

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Audit and Risk Committee

January 27, 2022

9:30 a.m.

Microsoft Teams Meeting

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1. **Call to Order**..... Anthony Giancola, Vice Chairperson
2. **Roll Call**.....Linda Manley, Board Secretary
3. **FY 2021 Financial Statements**..... Genes Malasy, Controller
4. **External Audit Results**.....KPMG
5. **Enterprise Risk Management Program Overview**Wayne Giffith, EVP Performance
6. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
 - A. FY 2022 Internal Audit Plan Status Update
 - B. Status Update on Prior Audit Findings
 - C. [Contract Monitoring & Compliance Internal Audit](#)
 - D. Hotline Update
7. **Executive Session*** Anthony Giancola, Vice Chairperson
8. **Adjournment**..... Anthony Giancola, Vice Chairperson

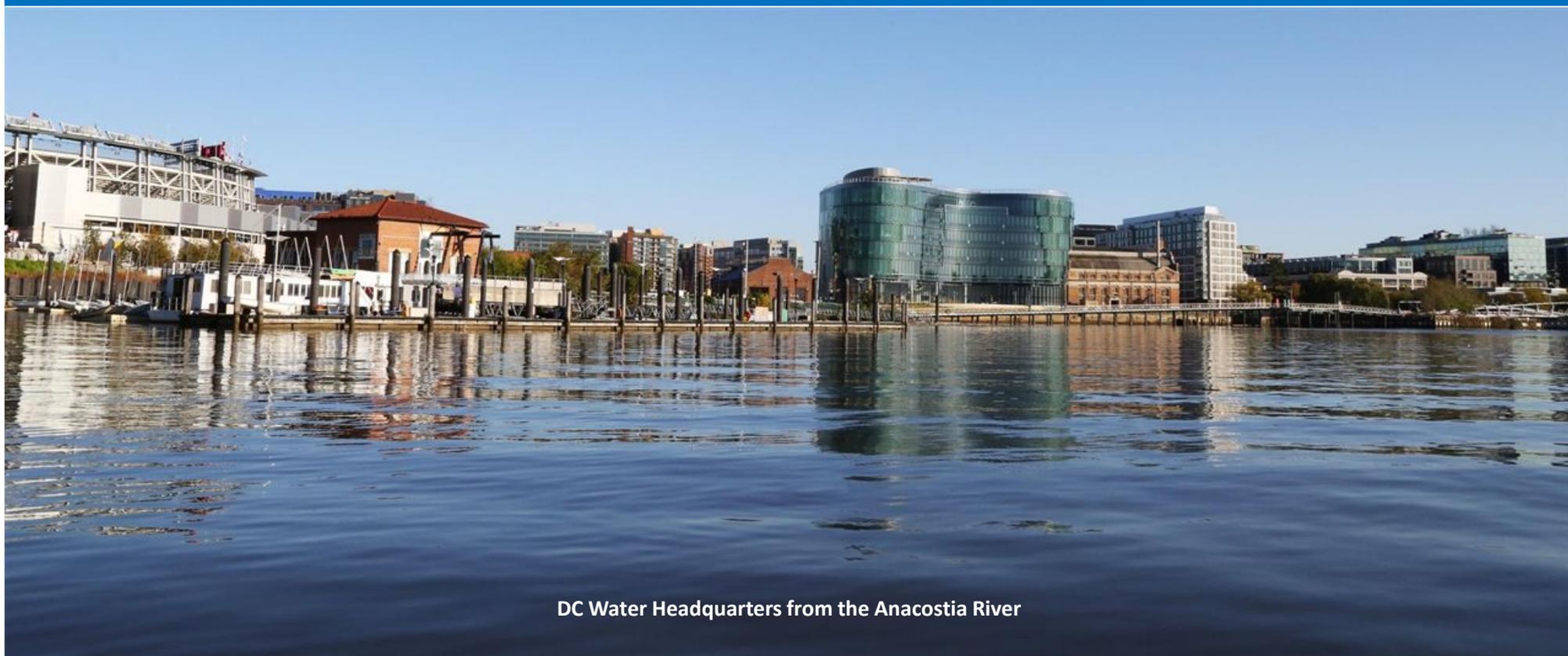
The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(2); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4)(A); 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); train and develop members of a public body and staff under D.C. Official Codes § 2-575(b)(12); 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.



FY 2021 Financial Statements

Presentation to Audit Committee, January 27, 2022
Genes Malasy, Controller

District of Columbia Water and Sewer Authority



DC Water Headquarters from the Anacostia River



Purpose

- Review DC Water's fiscal year 2021 audited financial statement performance and results of operations



Highlights

- 💧 DC Water received an unmodified (“clean”) audit opinion from our external auditors, KPMG
- 💧 This was the first audit completed in the new Oracle financial system
- 💧 Also received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 24th consecutive year for our 2020 Annual Comprehensive Financial Report



Financial Overview

- The Authority's financial position remains strong and is growing
 - Net position increased to \$2.7 billion - increase of \$187.8 million, or 7.6%, over 2020
 - This is driven mainly by a \$261.1 million increase in capital assets
 - Operating revenues increased to \$770.6 million – increase of \$33.7 million, or 4.6%, over 2020
 - Revenues increased, though there was a \$24.2 cash shortfall against budget
 - \$39.4 million amortization of IMA capital unearned revenue
 - \$16.7 million operating receivables
 - Operating expenses, including depreciation, increased to \$471.9 million – increase of \$18.2 million, or 4.0%, over 2020



Net Position

- The difference between Assets and Liabilities constitutes Net Position
- Net position is broken down into three categories
 - The largest increase was in net investment in capital investments from Anacostia LTCP capital expenditures of \$136 million.

