOD Review	Not Started
Contractual Services	Planning in Progress
Asset Management	Not Started
Physical Security and Social Engineering Testing	Planning in Progress
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

# Internal Audit Plan FY 2019 Timeline

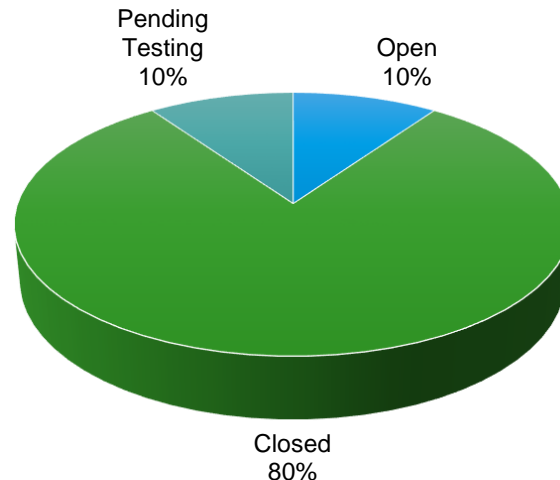
	Nov - 18	Dec - 18	Jan - 19	Feb - 19	Mar - 19	Apr - 19	May - 19	Jun - 19	Jul - 19	Aug - 19	Sep - 19	Oct - 19
▶ Permit Operations - Reimbursable Projects	[Timeline bar from Nov-18 to Jun-19]											
▶ Mail Room Operations		[Timeline bar from Dec-18 to Jan-19]										
▶ Fleet Management	[Timeline bar from Nov-18 to Mar-19]											
▶ Legal Operations			[Timeline bar from Jan-19 to Apr-19]									
▶ Occupational Safety and Health			[Timeline bar from Jan-19 to Apr-19]									
▶ Cloud Security Rapid Assessment				[Timeline bar from Feb-19 to Jun-19]								
▶ AMR Final Update					[Timeline bar from Mar-19 to Jun-19]							
▶ Physical Security and Social Engineering						[Timeline bar from Apr-19 to Jun-19]						
▶ PCard Cycle Audit						[Timeline bar from Apr-19 to Jun-19]						
▶ Contractual Services							[Timeline bar from May-19 to Sep-19]					
▶ CIS Application Security SOD Review						[Timeline bar from Apr-19 to Aug-19]						
▶ Wifi Security Testing						[Timeline bar from Apr-19 to Aug-19]						
▶ Asset Management								[Timeline bar from Jun-19 to Oct-19]				
▶ Active Directory Cloud Migration Security Review								[Timeline bar from Jun-19 to Oct-19]				
▶ Ongoing Follow-up Procedures	[Timeline bar from Nov-18 to Oct-19]											
▶ Ongoing Hotline Monitoring	[Timeline bar from Nov-18 to Oct-19]											

# PRIOR AUDIT FINDINGS – FOLLOW UP STATUS

# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2016 Audit Findings</b>					
Overtime Audit and Analysis	01/21/2016	3	1	2	0
Contract Compliance and Monitoring Part I	04/28/2016	4	0	4	0
Contract Compliance and Monitoring Part II	07/28/2016	11	0	11	0
ROCIP Savings Analysis	07/28/2016	4	0	4	0
Training, Licensing & Certification	07/28/2016	7	2	5	0
Blue Horizon 2020 Strategic Plan Monitoring	11/18/2016	3	0	0	3
Incident Management and Response Review	11/18/2016	3	0	1	2
Engineering – Contractor Management Phase II	2/14/2017	4	0	4	0
Billing & Collection	2/14/2017	1	0	1	0
Business Development Plan	2/14/2017	10	1	9	0
Annual Budgeting and Planning	4/27/2017	1	1	0	0
	<b>Total</b>	<b>51</b>	<b>5</b>	<b>41</b>	<b>5</b>

Color Key	
	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended



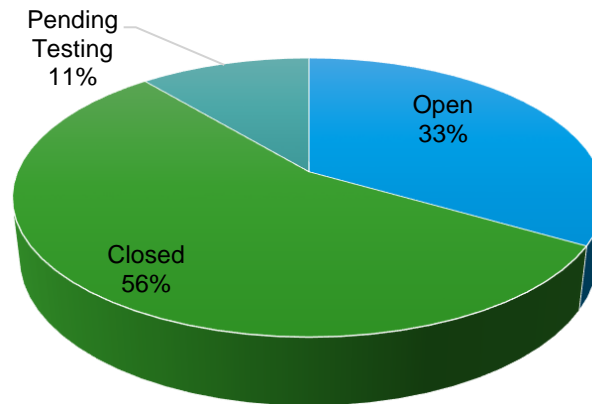
<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.



# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2017 Audit Findings</b>					
DMS Work Order Management (Blue Plains)	4/27/2017	4	1	1	2
HR/Employee Privacy Review	4/27/2017	7	4	3	0
Purchasing Card	4/27/2017	6	0	4	2
Contract Monitoring & Compliance Part 1	7/27/2017	5	0	5	0
Contract Monitoring & Compliance Part 2	7/27/2017	3	0	3	0
Entity Level Assessment	10/26/2017	7	5	2	0
Vulnerability Management and Platform Technical Audit (Windows/UNIX)	10/26/2017	2	2	0	0
Materials Management – Operations and Inventory	10/26/2017	4	1	2	1
Fleet – Accident and Incident Reporting	1/25/2018	4	2	2	0
Construction Plan Review and Permitting	1/25/2018	3	0	3	0
	<b>Total</b>	<b>45</b>	<b>15</b>	<b>25</b>	<b>5</b>

Color Key	
	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended

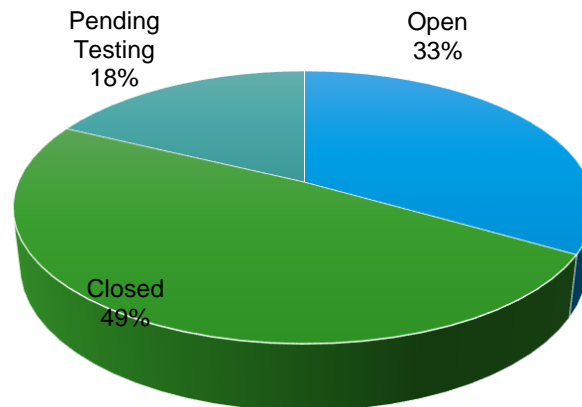


<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2018 Audit Findings</b>					
Recruiting, Selection and On-Boarding	4/26/2018	2	0	2	0
Automated Meter Replacement Update	4/26/2018	1	0	0	1
DB/OS Privileged User	4/26/2018	4	0	2	2
Network Penetration Testing	4/26/2018	13	0	13	0
Contract Monitoring & Compliance	7/26/2018	3	0	1	2
Crisis Management/Business Continuity	7/26/2018	3	3	0	0
Payroll & Timekeeping	10/25/2018	4	2	2	0
Accounts Payable	10/25/2018	5	2	2	1
Integrated Work Order Management	1/24/2019	10	8	0	2
	<b>Total</b>	<b>45</b>	<b>15</b>	<b>22</b>	<b>8</b>

Color Key	
	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended

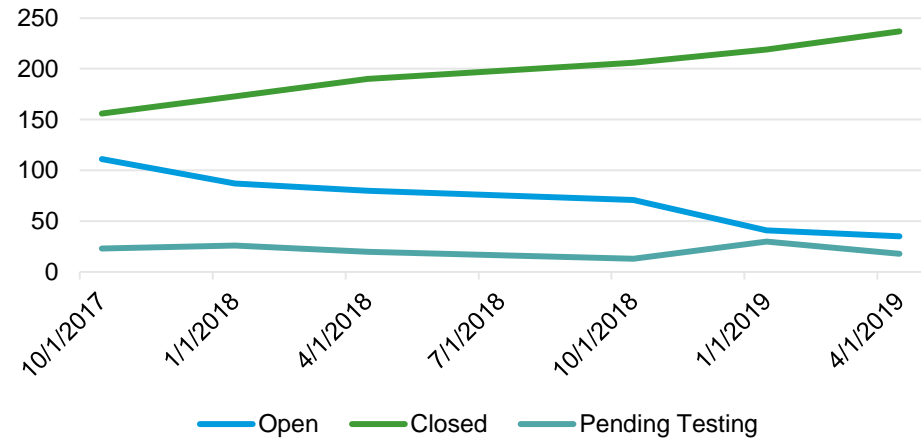


<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

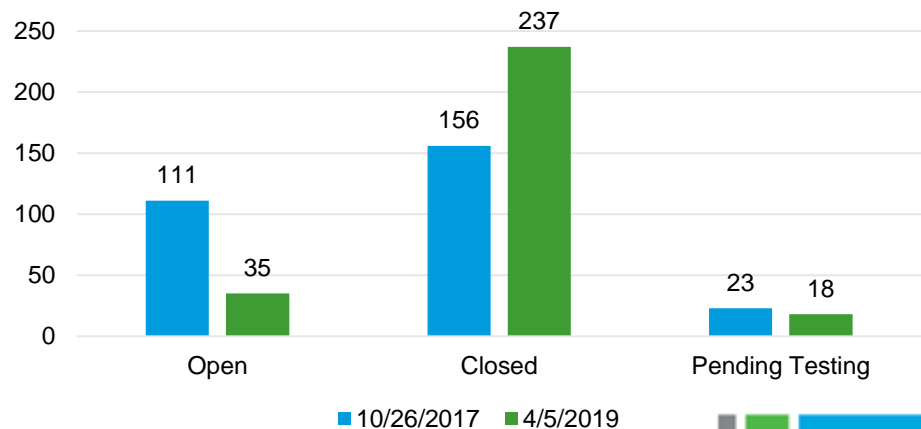
# Follow-up Semi-Annual Summary

- For FY14 – FY18 prior audit findings:
  - At the start of FY18, there were:
    - 66 open audit items (plus 45 new audit findings issued during FY18 audits)
    - 156 closed audit items
    - 23 pending testing
  - At the end of Q2 FY19, there are:
    - 35 open audit items
    - 237 closed audit items
    - 18 pending testing
- In total, 82% of all prior audit findings from FY14 – FY18 are closed
  - 81 audit items were closed from Q1 FY18 to Q2 FY19.

Follow-Up Progress



Follow-Up Progress



# Action Deferred Update

The following items are considered “action deferred” items that are contingent on other action occurring and not included in the Prior Audit Findings Update slides above:

1. Comprehensive Safety Policies and Procedures handbook
  - New Director, Occupational Safety and Health hired 4/2019
  - ***This item is closed***, as an updated recommendation is included in the 4/2019 internal audit report of Occupational Safety and Health
2. Scrap Metal Policy
  - Policy finalized – ***This item is closed***
3. Personally Identifiable Information (PII) Policy
  - Policy finalized – ***This item is closed***
4. Intellectual Property Personnel Policy
  - Under review by management based on new strategic initiatives

# OCCUPATIONAL SAFETY AND HEALTH

# Occupational Safety and Health

The scope of the Internal Audit of Occupational Safety and Health included the following:

- Evaluate the existing comprehensive Safety Plan comparative to Occupational Safety and Health Administration (“OSHA”) regulations;
- Evaluate OSHA compliance monitoring and reporting;
- Evaluate current Safety training and education programs;
- Evaluate follow up procedures and corrective action related to Safety violations and/or accidents;
- Review system(s) utilized in Safety case management and how they interact with systems at the Authority level; and,
- Identify process improvement opportunities and recommend internal control enhancement to improve the overall process.

# Occupational Safety and Health

Observations	Risk Rating
<b>1. Comprehensive Safety Plan</b>	High
<p><b>Management Action Plan:</b> A plan for re-assessing our current Safety, Health &amp; Environmental (SHE) Policies &amp; Procedures has been developed for reviewing as well as writing additional policies &amp; procedures that will bring us into compliance with current regulatory requirements.</p> <p><b>Target Date:</b> 9/1/2019</p> <p>Once the SHE Policies &amp; Procedures are current, DOSH will undertake to update the overall Comprehensive Safety Plan for the Authority in light of new SHE standards, stakeholder feedback and best practices.</p> <p><b>Target Date:</b> 3/1/2020</p> <p><b>Responsible Parties:</b> George Porter, Director of Safety</p>	

# Occupational Safety and Health

Observations	Risk Rating
<b>2. Safety Training Program</b>	High
<p><b>Management Action Plan:</b> DOSH to revise &amp; develop the DCW-wide required training matrix, in conjunction with People &amp; Talent, as all safety trainings are emphasized under the Blueprint strategic plan. The matrix will identify the all required &amp; recommended SHE trainings and develop a training calendar.</p> <p><b>Target Date:</b> 6/1/2019</p> <p>Will communicate to the departments about required &amp; recommended trainings. Feedback discussions to be had, with DOSH working to leverage KPIs being developed across the Authority to promote safety training.</p> <p><b>Target Date:</b> 9/1/2019</p> <p>Required trainings to be uploaded into the DCW online learning management system, Dive In.</p> <p><b>Target Date:</b> 2/1/2020</p> <p><b>Responsible Parties:</b> George Porter, Director of Safety, with support from HCM and Operating Departments.</p>	

*One moderate risk and 1 low risk issue are included in the full report.*



# LEGAL OPERATIONS AND CASELOAD MANAGEMENT

# Legal Operations and Caseload Management

The scope of the Internal Audit of Legal Operations and Caseload Management included the following:

- Gain an understanding of Legal Affairs' established business processes, controls and compliance requirements;
- Review the Legal/Outside Counsel expenditures for the past two years at the Authority;
- Evaluate legal operations in accordance with best practices defined by industry leading agencies, including caseload management, governance, etc.;
- Review the total cost of responding and closing claims (including settlement and cost of outside legal counsel) vs. amount of original claim; and,
- Identify potential opportunities for process improvement and underlying causes of gaps and process weaknesses noted, as applicable.

# Legal Operations and Caseload Management

Observations	Risk Rating
<b>1. Office of Legal Affairs Role Definition</b>	High
<p><b>Management Action Plan:</b> The mission of OLA is to serve as an invaluable resource to DCW by providing high quality legal advice &amp; counsel. The advice and counsel that OLA provides is based on the requests received by the owner of the activity, whether it is a policy, contract or program. OLA agrees that the timely inclusion of our staff in these matters ensures that any legal issues are addressed sooner rather than later to provide informed, appropriate and actionable advice. While the development of the Legal Affairs Charter may address the limitations, it is likely that such a document will find itself lost on a shelf and not referenced. Alternatively, OLA suggests working with the Departments to establish Service Level Agreements to identify, define and document the types of matters and when OLA needs to participate in for the Department's activities to ensure our advice and counsel are timely and most effective. The Service Level Agreements will be reflective of the Departments activities and functions to ensure that both missions are aligned. OLA will develop an implementation schedule to work with each Department.</p> <p><b>Responsible Parties:</b> EVP, Office of Legal Affairs</p> <p><b>Target Date:</b> 9/30/2020</p>	

*Three moderate risk issues are included in the full report.*

# FLEET MANAGEMENT

# Fleet Management

The scope of the Internal Audit of Fleet Management included the following:

- Gain an understanding of Fleet Management operations; review existing process flows and conduct interviews with management
- Review outstanding management action plans from prior relevant audits (DC Water Fleet Accident and Incident Reporting) have been implemented
- Review system(s) utilized in Fleet Management and how they interact with systems at the Authority level; review controls exist surrounding the transfer of data between systems
- Evaluate Fleet data output on utilization and how management uses this information to make decisions regarding vehicle assignment
- Evaluate Fleet inventory and maintenance strategy and examine cost saving opportunities
- Benchmark DC Water's Fleet Management with industry best practices; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall process.

*There were no High Risk issues to report. Two moderate risk and 1 low risk issue are included in the full report.*

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# HOTLINE UPDATE

# Hotline Update

At the January 2019 Audit Committee meeting, there were 4 cases open. Below is activity since the meeting:

Hotline Calls as of 4/17/19	
Calls Received	8
Fraud Claims – 4	
Other – 4	
Cases Closed	6
Cases Currently Open	6

Note: Three (3) of the 6 open cases relate to a similar matter that is currently under investigation, and are fraud related.

# QUESTIONS AND ANSWERS?



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# Internal Audit Report of Department of Occupational Safety & Health

April 2019



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Department of Occupational Safety & Health Internal Audit  
 Internal Audit Report  
 Issued: April 2019



## TRANSMITTAL LETTER

April 2019

The Audit Committee of DC Water  
 1385 Canal Street, SE  
 Washington, DC 20003

Pursuant to the approved fiscal year 2019 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of the Department of Occupational Safety & Health (“DOSH”). We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on April 25, 2019. Our report is organized in the following sections:

<b>Executive Summary</b>	This section provides a summary of the observations and ratings related to our internal audit of the Department of Occupational Safety & Health processes.
<b>Background</b>	This section provides an overview of the Department of Occupational Safety & Health processes.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Detailed Observations</b>	This section provides 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**





## EXECUTIVE SUMMARY

### Background

The DC Water Department of Occupational Safety & Health (“DOSH”) is responsible for providing technical services and support that ensures a safe and healthy work environment for all DC Water employees, customers and the community.

The Authority’s safety program is modeled, in part, on Occupational Safety & Health Administration requirements as well as industry best practices for accident prevention. The program is supported by a comprehensive safety plan that provides guidelines and performance measures to achieve a workplace of free of preventable safety hazards.

Accident prevention, education and instruction are the daily practice, achieved through independent safety audits, programs and training, accident investigation, hazard analysis and abatement and, involve employee is all safety initiatives. The vision is accident prevention that goes beyond compliance, and calls for the utilization of safe and healthful operational methods for all tasks.

The department has three functional groups: operations safety, construction safety, and data and analysis. Each functional group is responsible for different aspects of the overall safety program at the Authority.

### 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 projected severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

### Objective and Scope

Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated January 16, 2019, and were limited to those procedures described therein. Our scope was based on the following objectives:

- Evaluate the existing comprehensive Safety Plan comparative to Occupational Safety and Health Administration (“OSHA”) regulations;
- Evaluate OSHA compliance monitoring and reporting;
- Evaluate current Safety training and education programs;
- Evaluate follow up procedures and corrective action related to Safety violations and/or accidents;
- Review workers compensation insurance experience;
- Review system(s) utilized in Safety case management and how they interact with systems at the Authority level;
- Review existing process flows and update where necessary; and,
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall process.

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

	Number of Observations by Risk Rating		
	High	Moderate	Low
Department of Occupational Safety & Health	2	1	1

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



## EXECUTIVE SUMMARY (CONTINUED)

### Ratings and Conclusions

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

Summary of Observations	
Observations	Rating
<p><b>1. Comprehensive Safety Plan</b></p> <p>Based upon review of the comprehensive Safety Plan, it was noted that the plan has not been updated since 2001. The plan is outdated, and does not match current practices in several respects, as a result.</p>	High
<p><b>2. Safety Training Program</b></p> <p>During detailed testing of the safety training program, it was noted that none of the 25 sampled employees had completed all safety training courses as required for their role. Training is a cross functional effort between People &amp; Talent and the departments.</p>	High
<p><b>3. Corrective Action Follow Up</b></p> <p>Through our detailed testing of annual site inspections, 5 of the 7 sampled inspections that included corrective action contained no evidence that a follow up inspection was performed, to validate that corrective action was appropriately implemented. Additionally, 3 of the 7 sampled inspections did not contain evidence that the inspected department received the completed inspection report detailing any safety violations identified and required corrective action.</p>	Moderate
<p><b>4. Construction Contractor Safety Documentation</b></p> <p>Through detailed testing of construction safety project documentation required by the DC Water Construction Safety and Health Manual, it was identified that not all safety documentation was provided by the prime contractor for 2 of the 5 construction projects reviewed.</p>	Low

## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### ***Department of Occupational Safety & Health (“DOSH”) Overview***

The DC Water Department of Occupational Safety & Health (“DOSH”) is responsible for providing technical services and support that ensures a safe and healthy work environment for all DC Water employees, customers and the community.

The Authority’s safety program is modeled, in part, on Occupational Safety & Health Administration requirements as well as industry best practices for accident prevention. The program is supported by a comprehensive safety plan that provides guidelines and performance measures to achieve a workplace of free of preventable safety hazards.