	2021	2020
Net investments in capital assets	2,305,799	2,129,340
Restricted for debt service	39,223	35,222
Unrestricted	316,247	308,871
Total net position	\$ 2,661,269	\$ 2,473,433



Debt Administration

- ▶ At the end of fiscal year 2021, the Authority had a total of \$3.7 billion in long term debt outstanding, a decrease of \$92.0 million, or 2.4%, over fiscal year 2020
 - The decreases were related to scheduled principal repayments
- ▶ No bonds issued in FY2021
- ▶ DC Water will close on a transaction that includes \$400 million in new money in March 2022

Description	Balance		Balance	
	9/30/2020	Increases	Decreases	9/30/2021
Outstanding bonds and notes	\$ 3,499,065	\$ -	\$ (76,272)	\$ 3,422,793
Unamortized bond premiums	270,117	-	(15,833)	254,284
Unamortized bond discounts	(1,706)	-	129	(1,577)
Total bonds and notes	\$ 3,767,476	\$ -	\$ (91,977)	\$ 3,675,499



Change in Net Position

💧 The Authority's net position increased by \$187.8 million (or 7.6%) to \$2.7 billion

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

	2021	2020
Operating revenues	\$ 770,557	\$ 736,828
Operating expenses	471,902	453,699
Net non-operating revenues (expenses)	(152,912)	(82,878)
Change in net position before capital contributions	145,743	200,251
Capital contributions	42,093	22,727
Change in net position	187,836	222,978
Net position - beginning of year	2,473,433	2,250,455
Net position - end of year	<u>\$ 2,661,269</u>	<u>\$ 2,473,433</u>

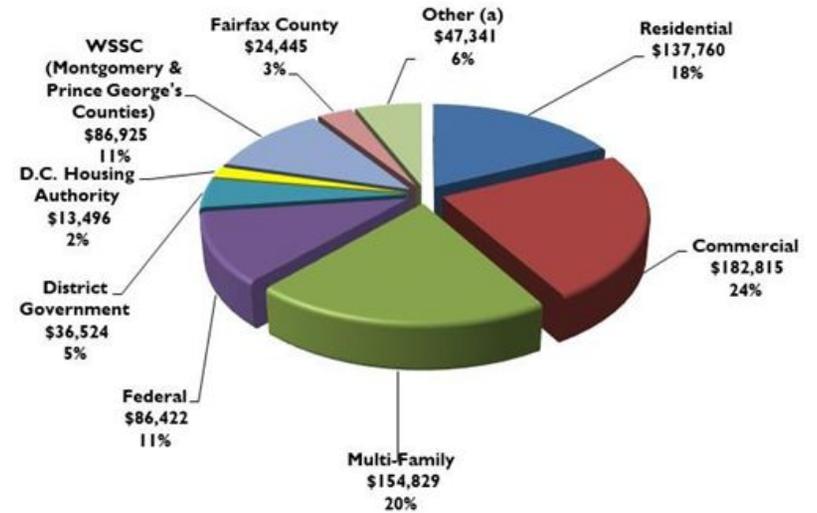


Operating Revenues

- The Authority's operating revenues increased by \$33.7 million (4.6%) to \$770.6 million, the largest increase was in the residential, commercial and multi-family category
 - While cash revenues were down against budget, revenue increased due to a \$39.4 million amortization of IMA capital unearned revenue and \$16.7 million in operating receivables

Revenues remain diversified

			Variance	
	2021	2020	\$	%
Residential, commercial and multi-family customers	\$ 474,380	\$ 459,572	\$ 14,808	3.2%
Federal government	86,422	80,122	6,300	7.9%
District government and D.C. Housing Authority	50,020	46,781	3,239	6.9%
Charges for wholesale wastewater treatment	127,410	117,166	10,244	8.7%
Other	32,325	33,187	(862)	-2.6%
Total operating revenues	\$ 770,557	\$ 736,828	\$ 33,729	4.6%





Operating Expenses

- The Authority's operating expenses increased by \$18.2 million (4.0%) to \$471.9 million
 - Categories with the largest increases were personnel; chemicals, supplies, and small equipment; and utilities and rent

			Variance	
	2021	2020	\$	%
Personnel services	\$ 142,352	\$ 135,005	\$ 7,347	5.4%
Contractual services	73,227	74,064	(837)	-1.1%
Chemicals, supplies and small equipment	35,411	30,602	4,809	15.7%
Utilities and rent	27,331	24,708	2,623	10.6%
Depreciation and amortization	138,074	135,590	2,484	1.8%
Water purchases	33,135	31,696	1,439	4.5%
Payment in lieu of taxes and right of way fee	22,372	22,034	338	1.5%
Total operating expenses	\$ 471,902	\$ 453,699	\$ 18,203	4.0%



Interest Expense and Other Nonoperating Expenses

- The Authority's Interest expense and other non-operating expenses increased by \$63.9 million (69.7%) to \$155.7 million
 - The largest driver was DC Water's adoption of GASB 89
 - GASB 89 enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period by expensing interest during the construction period, rather than capitalizing the interest so that it becomes part of the asset's value
 - This new methodology was adopted alongside our transition to the new Oracle system

	2021	2020	Variance	
			\$	%
Interest expense and other nonoperating expenses	155,672	91,724	63,948	69.7%



Cash Overview

💧 Unrestricted cash & investments

- Can be used for routine operations and have no external restrictions
 - Use is restricted by the Trust Indenture and Board policies
- Increased to \$312.5 million vs. \$303.8 million in FY20
- Includes cash reserves, the Rate Stabilization Fund, and funds for expanded customer programs

💧 Restricted cash & investments

- Mainly bond proceeds that will be drawn down to fund capital projects
- Use is externally restricted by debt covenants, federal mandates, etc.
- Decreased to \$324.4 million vs. \$443.5 million in FY20





New Capital Assets

• Net capital assets, including construction in progress and less depreciation, increased by \$261.2 million, or 3.5%, to \$7.7 billion

- Blue Plains, at \$3.3 billion, is the largest capital investment
- There is \$2.1 billion worth of construction in progress