Accident prevention, education and instruction are the daily practice, achieved through independent safety audits, programs and training, accident investigation, hazard analysis and abatement and, involve employee is all safety initiatives. The vision is accident prevention that goes beyond compliance, and calls for the utilization of safe and healthful operational methods for all tasks.

The department has three functional groups: operations safety, construction safety, and data and analysis. Each functional group is responsible for different aspects of the overall safety program at the Authority.

The Operations Safety group is responsible for the following:

- Compliance with environmental health and safety management systems;
- Implementing a comprehensive safety program including facility and crew safety inspections;
- Coordinating with the Office of Emergency Management to adhere to requirements of Occupational Safety & Health Administration (OSHA) and National Fire Protection Association (NFPA);
- Oversight of the hazardous waste program and storage tank compliance; and,
- Identifying, developing, scheduling and delivering required safety training.

The Construction Safety group is responsible for the following:

- Compliance with environmental health and safety management systems;
- Oversight of the comprehensive construction safety program;
- Oversight of the Rolling Owner Controlled Insurance Program (ROCIP) safety program; and,
- Coordinate with Office of Emergency Management to adhere to requirements of Occupational Safety & Health Administration (“OSHA”) and National Fire Protection Association (“NFPA”).

The Data and Analysis Group is responsible for the following:

- Compliance with environmental health and safety management systems;
- Develop and analyze safety metrics;
- Generate and provide required safety reports; and,
- Administer and maintain the safety database.

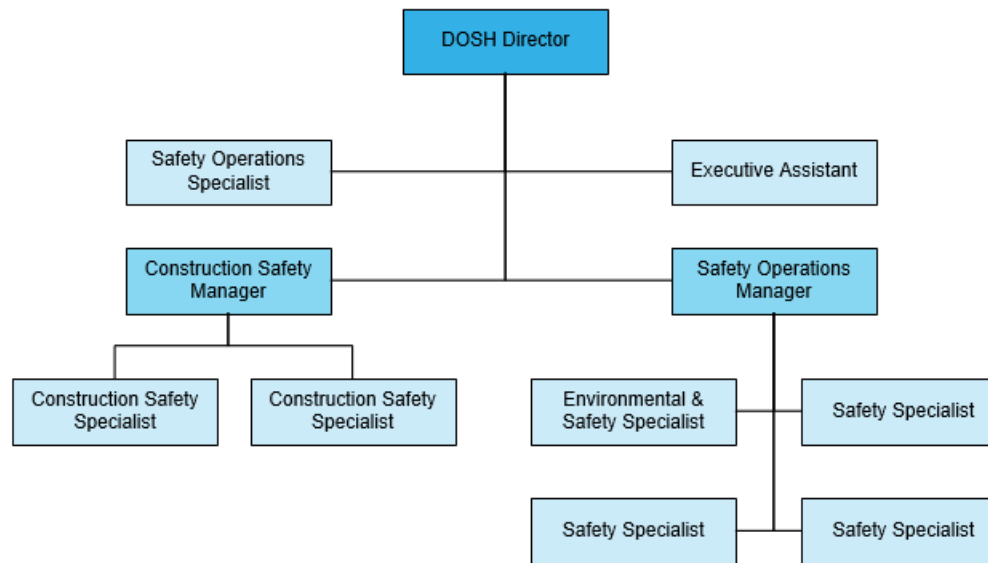


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### ***Department of Occupational Safety & Health (“DOSH”) Overview (Continued)***

A high-level organizational chart of the Department of Occupational Safety & Health is illustrated below:





## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### **Safety Risk System (“SRS”)**

DOSH utilizes the Safety Risk System, or “SRS”, to maintain all documentation related to incident reporting, site inspections, the good catch program, workers compensation, as well as various safety performance metrics. SRS assists DOSH in documenting the necessary details for full incident investigations; thorough site inspections and required corrective action; workers compensation claims; as well as preparing graphics and charts for periodic reporting through custom templates, which require specific information to be provided by employees when submitting a new investigation, inspection, or claim.



*Note: DOSH is transitioning to a new risk management system, Origami Risk. The new system provides similar features to SRS with more up to date and enhanced capabilities related to data analytics, reporting, and incident intake, among others.*



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### Accident/Incident Reporting & Workers Compensation

Employees are required to report accidents, injuries and incidents in a timely manner. The initial investigation is conducted by an immediate supervisor, which includes a review of what actually occurred, and implementation of the appropriate accident prevention measures to prevent a reoccurrence. Accident/incident details are provided to DOSH and an investigation report is opened in SRS by a Safety specialist. The Safety specialist performs an investigation to obtain all relevant facts, identify possible causes of the accident/incident, and provide corrective action if necessary. All information is input into SRS utilizing the reporting functions shown below.

**Possible Causes of Accidents / Incidents**

Investigation Report

You must select Yes or No for all the listed possible causes below.

**Improper Guarding**  
 Yes  No  Unknown

**Improper Instruction**  
 Yes  No  Unknown

**Injury sustained?**  
 Yes  No  Unknown

**Improper Maintenance**  
 Yes  No  Unknown

**Improper Dress**  
 Yes  No  Unknown

**Improper protective equipment**  
 Yes  No  Unknown

**Inoperative safety device**  
 Yes  No  Unknown

**Improper technique**  
 Yes  No  Unknown

**Failure to lockout**  
 Yes  No  Unknown

**Accident / Incident Details**

Statements Collected?  
 Yes  No  Unknown

Was a drug & alcohol test performed?  
 Yes  No  Unknown

Police Involved?  
 Yes  No  Unknown

Citation / Ticketed?  
 Yes  No  Unknown

PMA Claim Number  
 LITEUSERTEST8513;

Injured Parties  
 TestTTest;

Event Type  
 Unknown;

RC Claim Number  
 RC000312;

**Supervisor Investigation**

List events following accident / incident  
 test

Investigation made at the scene?  
 Yes  No  Unknown

Was the event discussed with others?  
 Yes  No  Unknown

Were photos taken of the scene?  
 Yes  No  Unknown

Was Employee counseled (if negligence/unsafe act)?  
 Yes  No  Unknown

Supervisor's Corrective Action 1  
 test

Responsible Person 1

Due Date 1  
 08/28/2013

Supervisor's Corrective Action 2  
 test

**Internal Report Review - DOSH USE ONLY**

Additional Accident Cause(s)  
 test

Accident Factor(s)  
 test

Corrective Action(s) satisfactory  
 Yes  No  Unknown

Additional Corrective Actions  
 test

Supervisor's CAP(s) been implemented?  
 Yes  No  Unknown



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### **Accident/Incident Reporting & Workers Compensation (Continued)**

At times, accidents or incidents are severe enough to warrant a workers compensation claim to be submitted. The immediate Supervisor of the affected employee must contact PMA, the third party administrator for workers compensation claims, and provide details about the accident/incident. If the claim is compensable, the employee will receive treatment at a medical provider of their choice and PMA will pay all medical expenses. If the employee is required to miss workdays due to the accident/incident, it is considered an OSHA reportable accident and is detailed on the OSHA 300 summary log, which is discussed further in a later section of this report.

#### **The Good Catch Program**

The Good Catch program provides employees the ability to report “near-misses” or any unplanned event, circumstance, condition or behavior that has the potential to result in an injury, illness, damage, or loss of productivity. The availability of the program is communicated to all employees through Pipeline, the Authority’s intranet. A total of 213 Good Catch observations have been reported since the beginning of fiscal year 2018.

**dc water is life**

**GOOD CATCH OBSERVATION**

This is the Good Catch Observation form. The information that you share in this form will assist DC Water with capturing, documenting, and investigating all near-miss incidents. The results will assist the authority with the development of programs that will reduce the risk associated activity.

A Near Miss is an unplanned event, circumstance, condition or behavioral action that had the potential to result in an actual injury, illness, damage, or productivity loss. Our goal is to investigate all near misses in order to determine root cause and focused corrective actions that will lead to continuous improvement - working safely without incident.

Thank you for taking the time to submit your observation.

1. Date of Catch \*  12 AM 00

2. Location \*

3. Description \*

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### ***OSHA Regulations & Reporting***

The Occupational Safety & Health Administration has various regulations that govern occupational safety and health standards under the Occupational Safety and Health Act of 1970. Uniquely, DC Water is not required to adhere to the majority of these regulations; however, the Authority has voluntarily adopted certain provisions of these regulations into its safety program (OSHA Required Safety Training, OSHA Whistle-Blower Investigation Authority). Additionally, the Authority is required to post or submit the following reports on an annual basis:

- OSHA Form 300: Log of Work-Related Injuries and Illnesses
- OSHA Form 300A: Summary of Work-Related Injuries and Illnesses

The OSHA Form 300 is to be posted by the Authority in a visible area during the months of February to April and the OSHA Form 300A must be submitted to OSHA by March 2<sup>nd</sup> of the following calendar year.

#### ***Construction Safety***

While the Authority is not required to adhere to many OSHA regulations, all DC Water contractors must abide by the regulations. DOSH has created a Construction Safety & Health Manual for contractors, which outlines the requirements set forth by both OSHA and the Authority. All contractors must submit a comprehensive project safety plan to DOSH for review and approval prior to the start of construction activity. As construction activity is on-going, DC Water requires the general (prime) contractor to confirm that all workers under their supervision have met their safety education requirements, communicate and maintain appropriate records of all safety related mishaps that effect or could affect employee safety and health, and address any corrective action needs. Additionally, a qualified person is to be assigned as the on-site safety representative with their credentials provided to DOSH for approval of assignment.

#### ***Performance Metrics***

DOSH maintains various performance metrics that are included in the department summary of the annual budget report, the monthly general manager's report to the Board of Directors, and internally for the ROCIP program and monthly departmental safety scorecards. These performance metrics help DOSH and the Authority uphold a proactive approach towards safety by identifying lagging and leading indicators of past accidents and incidents. Additional information on safety performance metrics can be found in Appendix C.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (Continued)

#### **Safety Training Program**

The Authority has a comprehensive safety training program that was created with OSHA required training in mind. DOSH has created a curriculum for all DC Water departments, which lists all required courses for each individual role. The Dive In module in the Cornerstone system is utilized to track and monitor all training activities and includes a transcript of completed, upcoming, or incomplete trainings. Employees are responsible for monitoring their transcript and completing trainings as they come due.



Learning Ambassador



My Performance Goals



Learning Catalog



E-Learning



How to Guides

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

The purpose of this review is to obtain an understanding of Safety operations and processes, including the policies and procedures, and controls in place, to assess whether the system of internal controls are adequate and appropriate, at the department and Authority-level.

The audit scope is based on the following objectives:

- Evaluate the existing comprehensive Safety Plan comparative to Occupational Safety and Health Administration (“OSHA”) regulations;
- Evaluate OSHA compliance monitoring and reporting;
- Evaluate current Safety training and education programs;
- Evaluate follow up procedures and corrective action related to Safety violations and/or accidents;
- Review workers compensation insurance experience;
- Review system(s) utilized in Safety case management and how they interact with systems at the Authority level;
- Review existing process flows and update where necessary; and,
- Identify process improvement opportunities and recommend internal control enhancement to improve the overall process.

#### **Approach**

Our audit approach consisted of the following phases:

##### Understanding of the Process

The first phase of our review consisted primarily of inquiry in an effort to obtain an understanding of the Authority’s structure and key processes within our scope. The following procedures were conducted as part of the first phase of our review:

- Conducted interviews with Department of Occupational Safety & Health (“DOSH”) personnel to obtain a detailed understanding of the Authority’s Safety;
- Reviewed documented policies and procedures, organizational charts, and any other key process information available to further our understanding of the function; and,
- Based upon our interviews and review of policies, we identified key risks and controls, and developed a detailed control testing script to facilitate phase 2 testing.

##### Detailed Testing

The second phase of our review consisted of an assessment of the design of key controls, and testing of the operating effectiveness of those controls. This process was facilitated through the testing of a sample of incident reports, site inspections, construction safety plans, hazardous waste disposals, and safety training requirements during the period of 10/1/2017 – 1/31/2019. Our procedures during this phase included, but were not limited to the following:

- Validated that DC Water has a comprehensive Safety Plan that includes industry best practices as outlined by the Occupational Safety & Health Administration (“OSHA”)
- Validated that OSHA reporting is submitted on an annual basis as required;
- Validated that safety related incidents are reported and documentation is maintained as required by OSHA;



---

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (Continued)

#### ***Approach (Continued)***

- Validated that site inspections are performed as required by DC Water policies and procedures;
- Validated that construction contractors submit and abide by approved project safety plans;
- Validated that hazardous waste disposals comply with DC Water policy and EPA regulation; and,
- Validated that safety training is completed by DC Water employees as required.

#### ***Reporting***

At the conclusion of this internal audit, we summarized our observations related to the Department of Occupational Safety & Health and reviewed the results of our testing with management, including the Safety Operations Manager, Manager of Construction Safety, Director of Department of Occupational Safety and Health, and the Executive Vice President of Administration. Management's action plans have been included.



## DETAILED OBSERVATIONS

Department of Occupational Safety & Health Internal Audit			
	1. <u>Comprehensive Safety Plan</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: High</b>		
	<p>Based upon review of the comprehensive Safety Plan, it was noted that the plan has not been updated since 2001.</p> <p>The comprehensive safety plan is a blueprint for keeping workers and contractors safe. Without an up to date safety plan and ongoing training, DC Water may not provide its employees and contractors adequate or updated, relevant guidelines to promote a safe and healthy work environment. If appropriate guidelines are not available, the risk of work place accidents could be increased.</p> <p>Additionally, an outdated safety plan does not include or consider the most recent industry best practices, or federal regulations. If new federal regulations are not considered or included, DC Water is at risk of violating these regulations, if applicable to the Authority.</p>	<p>We recommend DOSH update the current version of the comprehensive safety plan with consideration of current practice, federal regulation and industry best practices.</p> <p>The updated plan should be regularly reviewed and approved, and training for employees updated as needed. See also observation #2 related to training.</p>	<p><b>Response:</b> A plan for re-assessing our current Safety, Health &amp; Environmental (SHE) Policies &amp; Procedures has been developed for reviewing as well as writing additional policies &amp; procedures that will bring us into compliance with current regulatory requirements.</p> <p><b>Target Date:</b> 9/1/2019</p> <p><b>Response:</b> Once the SHE Policies &amp; Procedures are current, DOSH will undertake to update the overall Comprehensive Safety Plan for the Authority in light of new SHE standards, stakeholder feedback and best practices.</p> <p><b>Target Date:</b> 3/1/2020</p> <p><b>Responsible Party:</b> George Porter, Director of Safety</p>





## DETAILED OBSERVATIONS (CONTINUED)

Department of Occupational Safety & Health Internal Audit			
	<u>2. Safety Training Program</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: High</b>		
	<p>During detailed testing of the safety training program, it was noted that none of the 25 sampled employees had completed all safety training courses as developed for their role.</p> <p>Per discussion with DOSH, the curriculum may not have been adequately communicated by DOSH to the employees and their supervisors.</p> <p>Safety training courses help ensure that DC Water employees and contractors are aware of various work place hazards, and develops a positive health and safety culture. The role-based safety curriculums are developed by DOSH, the talent development team assists with locating and procuring the required training if needed and updating Dive In with the information on scheduling and requirements, and then course completion and monitoring is performed by the individual departments and employees. There is limited enforcement or consequence for not completing 'required' training.</p> <p>Without a consistent approach to safety training, DC Water is at risk of employees or contractors being unaware of possible hazards and the appropriate behavior to avoid those hazards.</p>	<p>Consistent with the current initiative to establish and deliver role-based training, we recommend the Authority incorporate a formalized approach to safety training, including identifying the role of DOSH, People &amp; Talent, as well as Executives and department supervisors, to include a communication plan for training expectations.</p> <p>Management should consider training requirements to be integrated with the overall employee experience and failure to complete all required training should be considered during the performance evaluation process.</p> <p>Additionally, the Dive In system should be loaded with the role based training curriculum that has been developed by DOSH. Dive In has the capability of alerting employees when a new course is available and when that course should be completed. Reporting on the status of training curriculums should be regularly monitored and enforced.</p>	<p><b>Response:</b> DOSH to revise &amp; develop the DCW-wide required training matrix, in conjunction with People &amp; Talent, as all safety trainings are emphasized under the Blueprint strategic plan. The matrix will identify the all required &amp; recommended SHE trainings and develop a training calendar.</p> <p><b>Target Date:</b> 6/1/2019</p> <p><b>Response:</b> Will communicate to the departments about required &amp; recommended trainings. Feedback discussions to be had, with DOSH working to leverage KPIs being developed across the Authority to promote safety training.</p> <p><b>Target Date:</b> 9/1/2019</p> <p><b>Response:</b> Required trainings to be uploaded into the DCW online learning management system, Dive In.</p> <p><b>Target Date:</b> 2/1/2020</p> <p><b>Responsible Party:</b> George Porter, Director of Safety, with support from HCM and Operating Departments.</p>



## DETAILED OBSERVATIONS (CONTINUED)

Department of Occupational Safety & Health Internal Audit			
	<b>3. <u>Corrective Action Follow Up</u></b>	<b><u>Recommendation</u></b>	<b><u>Management's Action Plan</u></b>
	<b>Observation Rating: Moderate</b>		
	<p>Through our detailed testing of annual site inspections, 5 of the 7 sampled inspections that has corrective actions contained no evidence that a follow up inspection was performed to validate that corrective action was appropriately implemented. Additionally, 3 of the 7 sampled inspections did not contain evidence that the inspected department received the completed inspection report detailing any safety violations identified and required corrective action.</p> <p>Corrective action is the primary way the Authority is able to address current safety risks. The intent of corrective action is to put into place arrangements that will prevent a re-occurrence of the noted risk, or prevent an accident from occurring in the future.</p> <p>Without communication of required corrective action, or appropriate follow up inspections to confirm corrective action has been implemented, the Authority is at risk of identified risks not being mitigated and an accident occurring in the future. Safety accidents can present reputational, political and financial risk if severe enough and consistent implementation of corrective action can mitigate the risk of these accidents occurring.</p>	<p>We recommend DOSH re-establish, through direct communication and training as needed, the importance of follow up inspections and confirming the implementation of required corrective action.</p> <p>Additionally, with the implementation of the new Origami system, facilities inspection reports that include corrective action should not be able to be closed out until a follow up inspection is conducted and documentation of corrective action implementation has been included.</p> <p>If necessary, incentives for completion, or consequences for inaction of corrective measures should also be considered.</p>	<p><b>Response:</b> A new online observation reporting system to be implemented, along with associated training. This system will allow us to better track open corrective action items to closure and ensure safe outcomes for DC Water.</p> <p><b>Responsible Party:</b> George Porter, Director of Safety, with support from Facilities, DETS and IT</p> <p><b>Target Date:</b> 12/1/2019</p>



## DETAILED OBSERVATIONS (CONTINUED)

Department of Occupational Safety & Health Internal Audit			
	<u>4. Construction Safety Documentation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: Low</b>		
	<p>Through detailed testing of construction safety project documentation required by the DC Water Construction Safety and Health Manual, it was identified that not all safety documentation was provided by the prime contractor for 2 of the 5 construction projects reviewed.</p> <p>Specifically, the following was not provided:</p> <ul style="list-style-type: none"> <li>Reporting of daily on-site safety inspections was not provided for 1 of 5 projects reviewed; and,</li> <li>Safety &amp; Health Deficiency Tracker was not provided for 2 of 5 projects reviewed.</li> </ul> <p>If not all documentation is provided as required by the DC Water Construction Safety &amp; Health Manual, the Authority may be at risk of late or misidentification of safety issues at construction sites. This could lead to safety related accidents or incidents, and reputational or financial exposure to the Authority.</p>	<p>We recommend DOSH review the requirements and reestablish the importance of the DC Water Construction Safety and Health Manual with all prime contractors for future construction projects.</p> <p>This could be in a formal meeting or training with the safety expert identified by the prime contractor prior to beginning construction activity, as well as a direct communication to all contractors as a periodic reminder.</p>	<p><b>Response:</b> Construction Department identified the need to use a different method to gather the information from the contractors. This method was not changed in the current DC Water Construction Safety and Health Manual.</p> <p>An update to the manual is currently being done.</p> <p><b>Target Date:</b> 7/15/2019</p> <p><b>Response:</b> The updated manual will be communicated to the contractors once the updates have been completed.</p> <p><b>Target Date:</b> 8/15/2019</p> <p><b>Responsible Party:</b> George Porter, Director of Safety</p>



## PROCESS IMPROVEMENT OPPORTUNITY

### Department of Occupational Safety & Health Internal Audit

#### **Safety Documentation Indexing within SRS**

It was noted during our review of various safety documentation that necessary details were not consistently maintained in the same place within the SRS application. For example, incident investigation reports included all the information as required for a template similar to the OSHA 300 log; however, many times this information was included across the investigation report as well as the supporting notes with no clear organization. We recommend that with the new implementation of the Origami system that DOSH more consistently use report templates to capture all information, and house the documents consistently in the pre-defined areas. This will allow for ease of review and understanding of incident or inspection details.

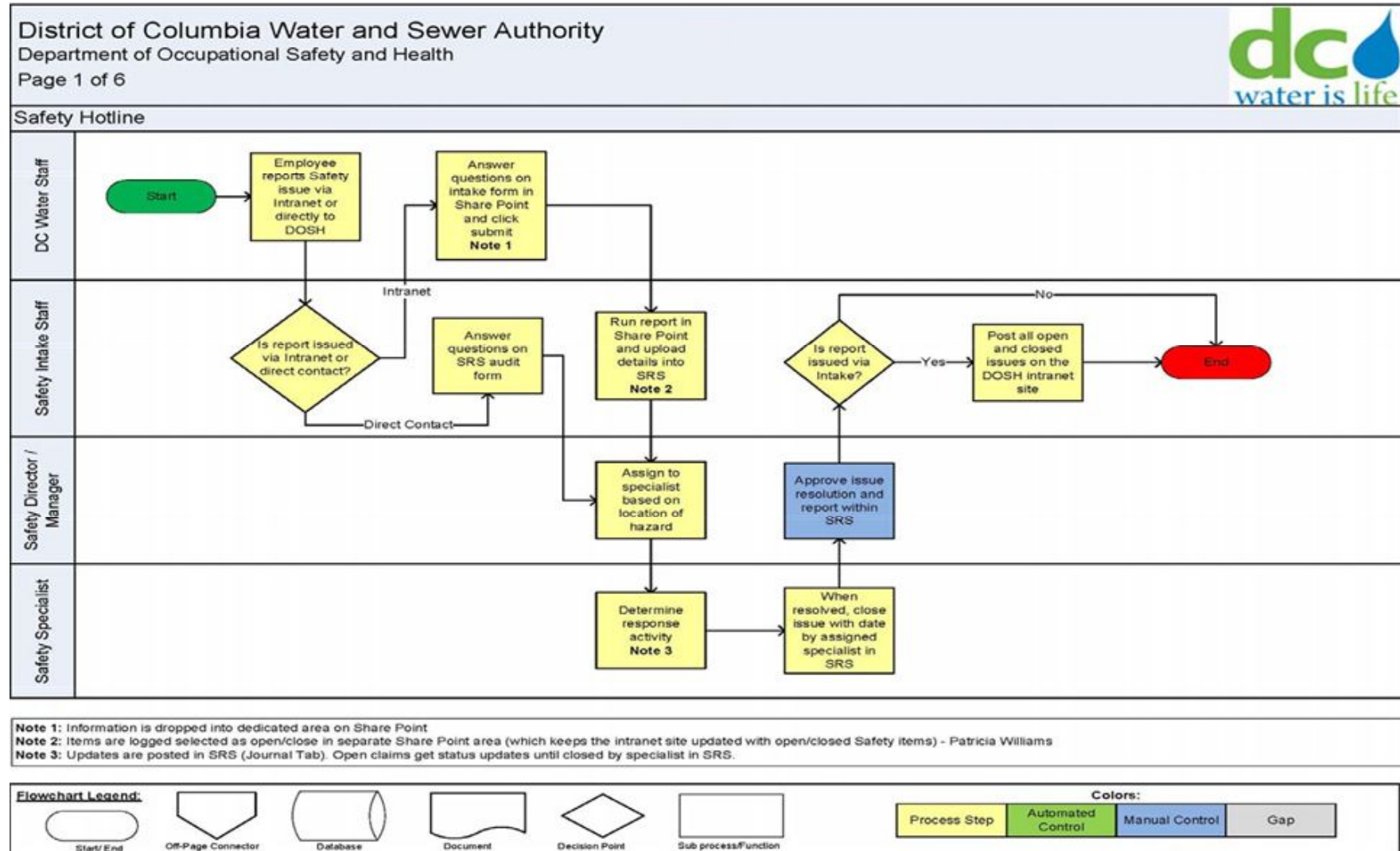


## APPENDIX A – RATING DEFINITIONS

Observation Risk Rating Definitions	
Rating	Definition
<b>Low</b>	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).
<b>Moderate</b>	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).
<b>High</b>	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).

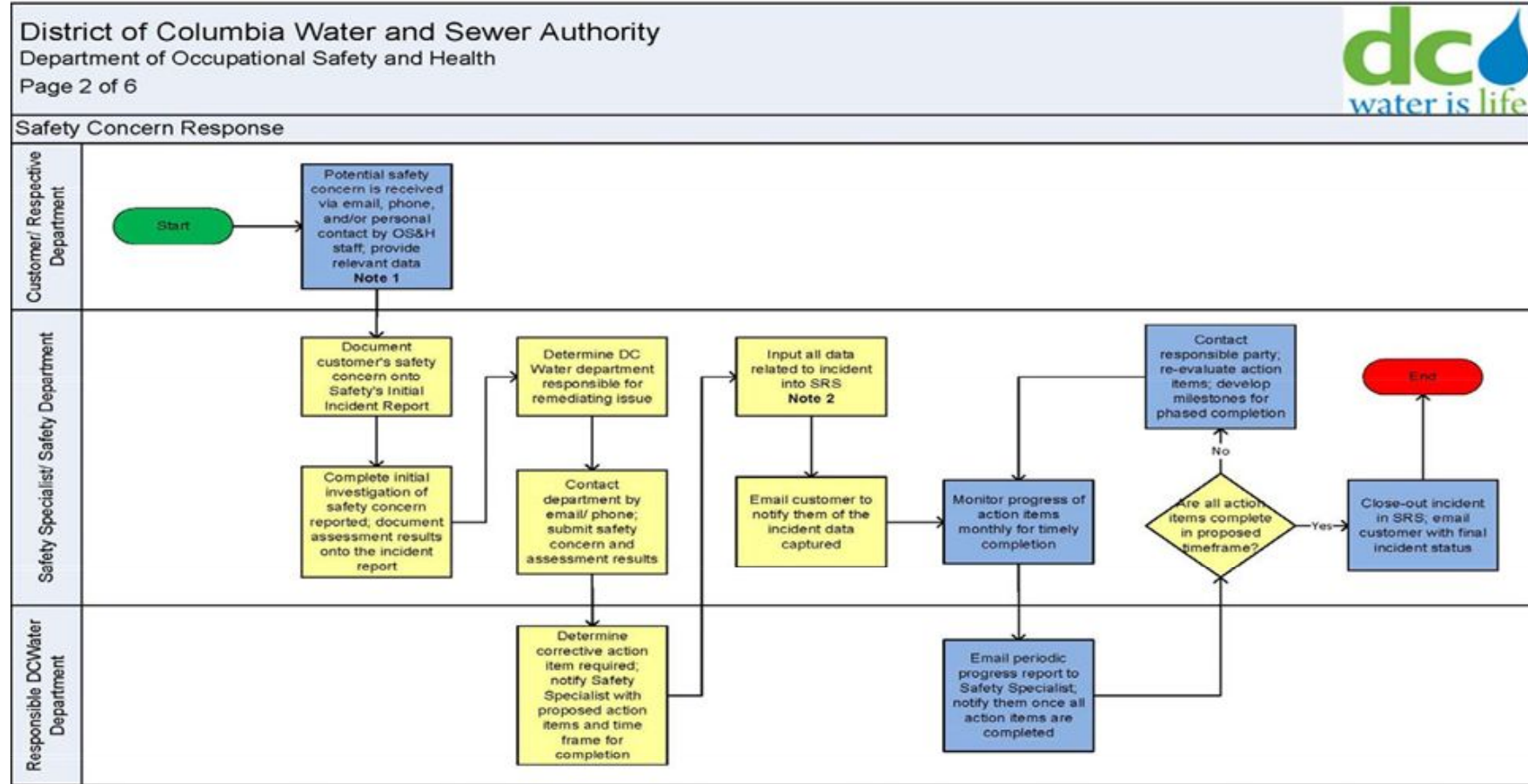


## APPENDIX B – FLOWCHARTS





## APPENDIX B – FLOWCHARTS (CONTINUED)

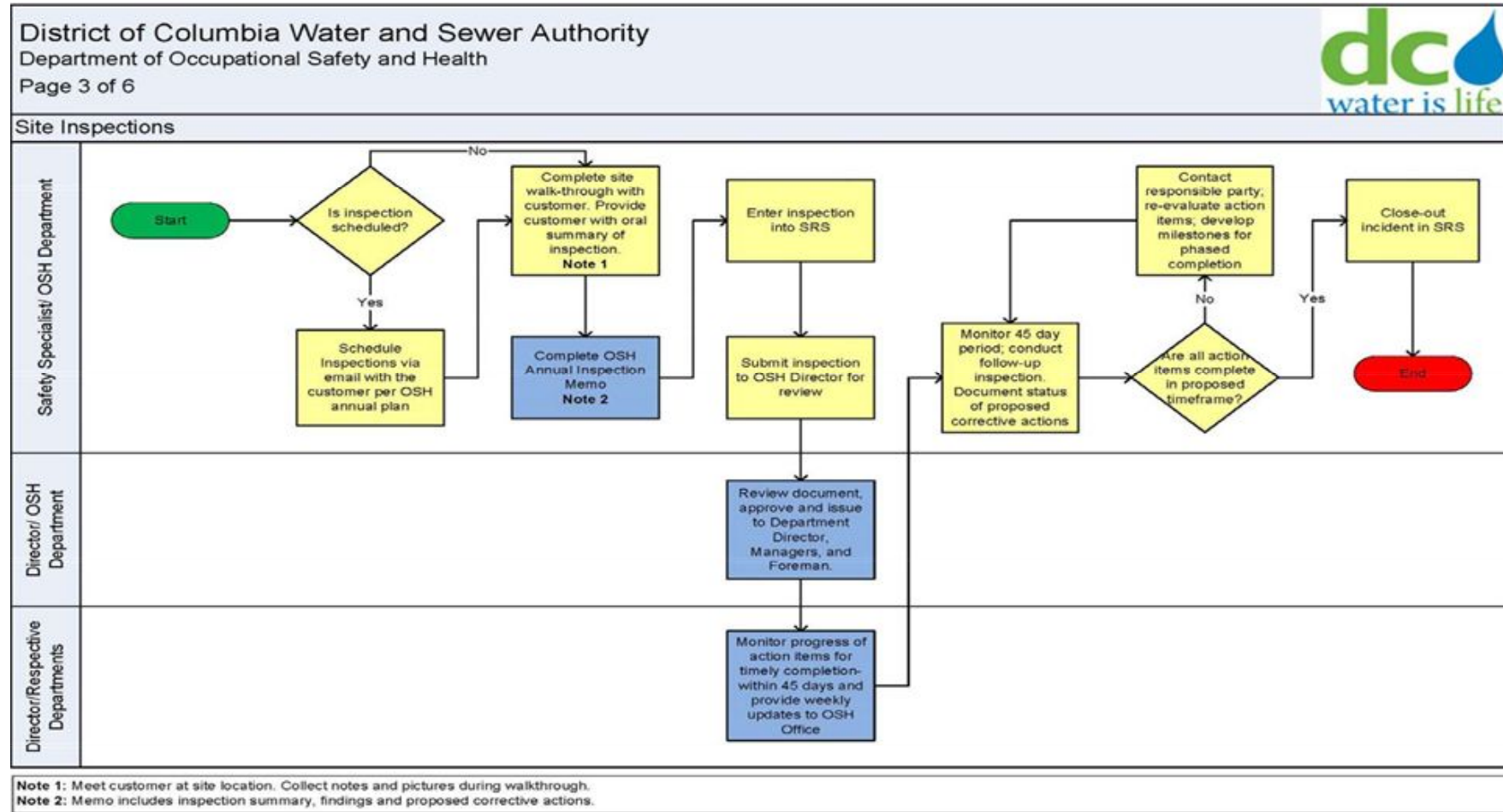


**Note 1:** Relevant data includes issue, location, contact information, and department.  
**Note 2:** Data includes completed investigation and assessment, party responsible for correction and proposed action items and reasonable time frame for completion.





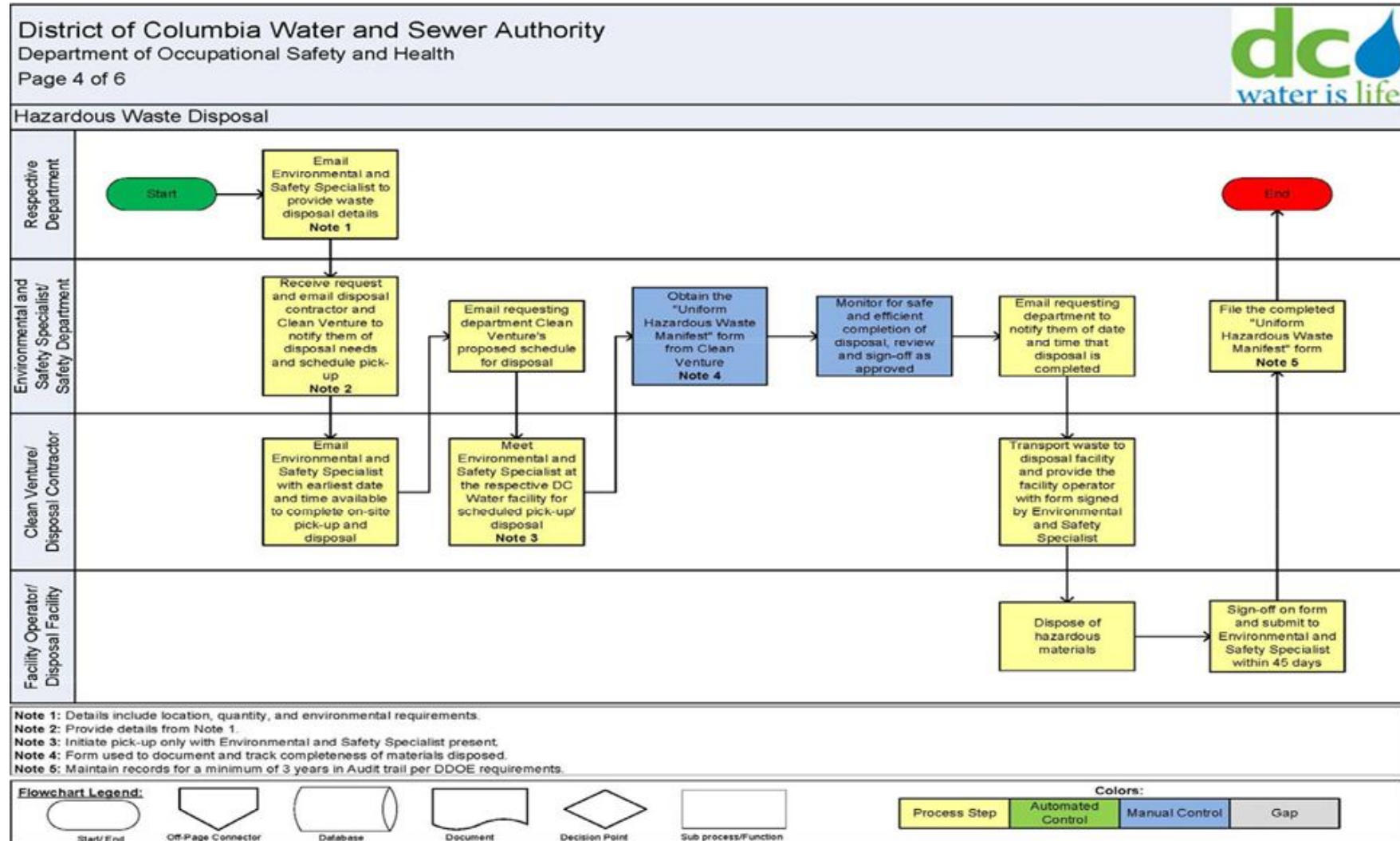
## APPENDIX B – FLOWCHARTS (CONTINUED)