	As of September 30,		
	2021	2020	2019
Wastewater treatment plant	\$ 3,327,554	\$ 3,275,198	\$ 3,233,698
Wastewater collection facilities	1,045,919	1,087,554	937,315
Water distribution system	1,218,468	1,183,800	1,138,598
Deep tunnel system	1,269,271	1,268,779	1,027,954
Purchased capacity	399,651	385,133	375,164
Buildings	84,904	-	-
Capital equipment	381,431	368,796	314,667
Construction in progress	2,057,773	1,830,830	1,966,037
Less accumulated depreciation	(2,049,249)	(1,925,529)	(1,769,310)
Net capital assets	\$ 7,735,722	\$ 7,474,561	\$ 7,224,123



Conclusion

- 💧 DC Water received a clean audit opinion for the 24th year in a row
 - 💧 This was the first audit in the new Oracle financial system
- 💧 Net position is increasing – DC Water is growing and investing in its infrastructure



DC Water and Sewer Authority

Audit results

Financial Statement and Uniform Guidance audits for the year ended September 30, 2021

January 27, 2022

Agenda

- 1. Financial statement audit results**
- 2. Significant accounting policies**
- 3. New accounting standards**
- 4. Audit misstatements**
- 5. Internal control related matters**
- 6. Required communications and other matters**
- 7. Uniform Guidance Compliance Audit**
- 8. Appendix**



Financial statement audit results

Scope of Financial Statement Audit

- Perform an audit of the DC Water and Sewer Authority’s (the Authority’s) financial statements as of and for the year ended September 30, 2021 and 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- Form and express an opinion about whether the financial statements that have been prepared by the Authority’s management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP

Opinion on the Basic Financial Statements

- Unmodified opinion issued on 12/21/2021

Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

- No material weaknesses or significant deficiencies reported
- No instances of non-compliance reported



Significant accounting policies

Significant accounting policies and practices

- Described in Note 2 to the financial statements
- No new or changed significant accounting policies in FY 2021
- See next slide for new GASB pronouncements implemented in FY 2021

Significant accounting estimates and significant financial statement disclosures

- The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities
- However, no significant accounting estimates or financial statement disclosures were identified in our audit

New accounting standards

GASB Standards Implemented in FY 2021

No.	Title	Authority Financial Statement Impact
84	Fiduciary Activities	New line items on the Statement of Cash Flows related to Storm Water billings and collections
89	Accounting for Interest Cost Incurred before the End of a Construction Period	Interest costs related to construction are expensed rather than capitalized
90	Majority Equity Interests	None
93	Replacement of Interbank Offered Rates	None
97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	None

GASB Standards to be Implemented in FY 2022

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
87	Leases	June 15, 2021	2022
92	Omnibus 2020	June 15, 2021	2022



Audit misstatements

Uncorrected Audit Misstatements

Description of misstatement	Quantitative effect on Net Position (Debit (Credit)) (in \$ thousands)	Quantitative effect on Change in Net Position (Debit (Credit)) (in \$ thousands)
1. To correct the overstatement of the capital accounts payable accrual based on actual invoices received subsequent to recording the accrual and projected invoices to be received in the future.	-	-
2. To record an adjustment to the net book value of the remaining water meters that are not planned to be replaced to their net realizable value based on recent experience with the useful lives of those meters.	\$3,364	\$489
3. To correct the understatement of IMA wholesale revenue and overstatement of due to jurisdictions.	\$(3,150)	\$(3,150)
Total	\$214	\$(2,661)
Net Position/Change in Net Position	\$(2,661,269)	\$(187,836)
Percentage	(0.01%)	1.42%

Refer to the management representation letter for the detailed schedule of uncorrected audit misstatements.

Note: There were no corrected misstatements identified during the FY 2021 audit.



Significant deficiencies and material weaknesses in internal control

Scope of Internal Control Testing

- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- Report significant deficiencies and material weaknesses in internal control in the Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

Control deficiencies

- No significant deficiencies or material weaknesses reported
- All other control deficiencies identified during our audit that are of sufficient importance to merit management's attention have been communicated in the management letter

Required communications and other matters

Communication topic	Response
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy.
Related parties	No significant findings or issues arose during the audit in connection with the Authority's related parties.
Other information in documents containing audited financial statements	<ul style="list-style-type: none"> • Certain other information (introductory and statistical information) is included in the Authority's Annual Consolidated Financial Report (ACFR), which also contains the Authority's audited financial statements. • Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. • However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. • Our report on the ACFR will include our consideration of the other information, including whether material inconsistencies or material misstatements of facts were identified related to other information.
Noncompliance with laws and regulations, including illegal acts or fraud	No identified or suspected instances of non-compliance with laws and regulations, including illegal acts or fraud, have come to our attention.
Significant Unusual Transactions	No significant unusual transactions were noted.
Going concern	No matters to report.

Required communications and other matters

(continued)

Communication topic	Response
Non-GAAP accounting policies and practices	No matters to report.
Subsequent events	No matters to report.
Other significant matters	No other significant findings or issues arising from the audit that are significant and relevant to those charged with governance were identified.
Significant difficulties encountered during the audit	We encountered no significant difficulties in dealing with management in performing our audit.
Disagreements with management	There were no disagreements with management on financial accounting and reporting matters that individually or in the aggregate could be significant to the financial statements, or our report.
Management’s consultation with other accountants	To the best of our knowledge, management has not consulted with other accountants.
Material written communications	Engagement letter; management representation letters, including summary of uncorrected misstatements; and the management letter were distributed under a separate cover.
Confirmation of independence	In our professional judgment, we are independent with respect to the Authority, as that term is defined by the professional standards.

Uniform Guidance Compliance Audit

Scope of compliance audit

- Forming and expressing an opinion on compliance for each of the Authority’s major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement

Major program tested

- CFDA# 66.468, Safe Drinking Water Act Program

Compliance Audit Results

- Audit is currently in progress; we will provide a verbal update
- Separate letter related to the Uniform Guidance audit with required communications will be addressed to the Board of Directors and Management



Appendix

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Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICFR	<ul style="list-style-type: none"> — Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting; and 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Management responsibilities – Compliance Audit	<ul style="list-style-type: none"> — Identifying the Authority's government programs and understanding and complying with the compliance requirements — Establishing and maintaining effective controls that provide reasonable assurance that the Authority administers government programs in compliance with the compliance requirements — Evaluating and monitoring the Authority's compliance with the compliance requirements — Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit — Preparation of the SEFA in accordance with the applicable criteria

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

Responsibilities *(continued)*

Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the Authority’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority’s financial statements
KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — The auditor’s responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors’ report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures
KPMG responsibilities – Compliance Audit	<ul style="list-style-type: none"> — Forming and expressing an opinion on compliance for each Authority’s major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement — Performing our audit of compliance in accordance with auditing standards generally accepted in the United States of America; <i>Government Auditing Standards</i> and the Uniform Guidance — Considering internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance



Responsibilities *(continued)*

<p>KPMG responsibilities – Communications</p>	<ul style="list-style-type: none"> — Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee — Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential — Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management’s attention. The objective of our audit of the financial statements is not to report on the Authority’s internal control — Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy — Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors’ report — Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal — Communicating to the Audit Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement — When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the Authority, or by additional requirements applicable to the engagement — Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors’ professional judgment, relevant to the responsibilities of the Audit Committee — Communicating significant findings and issues arising during the audit in connection with the Authority’s related parties — Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an Authority’s ability to continue as a going concern for a reasonable period of time — Communicating significant matters related to the audit of compliance that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you
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Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the financial statements
- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control
- We are not expressing an opinion on the effectiveness of internal control
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance



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Strategy & Performance

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Wayne Griffith, EVP Strategy & Performance

Management briefing to the Audit & Risk Committee

1. Provide an overview and status of the Enterprise Risk Management program.

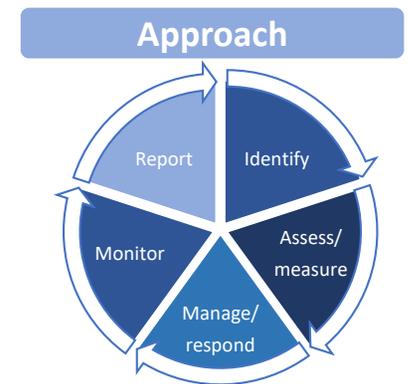
Background

Problem

Historically, the organization has functioned as **siload and independent** business units. One of the several independently managed functions included the function of risk management. As an independently managed function, the management of risk was accomplished in a variety of ways which lacked a **common understanding, effective collaboration, and efficient coordination** across the enterprise.

Solution

The Authority has determined that Enterprise Risk Management (ERM) will become a function within the Enterprise. ERM differs from traditional approaches to risk oversight that focuses on managing silos or distinct areas of risk. The **ERM** business process manages risk at an **entity level** to **effectively** support the **Authority's capacity** to **identify, evaluate**, and **mitigate emerging or identified areas** of **risk** internal or external to the organization.



Benefits

- Strategic performance focused
- Consistent risk management approach across the enterprise
- Holistic view of key risks
- Considers risk interactions
- Business decisions based on a clear understanding of risks
- Driven by the Board and owned by the business
- Supported by a "risk culture"

Value to the Enterprise

ERM's scope is **far broader** and more **strategic**, operating across the enterprise in order to produce **improved decision making** and **performance** of the organization as it endeavors to meet its mission and achieve its strategies and business objectives.

Timeline

November
2021

Governance Committee approved the **expansion** of the Audit Committee's role and name to the "**Audit & Risk Committee**" which also expands current responsibility to include Enterprise Risk Management.



December
2021

- Developed the Enterprise Risk Management project plan and timeline;
- Commenced Enterprise Risk Management Project Mobilization

Current Activities

Project Outcomes

1. Enterprise Risk Management program

- Key components:**
- Enterprise Risk Management Policy
 - Annual Risk Assessments and Analysis
 - Enterprise Risk Register
 - Risk Management Action Plans
 - Periodic Enterprise Risk Management Program Reports to Key Stakeholders

2. Integrated ERM framework

- Conducted **18** stakeholder interviews with specific risk owners to gain an understanding of the risks to the Authority, and to identify and **leverage existing risk practices and resources** to build the overarching ERM program.

3. ERM playbook

- Drafted **governance structure**, risk roles and responsibilities, process, reporting and templates

Next Steps

- Finalize the governance structure and role and responsibilities.
- Interviews with senior leadership and specific board members will be scheduled soon.
- Deliver foundational ERM training to all staff.
- Facilitate a workshop with the Senior Executive Team to prioritize risks.

DC WATER

Audit Committee Meeting



January 27, 2022

Agenda

- FY 2022 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits
 - Contract Monitoring and Compliance Internal Audit
- Hotline Update

AUDIT PLAN STATUS UPDATE

Internal Audit Plan Status Update

Audit	Status
FY 2022	
Contract Monitoring & Compliance Audit	Report Complete
Supply Chain Assessment	Planning in Progress
Accounts Payable Audit	Planning in Progress
Incident Response Tabletop Exercise	Planning in Progress
Expenditures Analytics Assessment	Not Started
Strategic Plan Monitoring Audit	Not Started
Employee Retention Assessment	Not Started
Physical Security Audit – HQO & Ft. Reno	Not Started
Work Order Management Audit – DSO	Not Started
Cyber Threat Intelligence	Not Started
FY2023 Risk Assessment	Not Started
Remediation & Follow Up	On-going
Hotline Management	On-going