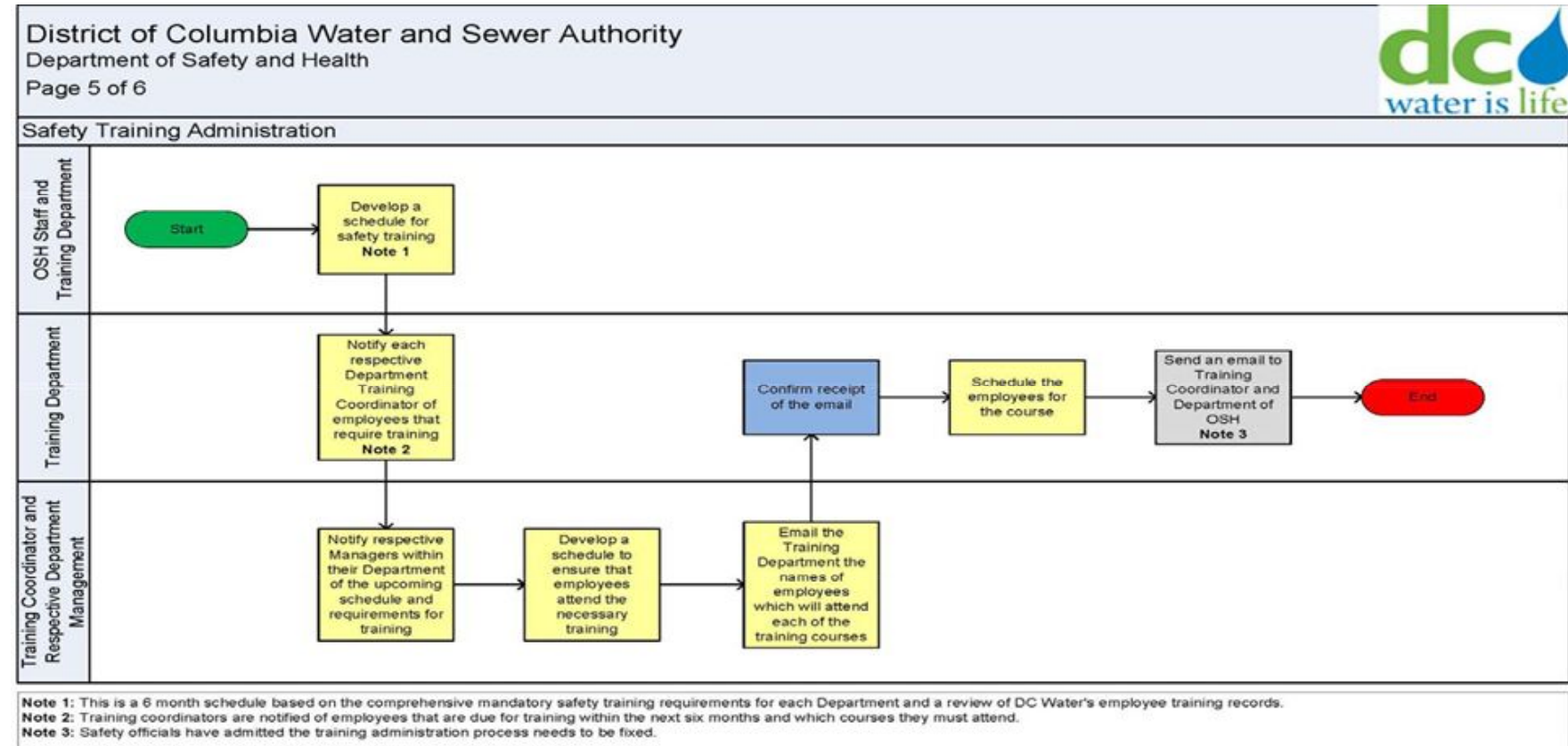


## APPENDIX B – FLOWCHARTS (CONTINUED)



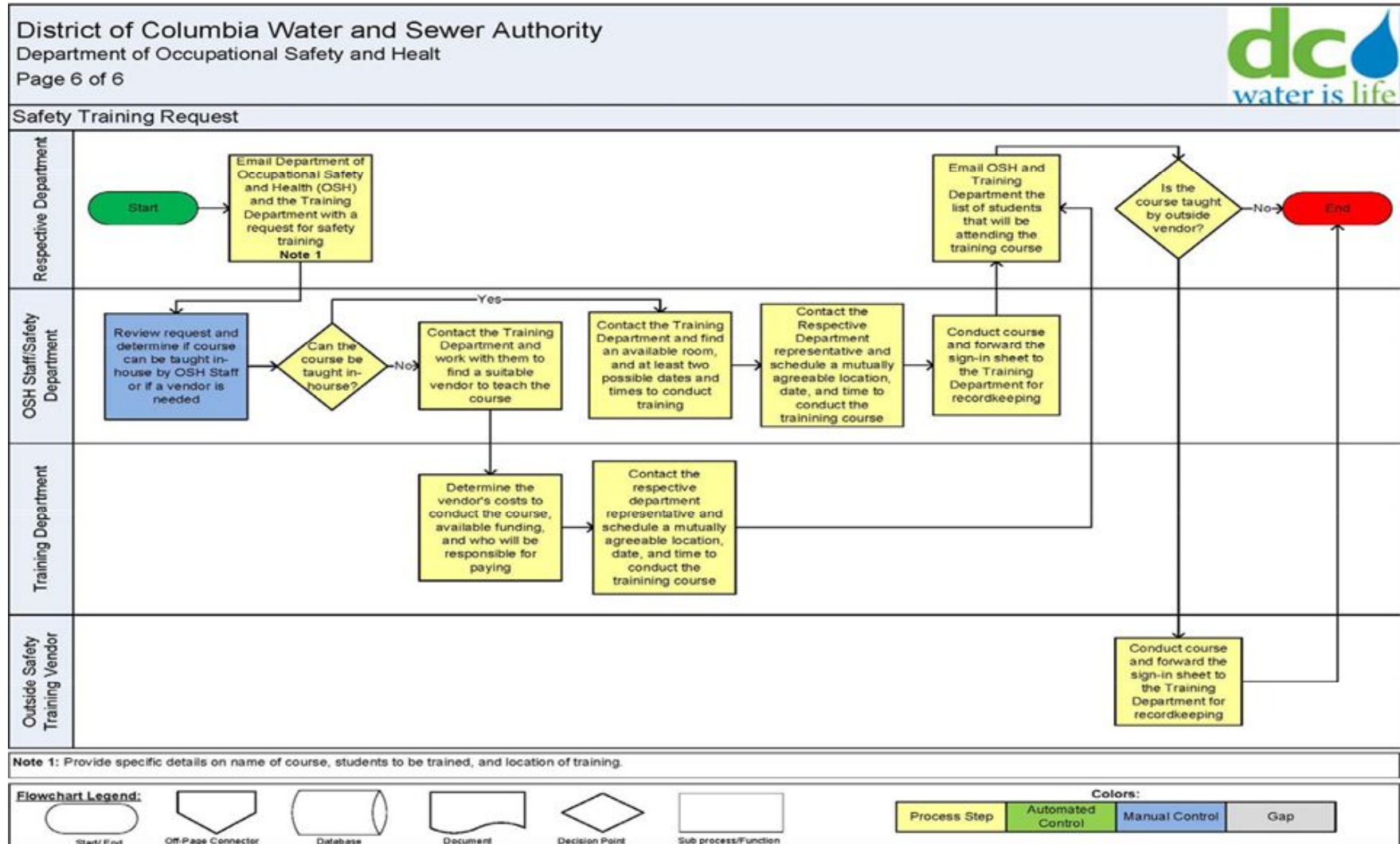


## APPENDIX B – FLOWCHARTS (CONTINUED)





## APPENDIX B – FLOWCHARTS (CONTINUED)





## APPENDIX C – PERFORMANCE METRICS & DATA ANALYTICS

### Performance Metrics

Below are various examples of performance metrics tracked by the Department of Occupational Safety & Health or data analytics prepared by Internal Audit.

MONTHLY PERFORMANCE					
LAGGING INDICATORS	Monthly Total	Contract to Date	LEADING INDICATORS	Monthly Total	Contract to Date
Safety Observation Report (SOR)	0	8			
First Aids (#)	0	1	Toolbox Talks	9	76
Lost Work Day Cases (#)	0	0	Safety Orientations	6	30
Lost Work (#) Days	0	0	Inspections / Observations	105	526
Restricted / Modified Work (#) Days	0	7	Corrective Actions completed	3	17
Other Recordable Cases (#)	0	0	Good Catch (Near Miss) Corrections	0	4
Reportable Environmental Incidents/Spills (#)	0	0	Safety Huddles (Daily pre-job meetings)	0	206
Utility Strikes – Un-marked	0	2	Deficiencies Corrected	8	127
Utility Strikes - Marked	0	5	Job Hazard Analysis(s)/JHAs prepared	48	363
Utility Strikes – Miss marked	0	0	Safety Meetings	0	3
Utility Strikes Total	0	7	Pre-excavation Checklists completed	34	288
Property Damage	0	0	Number of Excavations for the Month	20	131
Disciplinary Actions	0	1			
Total Hours Worked for month Prime Contractor	5631.5	28111.5			
Total Hours Worked for month All Subcontractors	0	0			
Contract Total Hours Worked for month	5631.5	28111.5			

Contractor Monthly Performance Report

## Safety Scorecard

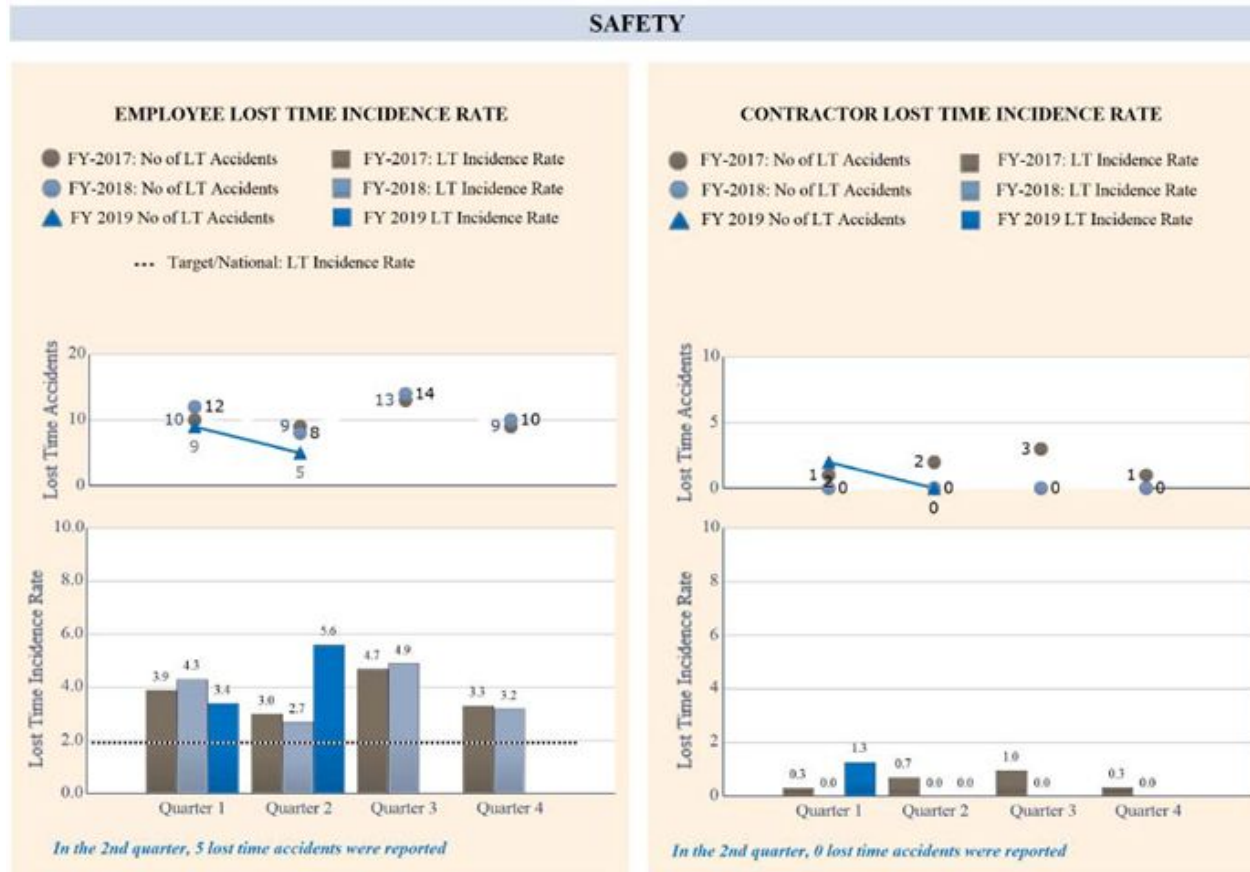
January - 2019										
Area, Manager	Area Type	Safety Meetings	Safety Inspections	Good Catches	Supervisor Investigations	Corrective Actions	No OSHA Recordable	Performance Month	Performance YTD	
Maintenance,	N	1	1	1	1	1	1	100%	92%	
Operations,	N	1	1	0	1	1	1	83%	96%	
	O	1	1	1	0	1	1	83%	96%	
	N	1	1	1	1	1	1	100%	100%	
Non-Office = N Office only = O							Monthly Total Points Possible: 24 YTD Total Points Possible: 96	Department Score	92%	96%

DC Water – Departmental Monthly Safety Scorecard



## APPENDIX C – PERFORMANCE METRICS & DATA ANALYTICS

### Performance Metrics (Continued)

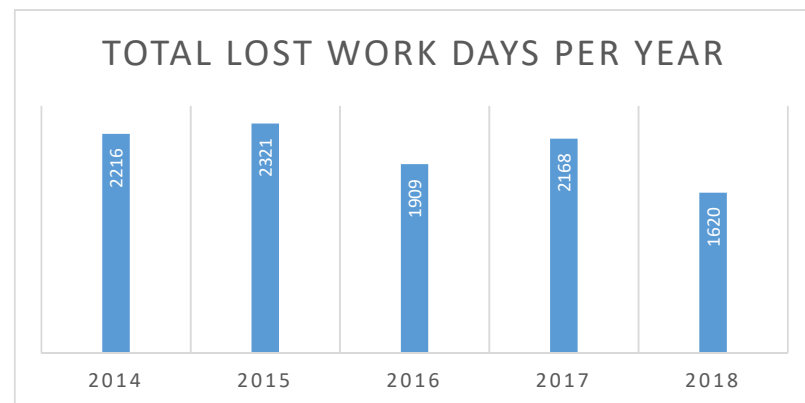
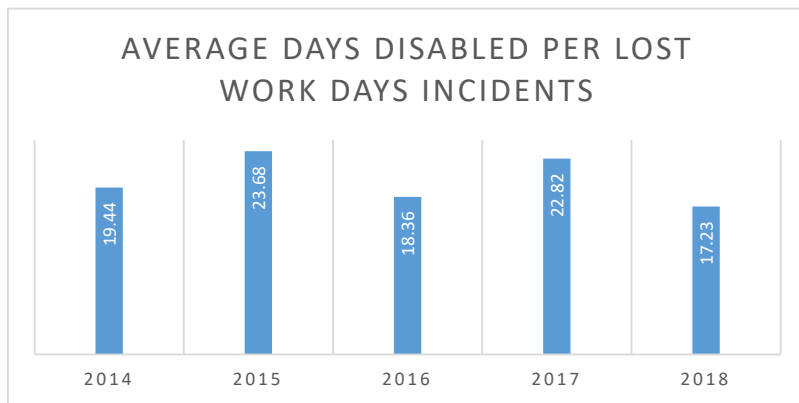
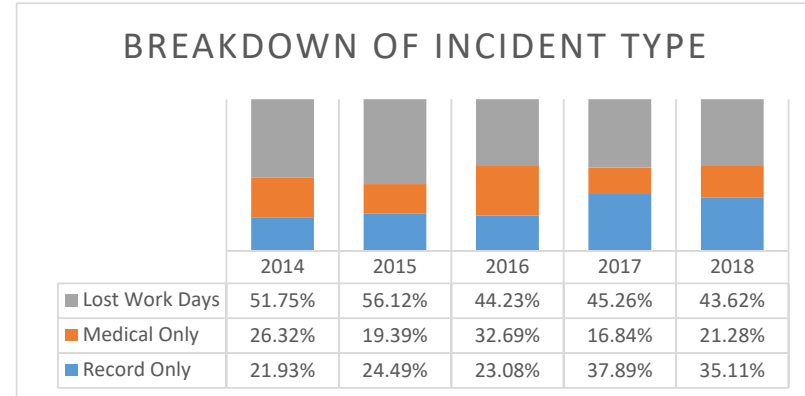
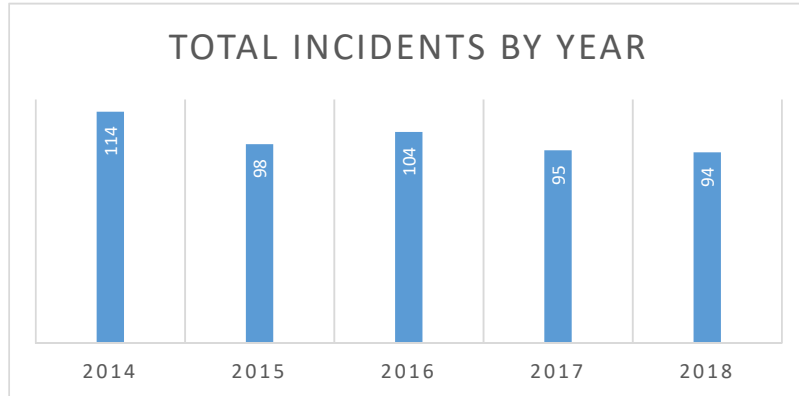


DOSH Monthly Statistics – General Manager’s Report



## APPENDIX C – PERFORMANCE METRICS & DATA ANALYTICS (CONTINUED)

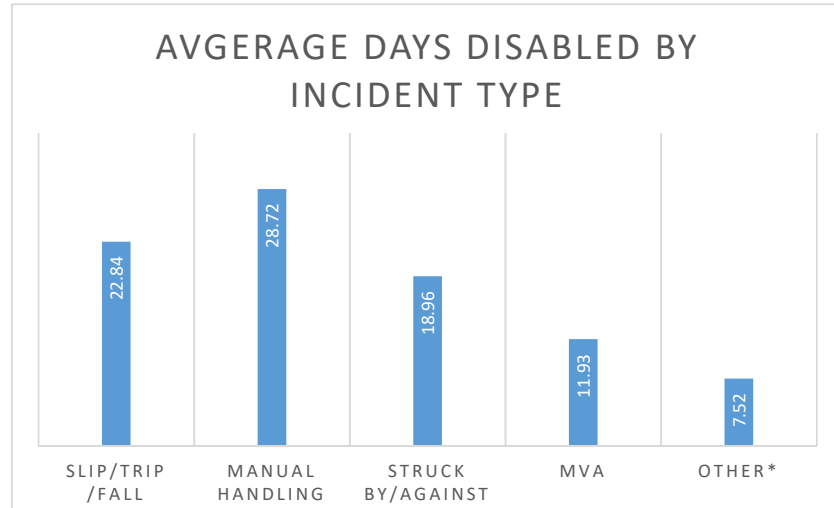
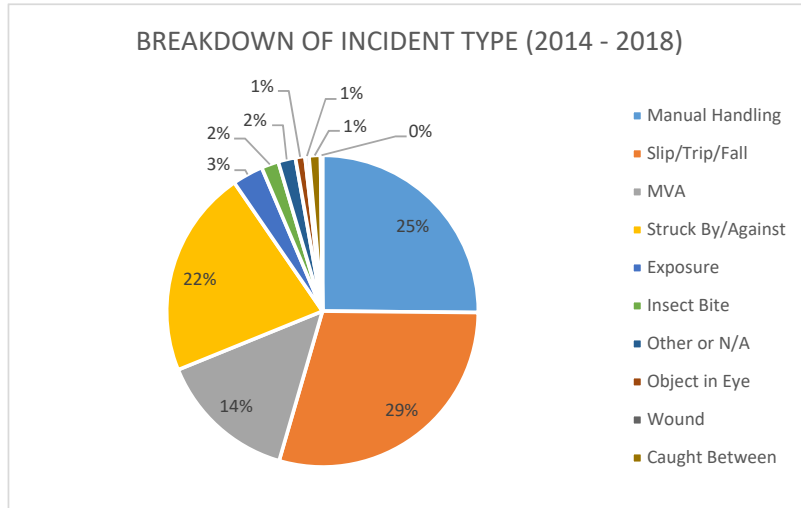
### Data Analytics






## APPENDIX C – PERFORMANCE METRICS & DATA ANALYTICS (CONTINUED)

### Data Analytics (Continued)





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# Internal Audit Report of Legal Operations and Caseload Management

April 2019



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## TRANSMITTAL LETTER

April 2019

The Audit Committee of DC Water  
 1385 Canal Street, SE  
 Washington, DC 20003

Pursuant to the approved fiscal year 2019 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of Legal Operations and Caseload Management. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on April 25, 2019. Our report is organized in the following sections:

<b>Executive Summary</b>	This section provides a summary of the observations and ratings related to our internal audit of the Legal Operations and Caseload Management process.
<b>Background</b>	This section provides an overview of the Legal Operations and Caseload Management processes.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Detailed Observations</b>	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**



## EXECUTIVE SUMMARY

### Background

The DC Water Office of Legal Affairs (“OLA”) is responsible for providing legal advice and services to the Board of Directors, the Executive team, and DC Water departments. The primary function of the OLA includes dispute and litigation support for various matters and case types, including but not limited to appellate, bankruptcy, contract disputes, administrative hearings, construction, environmental, employment procurement, tort, receivership, and foreclosures. The OLA is also responsible for overall case and matter management of all legal matters, both transactional and those requiring litigation, as well as fielding internal and customer service disputes that require legal advice or oversight. For litigation cases that are more complex, the OLA may utilize outside counsel to provide expertise. The OLA is also responsible for providing legal advice on various matters, including but not limited to environmental compliance, permits and enforcement, employment, labor relations, budget, retail rates and fees, customer service, real property, water and sewer operations, statutory and regulatory interpretation, rulemaking, contract, intellectual property, and personnel policy and procedures.

There are 16 full-time positions allocated to the Legal Affairs team in FY19 including 1 Executive Vice President, 8 attorneys, 1 compliance officer, 4 paralegals, and 2 administrative staff. The approved FY19 budget is \$8.6 million, and includes internal (payroll, supplies, etc.) as well as external (outside counsel) expenses. The FY19 budget is higher than the FY18 budget by \$2.2 million primarily due to non-personnel services for litigation service costs.

The OLA uses a case management system, Legal Files, which was implemented in October 2018. Since implementation, 783 total matters/cases have been input and managed within the Legal Files software. Information on previous case files is maintained, as well.

Fieldwork was performed January 2019 through March 2019.

### Objective and Scope

Procedures were performed in accordance with the internal audit scope and approach set forth in an audit notification letter dated January 16, 2019, and were limited to those procedures described therein. Our scope was based on the following objectives:

- Gain an understanding of the Office of Legal Affairs established business processes, controls and compliance requirements by reviewing existing policies, procedures, and related documentation;
- Review the Legal / Outside Counsel expenditures for the past two years at the Authority, reviewing case types and specialties;
- Evaluate legal operations in accordance with best practices defined by industry leading agencies; including caseload management, governance, etc.;
- Review the total cost of responding and closing claims (including settlement and cost of outside legal counsel) vs. amount of original claim;
- Testing, where necessary, using a combination of corroborative interviews, observations and examination of applicable records and documents;
- Identifying potential opportunities for process improvement and underlying causes of gaps and process weaknesses noted (as applicable).