Internal Audit Plan FY 2022 Timeline

	Oct – 21	Nov – 21	Dec – 21	Jan – 22	Feb – 22	Mar – 22	Apr – 22	May – 22	Jun – 22	Jul – 22	Aug – 22	Sep – 22	Oct – 22
▶ Contract Compliance Audit	█												
▶ Supply Chain Assessment				█									
▶ Accounts Payable Audit					█								
▶ Incident Response Tabletop Exercise					█								
▶ Expenditures Analytics Assessment					█								
▶ Strategic Plan Monitoring Audit							█						
▶ Employee Retention Assessment							█						
▶ Physical Security Audit – HQO & Ft Reno							█						
▶ Work Order Management Audit – DSO										█			
▶ Cyber Threat Intelligence										█			
▶ FY 2023 Risk Assessment											█		
▶ Ongoing Follow-up Procedures	█												
▶ Ongoing Hotline Monitoring	█												

PRIOR AUDIT FINDINGS – FOLLOW UP STATUS



Open High Risk Prior Audit Findings

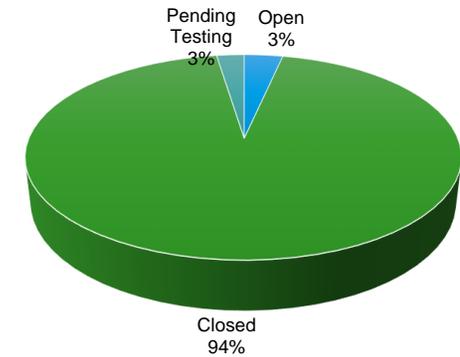
	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date	# Extensions
1	2016	7/28/2016	Training, Licensing, and Certification	Identification and monitoring of training requirements by position <i>Status notes: Three training buckets (safety, compliance, and technical) have been configured in Cornerstone LMS. Technical training requirements are being identified by department. Trainings will be assigned by role when the Oracle LMS module is implemented.</i> <i>Reason for extension: Multiple changes in leadership within People & Talent, not prioritized under previous leadership, difficulty organizing technical trainings requiring cross-departmental support, delay in Oracle implementation go-live.</i>	9/30/2017	6/6/2022	5
2	2017	10/26/2017	Entity Level Assessment	Lack of a comprehensive risk management function to evaluate entity-wide risk	10/1/2018	3/31/2022	3
Lack of Authority-wide policy and procedure management function				9/30/2018	2/28/2022	3	
				<i>Status notes: EPMO has developed an Enterprise Risk Management (ERM) Policy to be institutionalized across the enterprise. EPMO has also developed a policy regarding policy and procedure administration to address Authority-wide policy development, issuance, and maintenance. A DC Water Policy Administrator position will be created.</i> <i>Reason for extension: Continued change in ownership of action plans. Difficulty executing cross-departmental initiatives.</i>			
4	2018	1/24/2019	Enterprise Work Order Management Assessment	DWO – Inadequate capture of labor and materials cost data in Maximo work orders <i>Status notes: Pilot for hydrant program is complete. Roll out of valve application in progress; application is undergoing user acceptance testing in parallel with training for the field crew staff.</i> <i>Reason for extension: Deprioritized due to COVID. Emergencies and vacations of field crew staff delayed user acceptance testing.</i>	9/30/2020	3/31/2022	3

Legend	
	Past due
	Original target date has not yet come due

Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
Prior to FY21 Audit Findings					
Training, Licensing & Certification	7/28/2016	7	1	6	0
HR/Employee Privacy Review	4/27/2017	7	0	6	1
Entity Level Assessment	10/26/2017	7	2	5	0
Integrated Work Order Management	1/24/2019	10	1	8	1
Legal Operations	4/25/2019	4	0	4	0
Occupational Safety and Health	4/25/2019	4	1	2	1
Purchasing Card Internal Audit	7/25/2019	3	0	3	0
Asset Management Assessment	1/23/2020	2	0	1	1
SCADA ICS Review	10/22/2020	16	1	14	1
Customer Billing and Collections Audit	10/22/2020	3	1	2	0
Total		63	7	51	5

FY16 – FY20 Prior Audit Findings Status



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

Note that the audit findings reported above only represent findings prior to FY21 with the status of "Pending Testing" or "Open". Audits conducted prior to FY21 for which all findings have been closed are not represented in this table. However, the pie chart to the right includes status of all audit findings FY16 – FY20.

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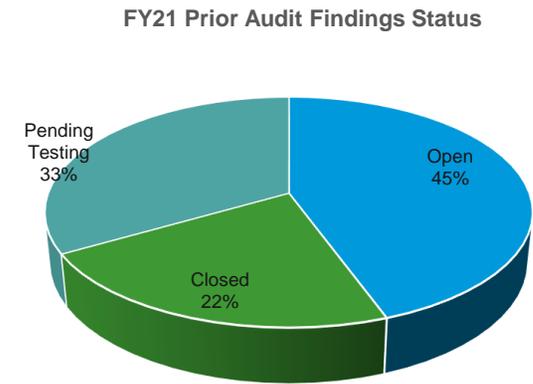
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Color Key	
	At least 1 original remediation target date has been extended



Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
FY21 Audit Findings					
Work Order Management - DMS	1/28/2021	1	0	1	0
Procurement Audit	4/22/2021	2	0	0	2
Succession Planning Assessment	4/22/2021	1	1	0	0
Remote Workforce Security Assessment	4/22/2021	2	0	0	2
Contract Compliance Audit	7/22/2021	3	2	0	1
PCS Review	10/28/2021	8	5	3	0
Materials Management Audit	10/28/2021	1	0	0	1
	Total	18	8	4	6



Color Key

At least 1 original remediation target date has been extended

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

In total, 93% of all prior audit findings from FY14 – FY21 are closed. Management’s target closure rate is 90%.

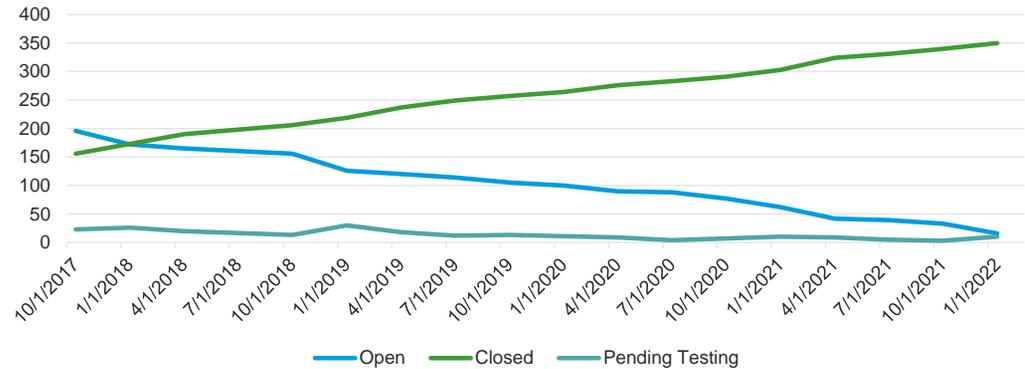
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Follow-up Semi-Annual Summary

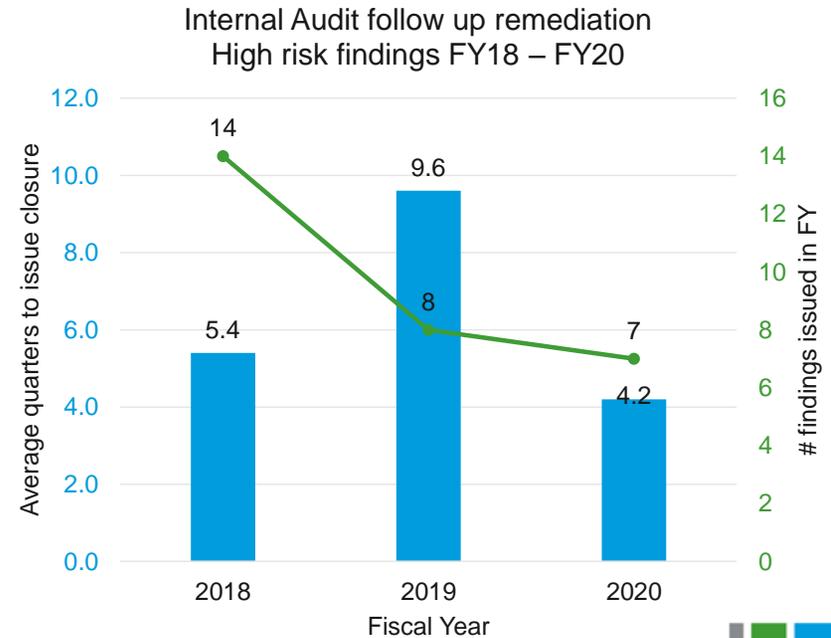
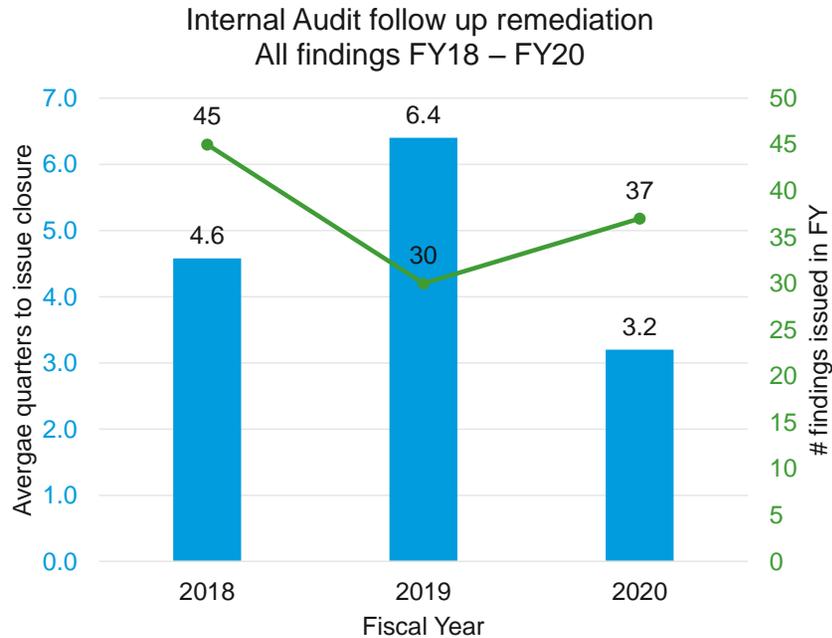
- For FY14 – FY21 prior audit findings:
 - At the start of FY21 (October 2020), there were:
 - 59 open audit items
 - 291 closed audit items
 - 7 pending testing
 - As of January 2022, there are:
 - 15 open audit items
 - 350 closed audit items
 - 11 pending testing
- In total, 93% of all prior audit findings from FY14 – FY21 are closed
 - 10 audit items have been closed in FY22 to date.
 - Management is targeting 90% prior audit findings closure going forward

Follow-Up Progress



Time to closure by fiscal year

The below graphs illustrate the average number of quarters from audit finding issuance to audit finding closure year-over-year as of January 2022. Management has made significant improvements over the past year to achieve timelier audit finding closure as illustrated by the decline in time to close for FY20 audits.



CONTRACT MONITORING & COMPLIANCE



Contract Monitoring & Compliance Audit

Purpose

The objective of the Contract Monitoring & Compliance Audit was to obtain an understanding of how goods and services contracts are managed and assess whether the system of internal controls is adequate and appropriate, at the department-level and authority-wide, for promoting and encouraging the achievement of management's objectives in the categories of compliance. Our fieldwork was performed from November 2021 through January 2022.