### 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.

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

	Number of Observations by Risk Rating		
	High	Moderate	Low
Legal Operations and Caseload Management	1	3	-

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





## EXECUTIVE SUMMARY (CONTINUED)

### Ratings and Conclusions

The 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><b>1. Office of Legal Affairs Role Definition</b></p> <p>There is no formal document identifying when and how departments should contact the Office of Legal Affairs (OLA) for review of documents, or general legal advice. Because of their role in complex matters, the OLA should have some type of governing document, similar to a charter or mission statement that defines their role and directs others on when to seek advice and counsel from the department.</p>	<b>High</b>
<p><b>2. Key Metrics and Periodic Reporting</b></p> <p>Based upon discussion with OLA personnel and review of reports provided, there is no comprehensive process for periodic monitoring and reporting of key performance and operational metrics to executive management. Verbal discussions are held as needed, and OLA responds to any inquiries received; an annual accomplishments report was prepared in September 2018.</p>	<b>Moderate</b>
<p><b>3. Legal Files Control Environment</b></p> <p>Based upon discussion with Legal Affairs and IT personnel and a demonstration of the application, we noted that Legal Files software is not currently configured to include certain access and backup controls that would facilitate the ongoing accuracy, completeness and retention of information related to past or on-going legal matters.</p>	<b>Moderate</b>
<p><b>4. Documented Procedures</b></p> <p>Based upon discussion with Legal Affairs’ personnel and review of current departmental procedures, it was noted that there is a lack of internal procedures for key processes, such as tracking of legal correspondence (such as demand letters) and general case management, or the justification of using outside counsel.</p>	<b>Moderate</b>

Process Improvement Opportunities have also been provided for consideration.



## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### **Office of Legal Affairs (“OLA”) Overview**

The DC Water Office of Legal Affairs (“OLA”) is responsible for providing legal advice and services to the Board of Directors, the Executive team, and DC Water departments. The primary function of the OLA includes dispute and litigation support for various matters and case types, including but not limited to appellate, bankruptcy, contract disputes, administrative hearings, construction, environmental, employment procurement, tort, receivership, and foreclosures. The OLA is also responsible for overall case and matter management of all legal matters, both transactional and those requiring litigation, as well as fielding internal and customer service disputes that require legal advice or oversight. For litigation cases that are more complex, the OLA may utilize outside counsel to provide expertise. The OLA is also responsible for providing legal advice on various matters, including but not limited to environmental compliance, permits and enforcement, employment, labor relations, budget, retail rates and fees, customer service, real property, water and sewer operations, statutory and regulatory interpretation, rulemaking, contract, intellectual property, and personnel policy and procedures.

Litigation	Administrative Law
Appellate	Board of Directors Support; Regulation review and comments
Bankruptcy	Draft, review, and advise on contract & Authority policies
Contract	Clean Water & Clean Air Acts Compliance
Construction	Intellectual Property: Patents, trademarks, copyrights
Environmental	Safe Drinking Water Act & Regulatory Compliance
Procurement	Employment Law Matters
Tort	Intra-Governmental & Inter Jurisdictional Agreements
Receivership	Municipal Law & Real Property Matters
Employment	Pretreatment Enforcement Support
Foreclosures	Procurement Protests, Claims & Internal Appeals
Administrative Hearings	Rulemaking; Hazardous Waste Compliance; Advise & manage customer service complaints



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Office of Legal Affairs (“OLA”) Overview (continued)

There are 16 full-time positions allocated to the Legal Affairs team in FY19 including 1 executive vice president (general counsel), 8 attorneys, 1 compliance officer, 4 paralegals, and 2 administrative staff. The approved FY19 budget totaled \$8.6 million for the department. This budget includes internal (payroll, supplies, etc.) as well as external (outside counsel) expenses. The FY19 budget is higher than the FY18 budget by \$2.2 million primarily due to increases in non-personnel services of \$2.079 million for litigation services. As of March 2019, there are 7 vacant positions, including the Executive Vice President. Three of those positions (paralegal and 2 attorney positions) became vacant within the 2<sup>nd</sup> quarter of FY 2019. The timing for fulfillment of vacant positions is currently unknown.

GENERAL COUNSEL						
\$000's	FY 2017	FY 2018	FY 2019	FY 2020	Change from FY 2019	
Description	Actuals	Actuals	Approved	Approved	Variance	Percentage
Headcount: Authorized	16	16	16	15	1	7%
Headcount: Filled	14	14			0	0%
Total Personnel Services	\$2,110	\$2,405	\$2,525	\$2,610	\$-85	-3%
Supplies & Chemicals	6	7	8	6	2	20%
Utilities & Rent	19	18	22	24	-2	-11%
Contractual Services	4,770	3,929	6,003	3,582	2,421	40%
Small Equipment	0	0	0	0	0	0%
Total Non-Personnel Services	4,794	3,953	6,032	3,612	2,420	40%
<b>Department Total</b>	<b>\$6,905</b>	<b>\$6,359</b>	<b>\$8,557</b>	<b>\$6,222</b>	<b>\$2,336</b>	<b>27%</b>
<b>Capital Equipment</b>						

The OLA handles a high volume of legal matters, which requires a case and document management system to keep centralized the management of matter records, facilitate accessibility, with confidential functionalities for certain matters. The case management system utilized by the OLA is Legal Files, which was implemented in October 2018, and is commonly used by federal, state and local government, including the Maryland Attorney General, US Department of Energy, and South Florida Water Management District. Since implementation, 783 total matters/cases have been input and managed within the Legal Files system, including a few previous matters that were worked on prior to implementation. Although the budget approves a number of hours to be measured for performance, that metric has not been tracked by the department in several years.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Office of Legal Affairs (“OLA”) Overview (continued)**

On-going capital projects have a significant impact on the annual operating expenditures of the OLA due to various regulatory and compliance requirements. The following events affected FY18 expenditures, or are expected to affect FY19 expenditures:

- Obtaining local and federal environmental permits needed for operations;
- National Pollutant Discharge Elimination System (NPDES) Permit negotiations;
- Providing legal support for the ongoing Long Term Capital Plan (LTCP) & Capital Improvement Program (CIP), and Green Infrastructure activities;
- Negotiating a comprehensive Title V Operating Permit;
- Supporting Head Quarter Office (HQO) land use regulatory compliance;
- Supporting relocation of fleet and sewer service operations; and,
- Supporting on-going litigation cases.

Per the approved FY19 Approved Budget Departmental Summary, the OLA has provided legal advice and oversight related to on-going operations at the Authority. The major activities and changes for FY18 were as follows:

- Continue to manage litigation;
- Continue to provide support to Clean Rivers Project and other long-term CIP projects;
- Provide legal support for Green Infrastructure activities;
- Create Global and Domestic Compliance Group to reduce regulatory and claims exposure;
- Support Intellectual Property monetarization activities and Foreign Corrupt Practices Act (FCPA); and,
- Provide legal support for vetting regulation initiations (triennial Water Quality Services reviewing and others).

Additionally, the OLA will be supporting the following efforts in FY19:

- Provide legal support to all CIP projects, LTCP, Clean Rivers and Green Infrastructure, including compliance activities;
- Provide legal support in all environmental issues affecting DC Water CIP Projects, permits, and ongoing operations;
- Provide legal support to the Global and Domestic Compliance Group; and,
- Provide legal support for the Authority’s efforts to acquire capital assets related to expansion of service capabilities.





## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Office of Legal Affairs Activity

A total of 783 matters/cases have been recorded in the case management system Legal Files and managed by the OLA dating back to 2015 (Note: This total does not encompass all matters/cases prior to 2018 due to Legal Files' recent implementation in October 2018, but does include matters that were open at the time of transition as well as a few other previous matters / cases, as needed).

These matters/cases are categorized as Litigation or Transactional, with various sub-matter types such as receivership, tax lien, intellectual property, subpoenas, among others. The breakdown of total matters/cases is detailed further in the two tables below.

Matter Type	Total
Litigation	522
Transactional	261
<b>Grand Total</b>	<b>783</b>

Top Ten Sub Matter Types	Total
Receivership	289
Tax Lien	158
Intellectual Property	77
Subpoenas	54
FOIA	36
Personal Injury	35
Contract	18
General	18
Real Property	15
Procurement	13
All Other Sub Matters	70
<b>Grand Total</b>	<b>783</b>



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Case Management Software – “Legal Files”

In October of 2018, the OLA implemented a web-based case management software called Legal Files to manage cases/matters, documents, and users for handling a wide range of legal and administrative functions. As previously noted, Legal Files is utilized by a variety of users such as legal departments, public sector governmental entities, universities, insurance companies, contract managers, legal aids, and law firms. Training was provided to all OLA staff during the implementation process, and a DC Water specific manual was created detailing functionality and use of the software. An example of the main dashboard is shown below.

The screenshot shows the 'Legal Files' software dashboard for Wednesday, August 6, 2014. The interface includes a left-hand navigation menu with options like 'Manage My Day', 'My Files', 'Users', 'Name Cards', 'Actions', 'Calendars', 'To-Do's', 'EMail', 'Phone Log', 'Mail Log', 'Documents', 'Time Slip', 'Expenses', 'ShortCuts', 'Reports', 'Utilities', and 'Wizards'. The main content area is divided into several sections:

- Recent Files:** A list of file names including 'Carlson Engineering vs Building Supply Co', 'Danner, Robert A.', 'XYZ International vs. Company USA', 'Abdul, Emilio E', 'Aramark Contract Matter-Food Services-', 'Abrams Property Management', 'Planter vs. BMW Bank', 'Amesquita and Doe vs Company ABC', 'Newbold, Scott vs Chicago Bullets', and 'North, John'.
- Heads Up:** A table of tasks with columns for Date, Time, Type, Description, Reference, and From.
 

Date	Time	Type	Description	Reference	From
08/11/2014		To-Do	Confirm Receipt of PW form	<a href="#">Construction of New Building</a>	Kirchner, Randall J
08/09/2014		To-Do	Deadline for COLA	<a href="#">Labeling for Wild Winery</a>	Kirchner, Randall J
08/06/2014	7:19 AM	Routed PhoneLog	Called in about Status	<a href="#">Trademark Brand ABC-Opposition File</a>	Kirchner, Randall J
08/06/2014		To-Do	Generate Requests	<a href="#">Contract Formation for ABC Merger</a>	Kirchner, Randall J
08/06/2014		To-Do	Due Date for Documents	<a href="#">Wild Winery</a>	Kirchner, Randall J
08/06/2014		To-Do	Procurement Acknowledge	<a href="#">Contract Matter for American Bank</a>	Kirchner, Randall J
08/06/2014		To-Do	Run management reports		Kirchner, Randall J
- To-Dos for: Wednesday August 6, 2014:** A table of tasks with columns for Description, Importance, and Reference.
 

Description	Importance	Reference
Due Date for Documents	Medium	<a href="#">Wild Winery</a>
Generate Requests	Medium	<a href="#">Contract Formation for ABC Merger</a>
Procurement Acknowledge	High	<a href="#">Contract Matter for American Bank</a>
Run management reports	Medium	
- Calendars for: Wednesday August 6, 2014:** A table of calendar events with columns for Time, Description, and Reference.
 

Time	Description	Reference
8:30 AM	General Staff Meeting	
10:00 AM	Meeting with Business Unit	<a href="#">Carlson Engineering vs Building Supply Co.</a>
1:00 PM	Take Statement	<a href="#">Danner, Robert A.</a>
4:00 PM	Conference Call with Parties	<a href="#">Abrams Property Management</a>



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Case Management Software – “Legal Files” (continued)

The Legal Files software is integrated with Microsoft Outlook, which provides users the ability to maintain and respond to email directly from the Legal Files dashboard. The software saves a copy of all case related email in the Legal Files database allowing users to retain emails without concern of violating record retention requirements. Additionally, users can create matters; make file notes, and track time and expenses related to cases they are assigned.

The screenshot shows the 'Legal Files' interface for a case titled 'Carlson Engineering vs Building Supply Co. INS-12-00055'. The interface includes a navigation menu on the left and a main content area with the following sections:

- File Information:**
  - File Name: Carlson Engineering vs Building Supply Co.
  - File Number: INS-12-00055
  - Type of File: General Litigation
  - Sub Type: Corporate
  - Date Open: 03/21/2012
  - Last Mod User: Kirchner, Randall J.
  - Current Status: Investigation (04/20/2014)
  - Status: Open
  - Department: Production
  - Office: Zeppleville Office
  - Current Status: Investigation (04/20/2014)
  - Last Mod Date: 08/06/2014
  - Date Closed:
- Transaction Summary:**

Date	Time	Description	To/For	From/With	Type
11/28/2014		Follow up on records request	Effingham, Sally D Mts.	Kirchner, Randall J	Records
10/22/2014		Follow up on letter	Effingham, Sally D Mts.	Kirchner, Randall J	Follow-Up
10/14/2014		Write for Answer	Edwards, Charles N.J.D.	Kirchner, Randall J	
09/25/2014		Standard Check	Edwards, Charles N.J.D.	Kirchner, Randall J	
08/06/2014	10:00 AM	Message with Cloud	Kirchner, Randall J		
- File Related People:**

Name	Role	Company	Email All	Phone
Abbott, James E.Hr.	Adjuster	Statewide Insurance	James.Abbott@statewide.com	(212) 312-4532
Amstrong, Sheila J.D.	Outside Counsel	Baugh, Armstrong & Armstrong, Ltd.	Sarmasood@baa.com	(212) 345-1234, Ext. 1234
Bedman, Arnold J.D.	Opposing Counsel	Hickley & Bedman	Abedman@H&B.com	
Bernick, Joseph M.	Judge	Saratoga County Court Clerk		(212) 629-0912
Brown, David M.	Witness			(212) 456-789

The screenshot shows the 'Legal Files' interface for the same case, displaying the 'Document Classification/Type Explorer' window. It lists 4 records with the following data:

Classification/Type	Date Created	Time Created	Modified	Ver	Name	Ext	Reference
Local File Brochure	08/06/2014	8:35 AM	08/06/2014	1	Local File Brochure	.msg	Carlson Engineering vs Building Su
File Lessons Learned From Three Years of Predictive Coding	06/20/2014	3:15 PM	08/06/2014	1	File Lessons Learned From Three Years of Predictive Coding	.msg	Carlson Engineering vs Building Su
File Network Scanning Made Even More Simple	06/04/2014	1:47 PM	08/06/2014	1	File Network Scanning Made Even More Simple	.msg	Carlson Engineering vs Building Su
File Network Scanning Made Even More Simple	06/03/2014	4:31 PM	08/06/2014	1	File Network Scanning Made Even More Simple	.msg	Carlson Engineering vs Building Su

An example case file is shown above (left), which includes all relevant file information, a transaction summary, and a listing of all people involved with the on-going matter. The email storage functionality is also shown (right), which includes a link directly to the saved message file for ease of access.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### *Use of Outside Counsel*

From FY 2013 – FY 2018, the OLA utilized 56 firms for outside counsel matters, totaling over \$24M in expenses (an average of approximately \$4M per year). Based on the data generated from Lawson, the top 5 law firms that were used by the OLA were Beverage & Diamond, Dorsey & Whitney LLP, Douglas & Boykin PLLC, Littler Mendelson P.C., and Squire Patton Boggs.

The OLA mainly utilizes Beverage & Diamond to litigate environmental cases, while Dorsey & Whitney LLP and Douglas & Boykin PLLC are used for general litigation. Similarly, Littler Mendelson P.C., and Squire Patton Boggs have historically been used for matters related to bond counsel, procurement, and general litigation. These firms have been consistently used by the Legal Affairs Team from FY 2013 – FY 2018, as shown below.

Top Five Law Firms Used	FY 2013 Expenses	FY 2014 Expenses	FY 2015 Expenses	FY 2016 Expenses	FY 2017 Expenses	FY 2018 Expenses
Beveridge & Diamond	\$1,143,473	\$898,765	\$2,445,113	\$2,313,129	\$962,804	\$499,095
Dorsey & Whitney LLP	801,645	858,745	(16,072)	69,742	225,635	750,699
Douglas & Boykin PLLC	199,340	310,326	907,427	578,010	411,134	193,215
Littler Mendelson PC	275,441	379,321	338,746	184,714	361,066	242,877
Squire Patton Boggs	42,800	255,168	305,545	363,776	352,114	37,107
All Other Firms	1,141,864	714,937	1,017,934	1,738,384	1,869,910	1,675,376
<b>Grand Total</b>	<b>\$3,604,563</b>	<b>\$3,417,262</b>	<b>\$4,998,693</b>	<b>\$5,247,755</b>	<b>\$4,051,137</b>	<b>\$3,398,369</b>

During FY 2015 and FY 2016, there was a noticeable increase in outside counsel fees due to several matters involving certain environmental cases, which we settled in FY 2017. A significant amount of the cases that are managed by the OLA are complex litigation cases requiring assistance from outside counsel. As shown on page 14, an average of 60% of costs are to external counsel, and is in line with an industry survey compiled in the 2018 State of Corporate Law Departments Report, illustrating that it is industry accepted practice that in-house legal departments employ external law firms to provide expertise on complex litigation cases, as the need arises.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### *Use of Outside Counsel (continued)*

To further analyze the use of outside counsel, in FY 2018 the OLA updated the tracking for the use of outside counsel to include matter/case level, and continuing to capture monthly expenses incurred, as well as an estimate of costs for the remainder of the fiscal year for all on-going items. At the request of the OLA, vendor invoices received from outside counsel now include costs incurred as well as the estimate of future expenses. The incurred costs are added to the tracker as reflected on the invoice and the estimate is allocated evenly across the remaining months in the fiscal year. All matters/cases from FY18 and FY19 to-date are included in this tracker. A breakdown of the sub-matter/case types where outside counsel assistance was required is shown below (some of the cases included may overlap between both fiscal years).

Sub-Matter/Case Type	FY 2018	FY 2019 (to date)
General Litigation	91	64
Environmental	19	13
Employment/Labor	27	26
Construction	8	4
Energy	3	2
Patent	52	10
Transactional	1	1
Capital	11	10
Hearing Examiners	2	1
Wastewater	50	31
Procurement	3	2
<b>Total</b>	<b>267</b>	<b>164</b>

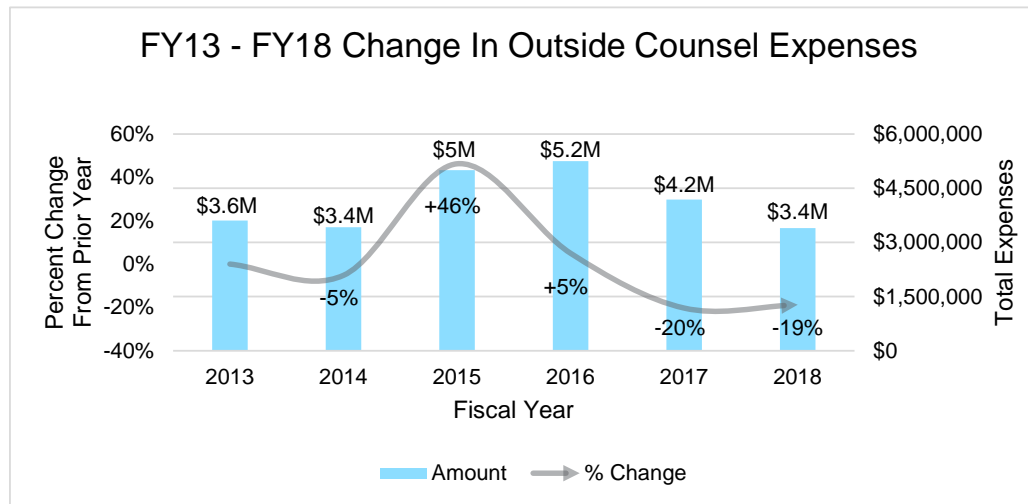


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Use of Outside Counsel (continued)

The data below illustrates the percentage change and the total costs per year of using outside counsel from FY13 – FY18. The annual cost for hiring outside counsel has decreased by an average of 11% per year from FY16 – FY18. The significant increase in FY 2015 and FY 2016 was due to a higher than normal volume of environmental related cases during these years.