Scope

Internal Audit selected a sample of two engineering contracts within the CIP Infrastructure Management Department and the Clean Rivers Department. Our scope for each contract included the following:

- Determine contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval processes;
- Review the Contractor's Safety Plan to ensure it meets all contractual requirements and was properly approved (if applicable);
- Verify that DC Water maintains a current Certificate of Insurance for the contractor (if applicable);
- Confirm that DC Water COTRs have completed COTR training requirements;
- Identify process improvement opportunities and recommend internal control enhancements to improve the contractor management process.

Contract Monitoring & Compliance Audit

1

Contract #170060 – CIP Infrastructure Management		
Contractor	Capitol Paving of D.C., Inc.	Capitol Paving of D.C., Inc. will replace the small diameter water mains that have experienced failures, or have a history of low water pressure, or water quality issues across the District of Columbia. Capitol Paving of D.C. partnered with two (2) WBE/DBE certified subcontractors to deliver the requested services, Omni Excavator Inc and Acorn Supply & Distributing, Inc. and one (1) noncertified subcontractor CTE Construction Testing & Engineering.
Award Date	December 2, 2020	
Original Contract Period	January 3, 2021 – March 8, 2022	
Contract Award	\$9,571,607.00	
Type of Contract	Unit Price Contract	
COR/COTR	CIP Infrastructure Management	

2

Contract #200070 – Clean Rivers Department		
Contractor	National Service Contractors (NSC), Inc.	National Service Contractors (NSC), Inc. will conduct maintenance of DC Water-constructed Green Infrastructure (GI) facilities as part of the practicability assessment for GI. These facilities were constructed to manage stormwater in various parts of DC. NSC, Inc. partnered with two (2) WBE/DBE certified subcontractors to deliver the requested services, Furbish and Clean Streams. Furbish will provide DCW green roof construction and maintenance services. Clean Streams will provide DCW consultation and supplemental quality control services to ensure compliance.
Award Date	February 9, 2021	
Original Contract Period	February 1, 2021 – January 31, 2024	
Contract Award	\$2,188,090.00	
Type of Contract	Cost Reimbursement Contract	
COR/COTR	Clean Rivers Department	

One moderate risk and two low risk findings are included in the full report.

HOTLINE UPDATE



Hotline Update

Two new calls have been received since last Audit Committee meeting.
As of 1/12/22:

FY 22 Hotline Call Summary	
FY 22 Calls Received	2
FY 22 Cases Closed	2
FY 22 Calls Open	0

Total calls by Fiscal Year:

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

**the numbers in the chart above may be inflated based on repeat calls regarding the same matters*

QUESTIONS AND ANSWERS

RSM US LLP

1250 H St NW
Washington, DC 20005

+1 800 274 3978
www.rsmus.com

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DC WATER

Contract Monitoring & Compliance Internal Audit



January 2022

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A Rating Definitions

EXECUTIVE SUMMARY, BACKGROUND AND APPROACH

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Executive Summary and Objectives

Objective and Scope

The objective of the Contract Monitoring & Compliance Audit was to obtain an understanding of how contracts are managed and assess whether the system of internal controls is adequate and appropriate, at the department-level and authority-wide, for promoting and encouraging the achievement of management’s objectives in the categories of compliance. Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated November 10, 2021, and were limited to those procedures described therein.

Our scope included the following:

- Determine contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval processes;
- Review the Contractor’s Safety Plan to ensure it meets all contractual requirements and was properly approved;
- Verify that DC Water maintains a current Certificate of Insurance for the contractor;
- Confirm that DC Water COTRs have completed COTR training requirements; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the contractor management process.

Fieldwork was performed November 2021 – January 2022.

Overall Summary and Highlights

There are no high risk observations to report. The observations identified during our assessment are outlined on pages 8 -13:

1. COTR Training
2. Insufficient Monitoring of Contractor Requirements
3. Late Invoice Payments

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 for risk rating definitions)

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

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



Background

Contract Sample Selection

Internal Audit selected a sample of two contracts – one overseen by CIP Infrastructure Management and the other by Clean Rivers – to review and validate compliance with applicable terms and conditions.

A designated Contracting Officer Representative (COR) and/or Contracting Officer's Technical Representative (COTR) is responsible for ensuring contract compliance at DC Water. The COR shall be responsible for all administration of the contract. The COTR is the technical expert for the contract and acts as a liaison between the Contractor and the Contracting Officer. COTRs are trained by the Department of Procurement on their responsibilities as it relates to contract monitoring and compliance.

The Authority enters into many capital procurement contracts through the Departments of Engineering and Technical Services, Clean Rivers, and CIP Infrastructure Management. Within these departments, there are currently 98 active contracts with a total contract agreed upon amount of \$902,104,205.

Contract #170060 – CIP Infrastructure Management

Contractor	Capitol Paving of D.C., Inc.	Capitol Paving of D.C., Inc. will replace the small diameter water mains that have experienced failures, or have a history of low water pressure, or water quality issues across the District of Columbia. Capitol Paving of D.C. partnered with two (2) WBE/DBE certified subcontractors to deliver the requested services, Omni Excavator Inc and Acorn Supply & Distributing, Inc. and one (1) noncertified subcontractor CTE Construction Testing & Engineering.
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Award Date	February 9, 2021	
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Contract Award	\$2,188,090.00	
Type of Contract	Cost Reimbursement Contract	
COR/COTR	Clean Rivers Department	



Approach

Contract Monitoring & Compliance Testing

Our audit approach consisted of the following phases:

Understanding of the Process

The purpose of this phase was to gain an understanding of DC Water's contract monitoring and compliance process for the selected contracts. We submitted requests to the CORs and/or COTRs to gain a better understanding of the contract terms and determine how the contract is monitored. Internal Audit conducted walkthroughs with the CORs and COTRs of the contracts selected, the Contractor's Project Manager, and other employees within the Department, as needed.

Detailed Testing

The purpose of this phase was to test compliance and internal controls based on our understanding of the contract terms and conditions. The time period covered by testing was contract award dates through 9/30/2021.