#### Legal Services RFP

In FY 2014, DC Water’s Board of Directors instructed an RFP be issued for contracted legal services provided by external firms. The RFP was issued in FY 2015 to provide equal opportunity for all firms wanting to participate. The competitive bidding process resulted in primarily hiring the same firms that were previously directly retained by the OLA. The new agreements also generally resulted in an average of 10% higher hourly rates than those that were previously negotiated, per the rate tables provided by OLA. The timing of the rate increase was also exacerbated by the uptick in the need for environmental law litigation counsel during FY 2015 and FY 2016, as previously noted above. The current hourly rates are approximately 5% higher than in FY 2015.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Other Legal Expenses – Initial Demand versus Actual Expense (Outside Counsel, Settlements or Judgments)**

In addition to the outside counsel tracking report that is updated monthly and provided to the budget office, the OLA also maintains a quarterly accrual report identifying possible financial contingencies related to outstanding cases. This report includes the initial demand made by the plaintiff, as well as any fees paid to outside counsel assisting in preparing a defense, and final settlements or judgments paid out by DC Water. The quarterly accrual reports were obtained dating back to FY 2015 and the total demands versus actual legal expenses incurred for all closed cases is illustrated below. The reports are also used to identify and estimate any probable loss contingencies that may need to be recorded as a liability on the Authority's financial statements.

Fiscal Year	Number of Cases Closed	Initial Demand (Total)	Outside Counsel Fees	Settlements/Judgments Paid	Total Legal Expense (Outside Counsel & Settlements/Judgments)
FY 2015	5	\$96,168,000	\$2,713,515	N/A**	\$2,713,515
FY 2016	17	21,001,915	3,820,681*	1,524,750	5,345,431
FY 2017	23	205,449,555	6,698,521*	330,167	7,028,688
FY 2018	9	2,903,364	184,915	541,940	726,855
FY 2019 (to date)	2	149,000	0*	0	0
<b>Total</b>	<b>56</b>	<b>\$325,671,834</b>	<b>\$13,417,631</b>	<b>\$2,396,867</b>	<b>\$15,814,489</b>

\*Number of cases handled by Internal Counsel: FY16 (11), FY17 (11), FY18 (5), FY19 (2)  
\*\*Settlement/Judgment amounts not recorded on accrual report during FY15.

The OLA over the past five fiscal years has been able to assist the Authority in avoiding payment on over \$300 million in demands from various plaintiffs. In some cases, the assistance of outside counsel has been required; however, per the Legal Files records, 29 (52%) of the 56 closed cases were handled internally. Additionally, the OLA has also had success recouping various costs related to legal defense of the Authority through insurance coverages. Over the last three years, OLA reports that approximately \$11.4M that has been recovered of litigation costs from insurance carrier; \$7M was also recovered related to an EPA investigation. Per the OLA, an average of \$1M is recovered annually through receivership collection efforts. These amounts are not reflected in the table above, but provide, when recovered, a direct offset to the costs of legal activities performed at the Authority.

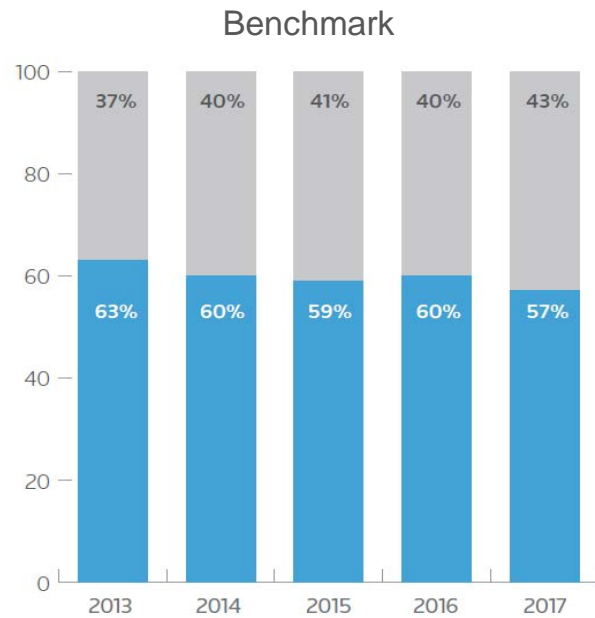


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

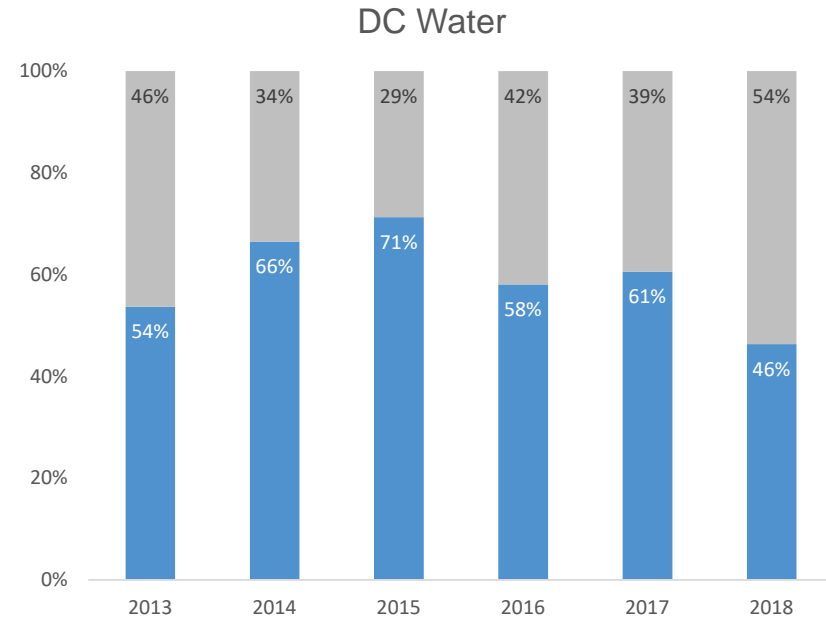
### Background (continued)

#### Benchmarking

According to the 2018 State of Corporate Law Departments report, corporate legal spend is moving increasingly in-house, with controlling external counsel costs as the number one priority. This report compiled survey results for 156 companies, including 11% of the Fortune 500 across 32 industries. The report also illustrates that the proportion of budget allocated to internal expenses in the U.S. has increased from 37 percent in 2013 to 43 percent in 2017, and on average, roughly 40% of costs are attributed to internal expenses. At DC Water, the breakdown of expenses on an annual basis has varied, however the average breakdown over the last six years is 41% internal and 59% external, aligning with the industry results shown in the report. Although DC Water is not a corporation, these benchmarks allow for relative comparison to a more formalized structure similar to that of the Authority.



Source: Acritas Sharplegal U.S. and Acritas Star Lawyer Survey (compensation)







## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Benchmarking (continued)**

The table below represents the average attorney to revenue ratio, noted in the 2018 State of Corporate Law Departments report, as well as, the average internal spend per legal department FTE. For organizations with legal operations, the ratio varies based on the annual revenue of the company.

	LARGE COMPANIES (\$10B+ revenue)	MID-SIZE COMPANIES (\$1B-\$9.9B revenue)	SMALL COMPANIES (Less than \$1B revenue)
Average attorney headcount	188	41	9
Average Legal Ops headcount	21	6	1
Average attorney to revenue ratio	1 Attorney per <b>\$585M</b>	1 Attorney per <b>\$196M</b>	1 Attorney per <b>\$65M</b>
Average internal spend per legal department FTE*	<b>\$225K</b> per FTE	<b>\$236K</b> per FTE	<b>\$175K</b> per FTE

\*Legal department FTEs include attorneys, paralegals, Legal Operations professionals, administrators, and all other members of the legal department  
 Source: CLOC member survey.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Benchmarking (continued)**

In the table below, we evaluated three additional public water utility companies that fell in the same annual revenue range as DC Water, and compared to the previous table for relevant benchmarking. These agencies are Washington Suburban Sanitary Commission (WSSC), San Antonio Water System (SAWS), and Greater Cincinnati Water Works (GCWW).

	DC Water \$684.5M in FY18 Revenue	WSSC \$725.2M in FY18 Revenue	SAWS \$666.5M in FY17 Revenue	GCWW \$913.3M in FY18 Revenue
Attorney headcount	9*	11	7	2**
Legal operations headcount	7*	5	12	22**
Attorney to revenue ratio	\$86M per FTE	\$66M per FTE	\$167M FTE	\$457M per FTE**
Internal spend per legal department FTE	\$165K per FTE	\$349K per FTE	\$320K per FTE	\$38K per FTE**

\*Approved total per FY 2019 budget. Does not reflect current staffing numbers, which includes 4 attorneys and 4 legal operations personnel.

\*\*GCWW has a total of 57 attorney for the city at-large, two of which are assigned to waterworks related matters. The other 55 are civil, prosecution, or MSD. Legal ops staff is not assigned to specific legal areas.

The current OLA organizational chart is shown on the next page to illustrate the headcount distribution summarized above, and identify current vacancies. It should be noted that although this chart shows the budgeted positions, the revenue / spend distributed ratios are based upon a fulfilled headcount, and as a result of the 7 vacant positions, the current attorney to revenue ratio is \$153M per FTE and the current internal spend per FTE is \$293K.

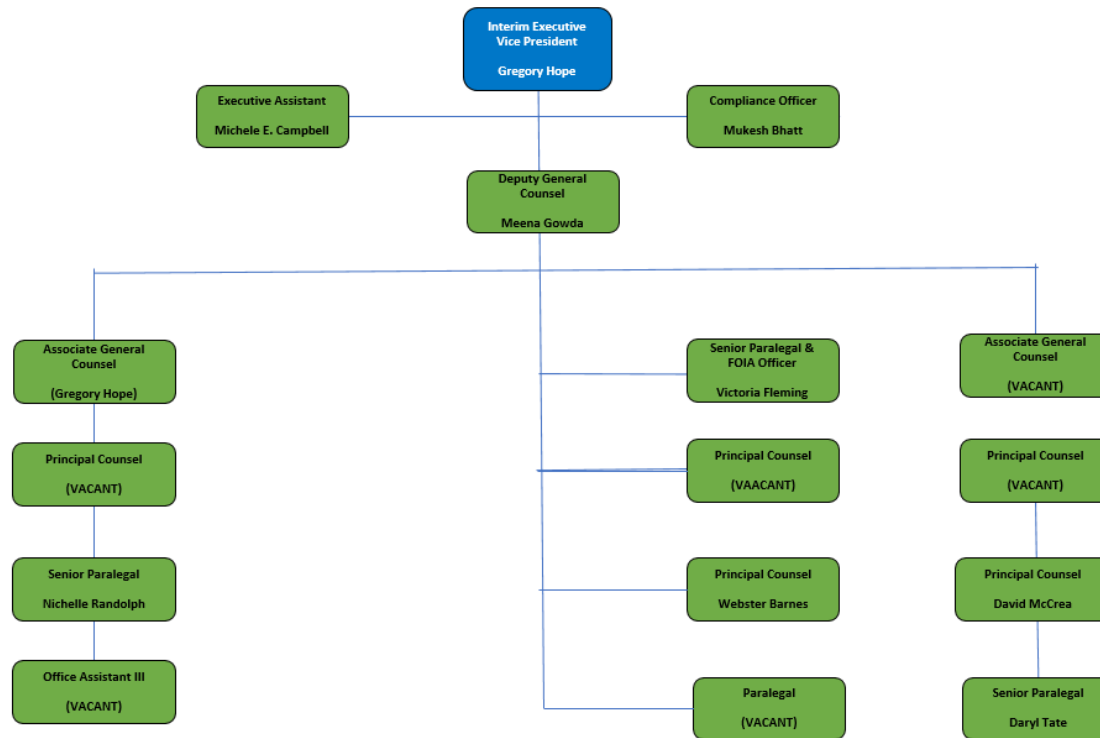


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

### Benchmarking (continued)

Office of Legal Affairs Organization Chart





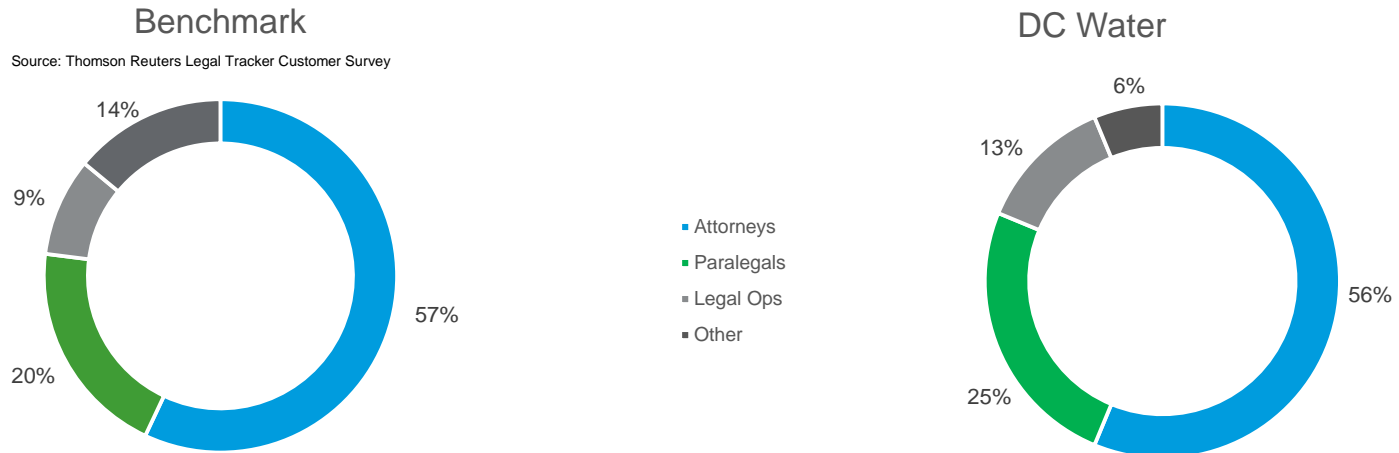
## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### **Benchmarking (continued)**

The benchmark chart below illustrates the spread of roles of “more efficient legal departments” per the 2018 State of Corporate Law Departments report, which identified an average of three attorneys per paralegal role, with attorneys being the majority of the staff. With a fulfilled staffing plan, DC Water’s allocated budget is aligned with this benchmark, illustrated below.

Note: With the current staffing (4 attorneys, 3 paralegals, 1 legal operations, 1 other - compliance officer), the ratio of attorneys (44%) to paralegals (33%) is too low; three attorney positions were vacated within the last 90 days.



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

The purpose of this review was to obtain an understanding of Legal operations and processes, including the policies and procedures, and controls in place, to assess whether the system of internal controls were adequate and appropriate, at both the department and the Authority levels.

The audit scope was based on the following objectives:

- Gain an understanding of Legal Affairs' established business processes, controls, and compliance requirements by reviewing existing policies, procedures, and related documentation;
- Review the Legal / Outside Counsel expenditures for the past two years at the Authority; reviewing case types and specialties;
- Evaluate legal operations in accordance with best practices defined by industry leading agencies; including caseload management, governance, etc.;
- Review the total cost of responding and closing claims (including settlement and cost of outside legal counsel) vs. amount of original claim;
- Test, where necessary, using a combination of corroborative interviews, observations, and examination of applicable records and documents;
- Identify potential opportunities for process improvement and underlying causes of gaps and process weaknesses noted (as applicable)

#### **Approach**

Our audit approach consisted of the following phases:

##### Understanding of the Process

The purpose of this phase was to gain an understanding of Authority's legal department processes. This phase included review of existing policies and procedures and review of the case management system utilized by the OLA.

##### Documented Walkthroughs

The purpose of this phase was to gain an understanding of the roles and responsibilities of the OLA staff.

Specific procedures performed include:

- Held walkthroughs and interviews with the Office of Legal Affairs staff responsible for oversight of legal operations processes;
- Reviewed outside counsel expenditures dating back to FY13 to identify trends in their use;
- Benchmarked the OLA against comparable entities with respect to size and the use of outside counsel;
- Reviewed the control environment and use of the case management system; and,
- Obtained and reviewed reports prepared by OLA and provided to others within the Authority.



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

#### ***Approach (continued)***

##### Reporting

We have summarized our observations related to the Legal Operations and Caseload Management Internal Audit. We have reviewed the results of our testing and our recommendations with management, including the interim Executive Vice President of Legal Affairs (and Associate General Counsel) and the Deputy General Counsel. Management's action plan and response are included in the detailed observations section of this report.



## DETAILED OBSERVATIONS

Legal Operations and Caseload Management Internal Audit			
1.	<u>Office of Legal Affairs Role Definition</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: High</b>		
	<p>There is no formal document identifying when and how departments should contact the Office of Legal Affairs (OLA) for review of documents, or general legal advice. Because of their role in complex matters, the OLA should have some type of governing document, similar to a charter or mission statement that defines their role and directs others on when to seek advice and counsel from the department.</p> <p>The OLA is charged with providing competent, timely legal advice to the General Manager, the Board of Directors and all offices and departments of DC Water; and is routinely involved in matters of risk to the Authority, including threatened and potential litigation, regulatory compliance, FOIA, contract, employment and tort law. OLA also coordinates with the District of Columbia Office of Policy and Government Affairs to develop legislative strategy in support of the Authority's interests at the federal, state and local levels.</p> <p>Based upon discussion with OLA management and review of example support provided by OLA, the office is inconsistently utilized for matters related to procurement and contractual arrangements, employee benefits or labor matters, and general authority policy language. Additionally, the OLA is not always apprised of matters that could have a future legal impact, such as internal investigations or security concerns. As a result, the OLA may be brought into matters after decisions are made rather than proactively, or not at all.</p>	<p>We recommend a Legal Affairs charter (or similar) be created to describe the responsibilities of the department for Authority-wide awareness of how and when they should be utilizing OLA. Specific consideration should be paid to documents and situations that are legally binding to the Authority, or include making exceptions to contract provisions or policies that have already been vetted through OLA.</p> <p>While the OLA does not need to be involved in all matters, all risks and how the OLA can help mitigate these risks should be considered when creating or issuing a legally binding relationship or giving an opinion or advice on behalf of the Authority.</p>	<p><b>Response:</b> See Appendix B</p> <p><b>Responsible Party:</b> EVP, Office of Legal Affairs</p> <p><b>Target Date:</b> 9/30/2020</p>



## DETAILED OBSERVATIONS (CONTINUED)

Legal Operations and Caseload Management Internal Audit			
2.	<u>Key Metrics and Periodic Reporting</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: Moderate</b>		
	<p>Based upon discussion with OLA personnel and review of reports provided, there is no comprehensive process for periodic monitoring and reporting of key performance and operational metrics to executive management. Verbal discussions are held as needed, and OLA responds to any inquiries received.</p> <p>Examples of reports prepared by OLA include:</p> <ul style="list-style-type: none"> <li>- Monthly outside counsel invoicing report is provided to the OLA Budget Analyst;</li> <li>- Quarterly accrual report for financial statement contingency and risk management decision purposes is provided to the CFO's Office and Risk Management; and</li> <li>- Annual report prepared for the General Manager by the General Counsel (most recently 9/24/2018).</li> </ul> <p>In reviewing the reports, we noted performance related information, such as caseload, types of cases and matters, etc. are not routinely accumulated, monitored for decision-making and reported to other stakeholders, except some limited reporting in the annual accomplishments report. As of result of the recent leadership and organization transition, this issue could potentially be higher risk if executive management's expectations for reporting are not communicated and met.</p> <p>There are management reports available within the Legal Files system; however, these reports are not utilized in a consistent manner to demonstrate performance. We also noted, per inquiry with management, that the Legal Files application is not currently utilized to include all non-litigation matters, limiting the ability to monitor productivity and workload management.</p>	<p>We recommend that the OLA consider a more comprehensive, formalized reporting, to include utilization of the information within the Legal Files system to report high-level performance metrics on a periodic basis. It is recommended that internal (department-level) reporting be communicated on a periodic basis and external (executive management) be communicated on a monthly basis. There could also be an abbreviated monthly report with a more comprehensive quarterly report.</p> <p>Specific metrics to be reported should be based upon a collaborative effort by OLA staff and management, as well as Authority executive management. The Association of Corporate Counsel ("ACC") publishes recommended metrics, as well as other agencies. Examples include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Number of new cases;</li> <li>• Total Legal spend to date (internal and external);</li> <li>• Dollar value of settlements/judgments to date;</li> <li>• Number of matters/cases closed to date;</li> <li>• Number of active/open matters;</li> <li>• Feedback from external lawyers;</li> </ul>	<p><b>Response:</b> See Appendix B</p> <p><b>Responsible Party:</b> EVP, Office of Legal Affairs</p> <p><b>Target Date:</b> 1/1/2020</p>





## DETAILED OBSERVATIONS (CONTINUED)

Legal Operations and Caseload Management Internal Audit			
2.	<u>Key Metrics and Periodic Reporting</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: Moderate</b>		
	<p>Consistent reporting of performance metrics help departments focus their people and resources on what is important, as well as provides for the visibility and transparency that management desires. Ultimately, metrics can assist the OLA in identifying progress towards goals, if a problem may exist, as well as day-to-day performance of the department as a whole.</p>	<ul style="list-style-type: none"> <li>• Staff utilization (see Process Improvement Opportunity);</li> <li>• Insurance claim monies recovered;</li> <li>• Caseload per FTE;</li> <li>• Spend per FTE.</li> </ul> <p>In addition, the monthly, quarterly and annual reporting already-in-use should be included in metrics reporting (i.e., not the report themselves (due to privilege and confidentiality), but the tracking of preparation and delivery of the reports.</p>	



## DETAILED OBSERVATIONS (CONTINUED)

Legal Operations and Caseload Management Internal Audit			
3.	<u>Legal Files Application Control Environment</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: Moderate</b>		
	<p>Based upon discussion with Legal Affairs and IT personnel and a demonstration of the application, we noted that Legal Files software is not currently configured to include certain access and backup controls that would facilitate the ongoing accuracy, completeness and retention of information related to past or on-going legal matters.</p> <p>Legal Files, with its current configuration, does not include the following control functions:</p> <ul style="list-style-type: none"> <li>• Audit log to track and allow review of changes or deletions made to case files</li> <li>• 2<sup>nd</sup> level review and approval of changes made to case files</li> </ul> <p>Additionally, all personnel that have active Legal Files accounts have autonomous access to any case that is not marked as "private". While only two users have administrative access to delete cases, all users are able to view, edit, and delete folder information without requiring approval from the attorney managing the case. Furthermore, there is no log or recovery capability for any changes and/or deletions.</p> <p>Without an appropriate control environment, case information can easily be manipulated and have a significant impact on the progress or outcome of on-going legal matters. Additionally, unintentional errors may go unnoticed without appropriate review and approval validating data entry accuracy and validity.</p>	<p>We recommend OLA work with IT to improve access and backup controls within the Legal Files application to better safeguard the contents of on-going legal matters, as well as maintain confidentiality and retention requirements. These controls should include, but are not limited to the following:</p> <ul style="list-style-type: none"> <li>• An audit log function for detailed review of any changes and deletions made to case files;</li> <li>• Required review and approval by the managing attorney and/or deputy general counsel of changes made to case files;</li> <li>• Periodic backups of all data stored within Legal Files for ease of restoration if needed; and,</li> <li>• Periodic review and update of access.</li> </ul> <p>We understand that these functions are available, but may require additional costs to implement.</p> <p>Additionally, OLA should ensure that Legal Files is included within the Authority's overall IT infrastructure plan for security, privacy, data integrity and retention processes, where applicable. Examples may include data encryption, penetration testing and other vulnerability analyses.</p>	<p><b>Response:</b> See Appendix B</p> <p><b>Responsible Party:</b> EVP, Office of Legal Affairs</p> <p><b>Target Date:</b> 1/1/2020</p>



## DETAILED OBSERVATIONS (CONTINUED)

Legal Operations and Caseload Management Internal Audit			
4.	<u>Documented Procedures</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<b>Observation Rating: Moderate</b>		
	<p>Based upon discussion with Legal Affairs' personnel and review of current departmental procedures, it was noted that there is a lack of internal procedures for key processes, such as tracking of legal correspondence (such as demand letters) and general case management, or the justification of using outside counsel. Legal Affairs currently maintains process documentation related to certain day-to-day operational tasks, such as those shown below, but they are outdated or do not match current practices:</p> <ul style="list-style-type: none"> <li>• New Vendor Requests</li> <li>• Invoice Processing</li> <li>• Internal Investigations</li> </ul> <p>A lack of documented and approved policies and procedures increases the risk of operational inefficiencies, as well as limits transparency and understanding into the day-to-day operations of the legal department, both at a department level as well as across the Authority. Additionally, it can significantly hinder the expedited onboarding of new employees.</p>	<p>We recommend OLA consider drafting a standard operating procedure for key tasks performed such as the following:</p> <ul style="list-style-type: none"> <li>• Case Intake and Correspondence Tracking</li> <li>• Case Assignment</li> <li>• Matter Assignment and Resolution</li> <li>• Periodic Reporting of Key Metrics</li> <li>• Justification on the use and selection of Outside Counsel</li> </ul> <p>Additionally, we recommend all previously maintained process documentation be updated to reflect current procedures as needed.</p>	<p><b>Response:</b> See Appendix B <b>Responsible Party:</b> EVP, Office of Legal Affairs <b>Target Date:</b> 9/30/2020</p>



## PROCESS IMPROVEMENT OPPORTUNITIES

### Legal Operations and Caseload Management Internal Audit

#### **Internal Staff Utilization Tracking (Billable Hours)**

Based upon discussion with the OLA personnel, it was identified that staff utilization has not been formally monitored since the department stopped tracking billable hours in 2009, as the department found it unhelpful and not relevant to their business model. We noted that the budget prepared for the office includes a metric for We recommend re-implementing the use of a staff utilization methodology and performance metric within the department. For example, the billable hour can be used to monitor and track how time and resources are spent on a daily basis. The Legal Files software can also likely be utilized to serve this function to track hours by case or transactional matter. This information can be used to enhance the periodic reporting as described in Observation #2 and provide more visibility to executive management, as well as promote the use of Legal Files for tracking all matters and cases.

#### **Quarterly Accrual Report Roll-forward**

We noted during our review of the accrual report that when a case drops off of the report from one period to the next, there is no documentation or explanation as to the reason. In order to prevent an item from being inadvertently or improperly deleted from the report, when preparing the quarterly accrual report, Legal Affairs should begin with the report from the previous quarter, and use that to 'roll forward' to the new quarter, adding in new threatened and potential litigation and 'closing out' any that are no longer relevant. Any that are closed out in a quarter will remain shown for that quarter, as closed with a resolution code (e.g., case dismissed, case settled, etc.) and then be removed from the next quarter's report. This will provide an audit trail for monitoring the pending and threatened litigation and any contingent liabilities. Further, OLA should reconcile the listing to their case management system, and maintain that reconciliation for inspection upon request by allowable parties.




## APPENDIX A – RATING DEFINITIONS

Observation Risk Rating Definitions	
Rating	Definition
<b>Low</b>	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).
<b>Moderate</b>	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). Longer implementation periods may be needed if there are multiple departments involved or action plan requires union or board approval.
<b>High</b>	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). Longer implementation periods may be needed if there are multiple departments involved or action plan requires union or board approval.



## APPENDIX B – MANAGEMENT ACTION PLANS

1. **Office of Legal Affairs Role Definition:** The mission of OLA is to serve as an invaluable resource to DCW by providing high quality legal advice & counsel. The advice and counsel that OLA provides is based on the requests received by the owner of the activity, whether it is a policy, contract or program. OLA agrees that the timely inclusion of our staff in these matters ensures that any legal issues are addressed sooner rather than later to provide informed, appropriate and actionable advice. While the development of the Legal Affairs Charter may address the limitations, it is likely that such a document will find itself lost on a shelf and not referenced. Alternatively, OLA suggests working with the Departments to establish Service Level Agreements to identify, define and document the types of matters and when OLA needs to participate in for the Department's activities to ensure our advice and counsel are timely and most effective. The Service Level Agreements will be reflective of the Departments activities and functions to ensure that both missions are aligned. OLA will develop an implementation schedule to work with each Department. **Estimated Date of Completion: 9/30/2020**
2. **Key Metrics and Periodic Reporting:** OLA provides quarterly case status and financial risk information to both the CFOs office and Risk Management office to ensure that they have the information necessary to mitigate any financial risks to the Authority. This includes the number of new, active and closed cases; and amount of settlements/ judgments versus the demand; etc. While this information is not provided in the aggregate, it is provided in a form that the CFO and Risk Management can assess. Further, when a case is closed, a case review memorandum is provided to the affected Department, whether that is People & Talent, Water Service, Sewer Services, which provides that office with information necessary for decision making. Consequently, OLA will work with the Executive management to identify the applicable metrics that are of greatest utility that can be reported externally monthly, which may include the aggregation of the information provided to the CFO and Risk Management. **Estimated Date of Completion: 1/1/2020**
3. **Legal Files Control Environment:** The data in the database is used to maintain a copy of the records that are already maintained in the Courts docket. Further, it is used to track the schedule of forthcoming activities, which is also maintained on the court's docket. Further, all the data maintained in the system is managed by an offsite third party service, managed by Rackspace that backs-up the data. Rackspace maintains the backup system for all the data and DC Water's IT works with them. Further, the data entered into the Legal Files system is managed by a small group of paralegals and attorney's that work closely on the information maintained in Legal Files. Consequently, OLA recommends that the risk level for this recommendation should be changed to Moderate. We will work with IT to ensure that Rackspace meets DC Water's the data security, privacy and data integrity and retention requirements. In addition, we have determined based on a cost-benefit analysis, that the Legal Files audit log functions will be activated. Finally, OLA will review the procedures for its Legal Files and revise them to require the managing attorney to review significant changes to the data in Legal Files. **Estimated Date of Completion: 1/1/2020**
4. **Documented Procedures:** The procedure for assigning litigation matters varies from EVP to EVP (General Counsel) assigning the case, including whether the case should be managed by OLA staff or outside counsel, and which outside counsel would best represent DC Water. Some GCs have assessed the costs-benefits and developed the office staff to handle more cases in-house, while other have determined that more cases should be managed by outside counsel. Further, case assignment to outside counsel may depend the nature of the case and which firm would best manage the case. To ensure some continuity of decision making, OLA will update the office SOPs. **Estimated Date of Completion: 9/30/2020**



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# Internal Audit Report Fleet Management

April 2019





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## TRANSMITTAL LETTER

April 2019

The Audit Committee of DC Water  
 1385 Canal Street, SE  
 Washington, DC 20003

Pursuant to the approved fiscal year 2019 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of DC Water’s Fleet Management process. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on April 25, 2019. Our report is organized in the following sections:

<b>Executive Summary</b>	This section provides a summary of the observations and ratings related to our internal audit of the Fleet Management process.
<b>Background</b>	This section provides an overview of the Fleet Management processes and the various metrics tracked in the Fleet Management system - FleetWave.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Detailed Observations</b>	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**





## EXECUTIVE SUMMARY

### Background

Fleet Management is responsible for the supply of vehicle parts and materials, fleet management, maintenance, repair and operational services for DC Water. The Department is overseen directly by Timothy Fitzgerald, Director of Fleet Management with support from Maureen Holman, Executive Vice President of Administration and Biju George, Executive Vice President of Operations and Engineering.

The Authority's fleet is comprised of 575 vehicles and trucks and more than 1,300 pieces of utility equipment. Fleet Management is currently in the process of transitioning fleet functions from an outsourced contract with Centerra Group, LLC to an in-house operation, with the exception of specialty repairs, maintenance and other Fleet Management as required.

To assist in carrying out their fleet management process, the Authority uses a Fleet Management Information System ("Wave", "FleetWave"), a real-time SQL based fleet management system, and Geotab, a GPS tracking system installed in all their vehicles.

### Objective and Scope

Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated November 28, 2018, and were limited to those procedures described therein. Our scope is based on the following objectives:

- Gain an understanding of Fleet Management operations; review existing process flows and conduct interviews with management
- Review outstanding management action plans from prior relevant audits (DC Water Fleet Accident and Incident Reporting) have been implemented
- Review system(s) utilized in Fleet Management and how they interact with systems at the Authority level; review controls exist surrounding the transfer of data between systems
- Evaluate Fleet data output on utilization and how management uses this information to make decisions regarding vehicle assignment
- Evaluate Fleet inventory and maintenance strategy and examine cost saving opportunities
- Benchmark DC Water's Fleet Management with industry best practices; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall process.

### 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 November 2018 through March 2019.

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

	Number of Observations by Risk Rating		
	High	Moderate	Low
Fleet Management	0	2	1

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





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## EXECUTIVE SUMMARY (CONTINUED)

### Ratings and Conclusions

The 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><b>1. Action on Key Metrics / Key Performance Indicators</b> – Fleet Management reviews key metrics and key performance indicators on a periodic basis, monitoring needs and usage, age profiling and making recommendations based on units cost and replacement. The review conducted is currently done in an informal manner, limiting transparency into vehicle purchase and usage-based decisions made by Fleet management.</p>	Moderate
<p><b>2. Asset Management Reconciliation</b> – There is currently no reconciliation between the Fleet department’s management information system (“Wave”, “FleetWave”) and the Authority’s asset management system, Maximo, nor the Authority’s financial system, Lawson. There may be an opportunity to interface these systems, which could assist in efficient and accurate reporting and management of Fleet assets. At a minimum, a reconciliation between the systems should be performed to facilitate completeness and accuracy of records.</p>	Moderate
<p><b>3. Policies and Procedures</b> – As part of our review, we obtained Fleet Department policies and procedures on vehicle maintenance, vehicle acquisition, administrative matters and vehicle operations. Such policies were pending review by the CEO at the time of the audit though Fleet management confirmed the policies were operational. Discrepancies between the policies and procedures and processes in place were noted during our review.</p>	Low

Process Improvement Opportunities have been provided to Management for consideration.





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## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### ***Fleet Management Overview***

Fleet Management is responsible for the supply of vehicle parts and materials, fleet management, maintenance, repair and operational services for DC Water. The Department is overseen directly by the Director of Fleet Management with support the Executive Vice President of Administration and Executive Vice President of Operations and Engineering.

The Authority's fleet is comprised of over 575 vehicles and trucks and more than 1300 pieces of utility equipment. Fleet Management is currently in the process of transitioning fleet functions from an outsourced contract with Centerra Group, LLC to an in-house operation, with the exception of specialty repairs, maintenance and other Fleet Management as required. Internal Audit reviewed Centerra's compliance with the agreement in FY 2016. As of date, all functions are in-housed except for parts and labor. The awarded parts house contract is in the process of being finalized, and as a result, Centerra's contract will be extended for a couple months. Parts is expected to transition in-house in Spring 2019, while labor is expected to follow suit in 2020.

To assist in carrying out their fleet management process, the Authority uses a Fleet Management Information System ("Wave", "FleetWave"), a real-time SQL based fleet management system, and Geotab, a GPS tracking system installed in all their vehicles.

Key processes reviewed during the course of the audit included rideshares and work orders.

#### Rideshares

The rideshare program allows active DC Water employees and contractors to operate a loaner vehicle. The user will request a shared vehicle through FleetWave or in writing where a DC Water employee then verifies the user is enrolled in the rideshare program. Once verified, the user confirms the reservation and FleetWave sends a reservation code via text or email. At the kiosk, the user selects an ID method, biometric or HID, and then enters the reservation code to retrieve the key from the key box. The process for returning keys is the same as retrieving, except three return questions are prompted on the screen.

#### Work Orders

Work orders are created, assigned, updated, managed and reviewed in FleetWave. Work orders are initiated by an employee at DC Water, where the request can range from a pre or post trip inspection to a passenger side window needing to be replaced. FleetWave captures the background of the work order, tracks the parts and labor associated with a specific maintenance or repair as well as provides a status history of the work order. It is a tool that aids both Fleet and Centerra in managing work orders.



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background, continued

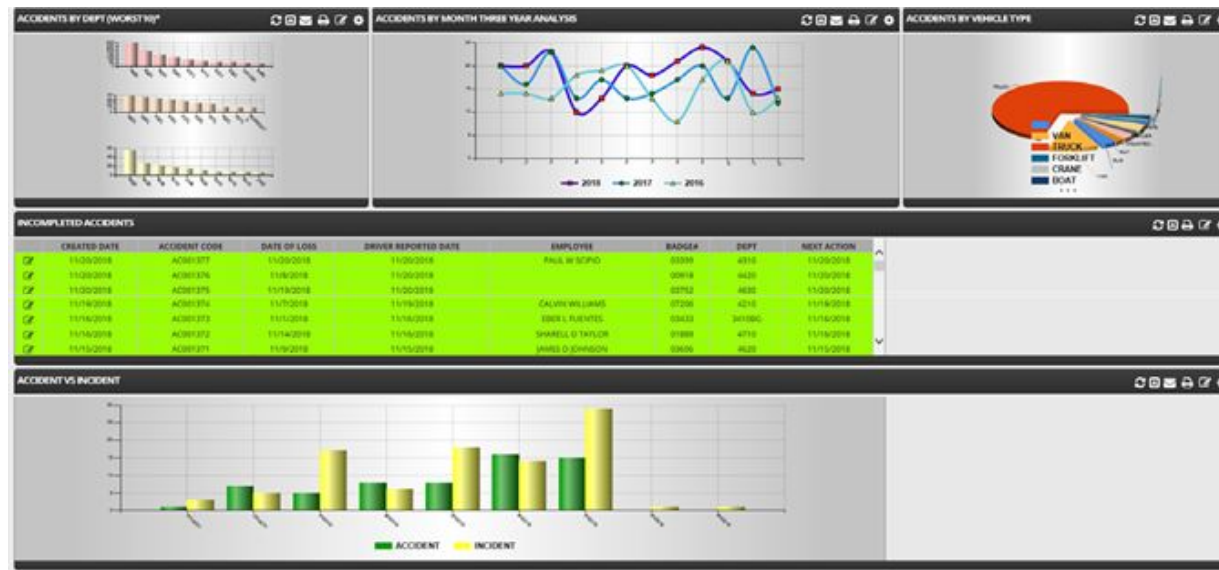
#### **FleetWave Reporting System - Metrics**

FleetWave is a real-time SQL based fleet management system utilized in the Fleet Management process. DC Water employees can access reports and performance measures through multiple key performance indicators in the system. FleetWave has the capability to maintain various metrics related to fleet to keep management informed of the activities of Authority vehicles. Currently, the following applicable metrics are tracked within FleetWave:

- Accidents
- Work Orders
- Rideshare
- Key box

Please see below for example screenshots from FleetWave via the Fleet Management Report:

#### Summary of accounts by department and vehicle type





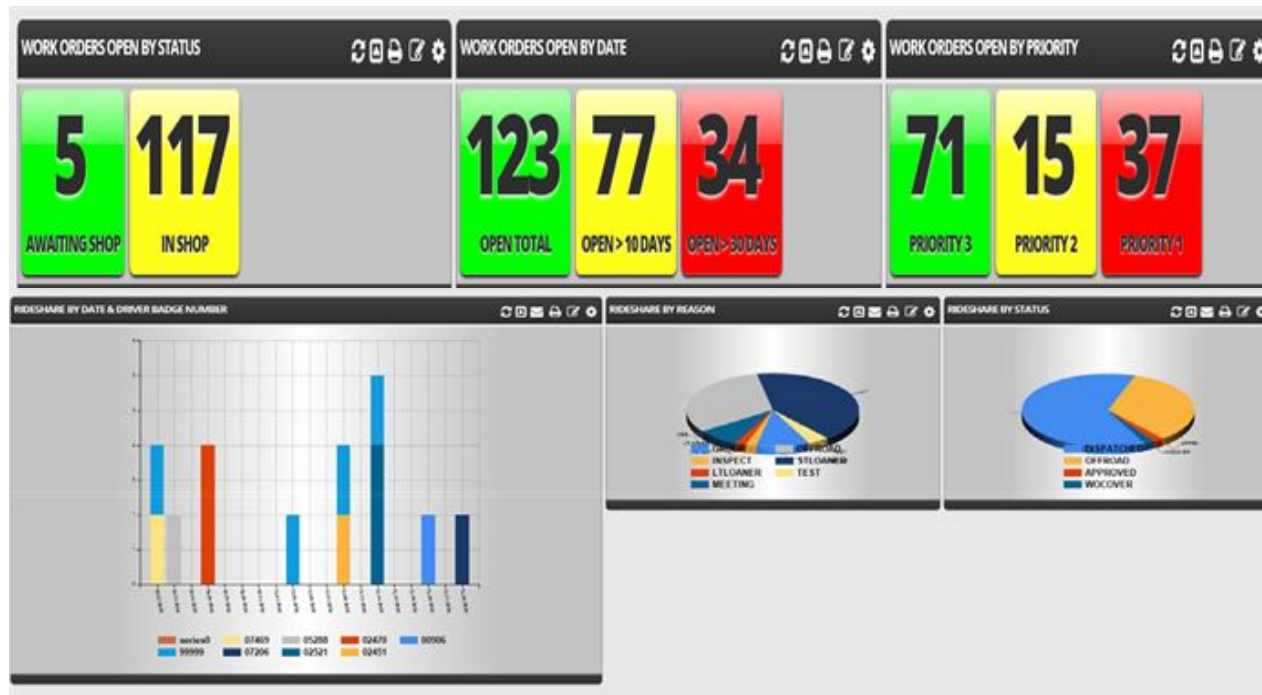
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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background, continued

#### *FleetWave Reporting System – Metrics (continued)*

##### Summary of work order status'





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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background, continued

#### FleetWave Reporting System – Metrics (continued)

##### Summary of rideshare metrics







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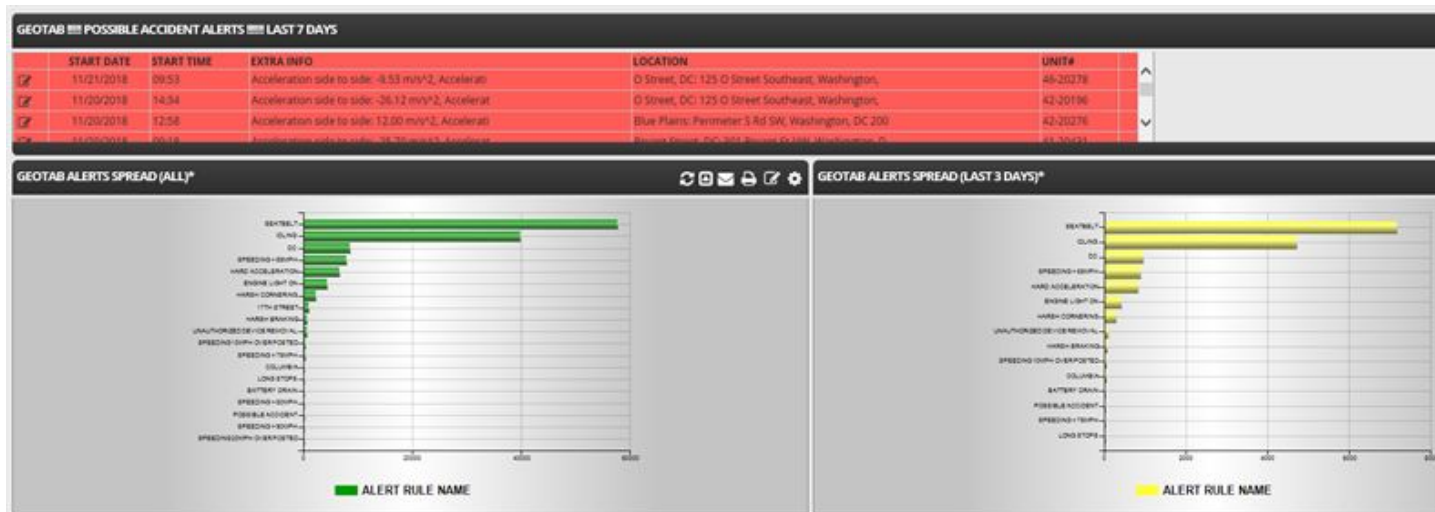
## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background, continued

#### **FleetWave Reporting System – GeoTab Tracking**

The Authority utilizes the GPS tracking system, GeoTab, in all of the Authority’s vehicles and trucks. This system allows DC Water to track fuel usage, identify the location of the vehicle at any time, and all trips made by the vehicle including detail on trip distance, start and stop date, and total time. All GeoTab information is maintained within FleetWave and is updated in real-time as vehicles are being utilized. A full listing of all tagged vehicles can be found within FleetWave, with each individual unit having all pertinent information stored within this list.

Please see below for an example GeoTab screenshot from FleetWave via the Fleet Management Report.





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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

The purpose of this review is to obtain an understanding of how Fleet Management operates, examine potential cost savings and assess whether the system of internal controls are adequate and appropriate at the department and Authority level. Any risks not appropriately addressed by controls were identified and recommendations were made to introduce new controls or modify those already in place in order to address the risk.

The audit scope is based on the following objectives:

- Gain an understanding of Fleet Management operations; review existing process flows and conduct interviews with management
- Review outstanding management action plans from prior relevant audits (DC Water Fleet Accident and Incident Reporting) have been implemented
- Review system(s) utilized in Fleet Management and how they interact with systems at the Authority level; review controls exist surrounding the transfer of data between systems
- Evaluate Fleet data output on utilization and how management uses this information to make decisions regarding vehicle assignment
- Evaluate Fleet inventory and maintenance strategy and examine cost saving opportunities
- Benchmark DC Water's Fleet Management with industry best practices; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall process.

#### **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 Fleet Management process as it is currently documented. This phase included review of existing policies and procedures, reports, proposals and other applicable documentation.

##### Documented Walkthroughs

The purpose of this phase was to gain an understanding of roles and responsibilities within the Fleet Management process..

Specific procedures performed include:

- Identifying all parties involved in the Fleet Management process
- Held departmental walkthroughs with Fleet Management and applicable employees as determined necessary
- Interviewed key personnel within Fleet Management
- Inquired as to metrics tracked within FleetWave, including analysis of GeoTab data
- Analyzing a sample of work orders for approval, segregation of duties and reasonability of parts costs and labor hours incurred



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

#### ***Approach (continued)***

##### Reporting

At the conclusion of this audit, we summarized our observations related to the Fleet Management Internal Audit. We have reviewed the results of our testing with management and included their responses in the detailed observations section.



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## DATA ANALYTICS

### Rideshare Program

#### Rideshare Report

Based on the Rideshare report showing all rideshare transactions for the period 4/1/2018 – 11/30/2018, there were a total of 213 unique booking reservations made by 36 different employees during this time period. The data also showed high use departments.

Department	# of Rideshare Bookings
5610 – Fleet Management	410
G4S	91
4630 – Sewer Services - Repair	86
4450 – Tech Support Services	26
4420 – Distribution Maintenance	25
4620 – Sewer Services	19
4520 – Potomac Interceptor	15
4840 – Maintenance Instrumentation	12
4230 – DDCS Operations	8
4820 – Maintenance Machine Shop	5
4110 – Pumping Operations	4
4710 – Waste Water @ Blue Plains	2
<b>Grand Total</b>	<b>703</b>



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## DATA ANALYTICS (CONTINUED)

### Cost Analysis by Department

#### Overview

The Fleet Department currently tracks two cost categories on all work orders, Parts and Labor. The figure below shows the breakdown of all work order costs associated with each Master Department from 1/1/2018 – 11/30/2018. While the Authority does not currently chargeback the departments for the maintenance costs, capturing the costs for parts and labor, as well as statistics such as accidents, insurance costs, fuel usage, and other items can assist management with providing greater transparency and accountability across the Authority, as well as assist with forecasting procurement

Department	Count of WORK ORDER#	Sum of PARTS COST	Sum of LABOR COST	Sum of COST TOTAL
4600 - SEWER SERVICES	2,032	\$ 400,214.86	\$ 382,962.37	\$ 783,177.21
4800 - MAINTENANCE	1,618	\$ 331,374.88	\$ 342,406.34	\$ 673,781.19
4400 - DWS FLEET POOL	863	\$ 370,333.86	\$ 293,862.00	\$ 664,195.86
4200 - WATER/SEWER MAINTENANCE PUMPING	728	\$ 66,141.89	\$ 86,989.92	\$ 153,131.81
3400 - FACILITIES	490	\$ 151,869.12	\$ 137,837.96	\$ 289,707.09
5610 - FLEET MANAGEMENT	391	\$ 29,027.48	\$ 39,802.23	\$ 68,829.70
2300 - CUSTOMER SERVICES	344	\$ 131,135.98	\$ 130,505.41	\$ 261,641.39
4300 - ENGINEERING	210	\$ 38,333.40	\$ 57,881.72	\$ 96,215.12
4700 - WASTE WATER	199	\$ 37,291.52	\$ 47,726.35	\$ 85,017.87
3100 - AGM SUPPORT	120	\$ 5,635.37	\$ 11,702.53	\$ 17,337.90
3320 - SECURITY	29	\$ 4,309.71	\$ 7,005.16	\$ 11,314.87
2200 - PROCUREMENT	25	\$ 11,250.48	\$ 10,756.09	\$ 22,006.57
3300 - SAFETY	23	\$ 1,722.26	\$ 2,952.77	\$ 4,675.03
3200 - HCM BLUE PLAINS	21	\$ 506.68	\$ 2,201.36	\$ 2,708.04
1400 - EXTERNAL AFFAIRS	18	\$ 5,822.01	\$ 5,083.13	\$ 10,905.14
2100 - IT	10	\$ 539.49	\$ 2,142.46	\$ 2,681.95
2500 - RISK	5	\$ 205.87	\$ 492.76	\$ 698.63
1300 - OFFICE OF GENERAL COUNSEL	5	\$ 124.52	\$ 487.56	\$ 612.08
1200 - GENERAL MANAGER	5	\$ 232.55	\$ 739.72	\$ 972.27
<b>Grand Total</b>	<b>7,136</b>	<b>\$ 1,586,071.93</b>	<b>\$ 1,563,537.84</b>	<b>\$ 3,149,609.72</b>



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## DETAILED OBSERVATIONS

Fleet Management Internal Audit			
1.	Action on Key Metrics / Key Performance Indicators	Recommendation	Management's Action Plan
	<b>Observation Rating: Moderate</b>		
	<p>Fleet Management reviews key metrics and key performance indicators on a periodic basis, monitoring needs and usage, age profiling and making recommendations based on units cost and replacement.</p> <p>Per discussion with Fleet's Director of Operations, monitoring is performed in an informal manner, where he reviews metrics in Wave on a daily basis and uses his knowledge of business operations to detect anomalies. Documentation of the reviews performed are not maintained. While the Director of Fleet Management is experienced, lack of documentation of key metrics/key performance indicators reviewed does not allow for there to be full transparency with the Authority. An example where additional transparency may be helpful relates to the costs of operation and maintenance by department / user group. As illustrated in the background section of this report, costs by department/vehicle/user are being captured in Wave. While the Authority does not chargeback these costs to the departments, the analysis and evaluation of these costs could be used as an accountability tool to identify not only vehicles that may require service or retirement, but also users that not be using the fleet efficiently.</p>	<p>We recommend Fleet Management formalize and document their review of pre-determined key metrics and key performance indicators collected either continuously or periodically, in order to evaluate the extent and progress towards meeting management's defined objectives. Specific action items may include (but are not limited to):</p> <ul style="list-style-type: none"> <li>• Quarterly summary reporting addressing vehicle purchases (e.g., how did they determine the need for vehicles purchased or planned to be purchased during the quarter)</li> <li>• Quarterly summary reporting addressing vehicle usage including:                             <ul style="list-style-type: none"> <li>○ Identification of vehicles older than the ideal age for replacement established by Fleet including management's rationale for maintaining them within Fleet.</li> <li>○ Identification of low trip vehicles for inclusion into the ridesharing pool.</li> <li>○ Identification of low use / high cost vehicles including review of acquisition costs and approval process undertaken for such vehicles</li> </ul> </li> </ul>	<p><b>Response:</b> The department of Fleet Management meets bi-annually with departments and provides quarterly updates. A vehicle justification form is currently on line and must be signed by the department heads prior to being placed on the acquisition sheet. Fleet Management is now revamping the forms based on the new organizational structure and direction. In May, our plan is to present our findings, perspective and understanding to the departments, management and the EVP's, with a goal of creating greater reporting transparency of agreed-upon vehicle usage metrics and coordination with budget development.</p> <p><b>Responsible Party:</b> Tim Fitzgerald, Director Fleet Management</p> <p><b>Target Date:</b> 10/1/2019</p>



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## DETAILED OBSERVATIONS (CONTINUED)

Fleet Management Internal Audit			
1.	Action on Key Metrics / Key Performance Indicators (continued)	Recommendation	Management's Action Plan
	<b>Observation Rating: Moderate</b>		
	<p>The Vehicle/Equipment Operation SOP section 12.0 (Department Responsibilities) directs the department to “openly and actively support a fleet that is right-sized, technically matched to duties and responsibilities, safe and economical.”</p>	<p>In addition to the summary reporting recommended, we recommend that Fleet management review with department heads the amount of fuel, repair and maintenance expenses incurred on vehicles used by their personnel rather than relying on them to review information via their Wave customized desktops. Alerting departments to the extent of repair spend due to their department’s use will allow for greater accountability from departments, as well as potentially motivate the Authority to revisit Fleet’s budget throughout the year.</p> <p>Upon completion of Fleet management’s analysis, results should be shared with the Executive team on a quarterly basis (at a minimum).</p>	





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## DETAILED OBSERVATIONS (CONTINUED)

Fleet Management Internal Audit			
2.	Asset Management Reconciliation	Recommendation	Management's Action Plan
	<b>Observation Rating: Moderate</b>		
	<p>The Authority uses a number of applications and systems in order to process, record and report financial data. Among these systems is Maximo, which is used for Asset Management.</p> <p>There is currently no reconciliation between the Fleet department's management information system ("Wave", "FleetWave") and the Authority's asset management system, Maximo, nor the Authority's financial system, Lawson. There may be an opportunity to interface these systems, which could assist in efficient and accurate reporting and management of Fleet assets.</p> <p>Per discussion with the Director of Fleet Management, a previous attempt was made by the Authority to implement direct data transfer between Wave and Maximo. Feedback received from technical personnel indicated that the two systems were not compatible to an extent allowing for direct data transfer.</p> <p>At a minimum, a manual reconciliation between the systems should be performed to facilitate completeness and accuracy of records.</p>	<p>In order to enhance the completeness and accuracy of its asset management reporting, we recommend the Authority re-explore implementing direct data transfer between Fleet's Wave system and Maximo, including documenting any challenges to implementation for review by the Authority.</p> <p>If it is determined that the two systems are not compatible, Management should, at a minimum, perform a manual reconciliation of data transferred between the two systems on a periodic basis, as well as reconcile to the Lawson financial system for validating the completeness of assets and cost capture, and to gain additional comfort that data points used for key operational performance and management decisions are being monitored completely and accurately.</p>	<p><b>Response:</b> The department of Fleet Management welcomes the opportunity to interface with the numerous set systems in the enterprise. Fleet Management is ready to engage with the new ERP system and existing asset management capabilities as determined by the Executive, as well as DOSH's Origami Safety Risk System to integrate systems and workflow process to leverage data to continuously improve DC Water's operations.</p> <p><b>Responsible Party:</b> Tim Fitzgerald, Director Fleet Management</p> <p><b>Target Date:</b> 12/31/2019</p>







## DETAILED OBSERVATIONS (CONTINUED)

Fleet Management Internal Audit			
3.	Policies and Procedures	Recommendation	Management's Action Plan
	<b>Observation Rating: Low</b>		
	<p>As part of our review, we obtained Fleet Management's policies and procedures on vehicle maintenance, vehicle acquisition, administrative matters and vehicle operations. Such policies were pending review by the CEO at the time of the audit though Fleet Management confirmed the policies and procedures were operational. Discrepancies between the policies and procedures and processes in place were noted during our review. Examples of discrepancies noted during our review included:</p> <ul style="list-style-type: none"> <li>The Vehicle/Equipment Operation Standard Operating Procedure (SOP) section 8.0 (Ride Share) notes that departments may request loaner vehicles in Wave or in writing. Per our discussions with the Director of Fleet Management, all rideshare requests are made through the Fleet Management Information System ("Wave", "FleetWave").</li> <li>The Vehicle/Equipment Operation SOP section 8.0 (Ride Share) notes that "costs to return the vehicle to the condition it was in prior to the loan will be borne by the Departments." During our discussions with the Director of Fleet Management, there was no indication that a chargeback / cost recovery program exists.</li> </ul>	<p>We recommend the current draft policies be updated as needed and approved as soon as practical for use the Authority.</p> <p>On an as needed basis, or at least annually, the Fleet-related policies, procedures and process documentation should be reviewed by senior management for accuracy and completeness. Any changes shall be approved and communicated to the users.</p> <p>Management's review should include verifying the policies, procedures and process documentation (e.g. process maps/flowcharts) posted on the intranet are current/relevant.</p> <p>Relevant personnel should be made aware of the policies and procedures as applicable.</p>	<p><b>Response:</b> The department of Fleet Management is fully operational in the policies and procedures as directed. As changes and modifications are needed, we will move swiftly to implement them as necessary. Fleet Management will undertake an assessment of all policies and SOPs to identify "critical" procedures that need monitoring/reviewing annually vs those that only need review as needed, and document that process flow.</p> <p><b>Responsible Party:</b> Tim Fitzgerald, Director Fleet Management</p> <p><b>Target Date:</b> 10/1/2019</p>



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## DETAILED OBSERVATIONS (CONTINUED)

Fleet Management Internal Audit			
3.	Policies and Procedures (continued)	Recommendation	Management's Action Plan
	<b>Observation Rating: Low</b>		
	<ul style="list-style-type: none"> <li>The Vehicle/Equipment Operation SOP section 12.0 (Department Responsibilities) references the use of fuel cards. Per discussion with the Director of Fleet Management, fuel cards are not in use. Drivers Fuel is automatically calculated via Wi-Fi fueling with the city as they run a wire to Onboard Diagnostic Computer (OBD) and retrieve a source code, where the data is stored. There are fueling stations around the town provided by the government, where drivers have an id number to be allowed fuel consumption and within the system, it recognizes the tank size. This fueling process has relieved the issues they used to have - auto billing each month.</li> </ul>		





## PROCESS IMPROVEMENT RECOMMENDATIONS

### Fleet Management Internal Audit

#### Work Order Management

For 8 of 25 work orders reviewed (all properly approved), labor hours incurred appeared to be significantly higher than average for the remaining work orders. We recommend Fleet Management implement exception monitoring and establish a threshold for review of labor hours above a specific measure (e.g., mean, median), to determine the root cause and possibly identify and minimize potential inefficiencies in labor hours worked and/or reported.

Section 5.6 D of Fleet Management Vehicle / Equipment Maintenance Standard Operating Procedures indicates that the procurement of parts costing over \$500 require the approval of the Vehicle Maintenance Supervisor. During our review of 25 work orders, we noted no parts met that threshold. We recommend management consider lowering the threshold of parts purchases that require supervisory approval to an amount that is closer (but still above) the average parts cost.

#### Benchmarking

Fleet Management has indicated that they monitor industry trends / best practices. Specifically, in their Business Case Proposal Form completed to make the case for bringing Fleet services in-house, management noted that other organizations such as Washington Gas, WSSC, Fairfax Water, Constellation Energy, Fairfax County, DC-DPW and DC Fire maintain an in-house utility fleet. We recommend management extend its monitoring of industry trends / best practices to include operational and financially significant items such as turnaround time on work order completion, average cost of repair(s) per miles driven and parts inventory tracking practices (to be applicable when function is brought in house).


#### Reporting

As part of our review, we requested reports on Fleet's ride share program. While we were able to obtain reporting showing ride share bookings per department, we were not able to obtain a report on for example, the amount of time that each loaner vehicle was out. We recommend Fleet Management explore how to incorporate reporting on more significant metrics, in order to run analyses and identify inefficiencies that may potentially exist within the ride share program.



## 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).



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