For all contracts selected, Internal Audit conducted the following testing:

- Performed a review of the invoice submission, approval and payment process to verify:
 - Invoices are submitted on a monthly basis.
 - Invoices define the period of service provided and describe the services provided.
 - Invoices went through an approval process before payment was made.
 - Invoices were paid by DC Water within 30 days.
- Verified that DC Water maintained a current Certificate of Insurance for the Contractor, if applicable.
- Reviewed the reporting processes to verify that contractors are submitting required documentation completely and timely, per contractual requirements.
- Examined the monitoring of subcontractors to verify:
 - All required documentation is submitted before payment of invoices.
 - Certified Payrolls are submitted timely by certified contractors/subcontractors.
 - Subcontractor Approval Request forms are approved prior to subcontractor commencing work on the contract.
- Verified that COTRs completed training requirements.

Reporting

At the conclusion of this audit, we summarized our observations related to the contract monitoring and compliance process. We have reviewed the results of our testing with management.



OBSERVATIONS AND RECOMMENDED ACTION

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Observation 1: COTR Training

Risk Rating: Moderate

Observation: Internal Audit determined through inquiry that of a total of 85 COTRs were assigned the training through Dive In, DC Water’s learning and development platform. Of those COTRs assigned training, only 23 COTRs have completed the training to date. An additional 11 COTRs completed the training but had not yet e-signed the final page to receive credit for completion.

Prior to the COVID-19 pandemic, COTR training was administered every other year, which does not allow for newly assigned COTRs to receive appropriate training timely if appointed in an off year. DC Water management implemented a supplementary COTR training available to employees on an on-demand basis, however, the participation in and completion of this training has not been monitored throughout the past fiscal year.

Root Cause Analysis: DC Water does not have effective monitoring in place to identify all COTRs that need to complete the required training, and to verify that all COTRs complete the training timely.

Impact Analysis: Inadequately or improperly trained COTRs may not fulfill their duties and responsibilities specific to their assigned contracts. The lack of formalized training may lead to misunderstanding of critical COTR monitoring duties and may cause DC Water and/or its vendors to become non-compliant with agreed upon contract terms, requirements, and deliverables.

Observation 1: COTR Training

Recommendation: We recommend that DC Water formalize and implement a monitoring process to identify all COTRs that need to complete the required training, track COTR training completion requirements, and consistently enforce completion requirements.

Management Action Plan:

Response: As of October 2021, the COTR training video has been hosted in Dive In, DC Water's system for managing training. COTRs are assigned training via Dive In, and training progress can be monitored.

When a COTR is assigned to a contract, the COTR will be instructed to view the training video if they haven't already done so in the past year. The Category Manager or Senior Sourcing Specialist will be trained to communicate this requirement. Target date: February 1

Once this round of COTR training is substantially completed, the training administration will be assigned within Goods & Services Procurement with oversight by the Director. Target date: March 1, 2022

Responsible Party: Joel Grosser, Director of Procurement

Target Date: March 1, 2022

Observation 2: Insufficient Monitoring of Contractor Requirements

Risk Rating: Low

Observation: For Contract No. 17-0060 the contractor is responsible for updating and submitting weekly and/or monthly reports to DC Water for review. The contractor is required to submit Health and Safety report, Quality Control report, and Quality Control documentation for work performed to the CM-14 database on a monthly basis. For the three monthly invoices selected for review, DC Water management noted that they were only able to retrieve one month's submission of reports out of the three months requested.

Root Cause Analysis: There are monitoring controls designed by DC Water that are not operating effectively.

Impact Analysis: Without consistent monitoring of contractor submittal documentation, DC Water cannot confirm the adequacy of health, safety, and quality requirements at each construction site.

Recommendation: We recommend DETS reinforce the importance of monitoring controls for all projects to confirm receipt of required monthly reports that are submitted separately from the pay applications.

Observation 2: Insufficient Monitoring of Contractor Requirements

Management Action Plan:

Response: The supporting documentation reviewed required for approval of payments under Contract No. 170060 should be considered as a “one off” since further review of similar contracts in the branch demonstrated the required process. We believe the below specified process is effective; consistency in application of the process to all contracts needs focus. The following documents are being provided by the contractor to the respective reviewer and the project manager on other projects:

- The Safety & Health reports are submitted via email to the Dept. of Occupational Safety & Health, separately as part of the preliminary invoice review process.
- The Quality report, quality material testing & sampling data and the preliminary invoice are submitted by the contractor to the project manager for review through CM-14.

Once the required documentation is deemed accurate and the preliminary invoice is approved, the contractor is notified the final invoice can be submitted for processing.

It is noted that there is a need for consistency in the application of the specified process for payment approval across the branch for capital projects. Specifically, for Contract No. 170060 DETS will re-introduce specified requirements for payment approval; required documentation and responsible party performing the review for uniformity of process.

Responsible Party: Deidre Saunders, Construction Sr Manager

Target Date: March 4, 2022

Observation 3: Late Invoice Payment

Risk Rating: Low

Observation: Timely vendor invoice payment is required for each contract either through specific contract language, or pursuant to the District of Columbia Municipal Regulations Title 1, Chapter 1707.2 which requires payment to be made by the 30th day after the receipt of a proper invoice by the designated payment officer for all other goods and services contracts.

For the two in-scope contracts, Internal Audit reviewed a sample of invoices that were received between contract effective date through September 30, 2021. Based upon our testing, it was identified that for Contract No. 17-0060, invoice #1 was not paid within 30 days of invoice approval. The invoice was approved and submitted to Accounts Payable on June 30, 2021; however, the invoice was paid 42 days after receipt.

Root Cause Analysis: Although DETS requested the purchase order for this contract timely, Accounts Payable had an issue linking the PO to the invoice within Oracle when attempting to process payment. Procurement assisted in resolving the issue, but the back and forth to resolve led to a delay in invoice processing.

Impact Analysis: The risks associated with late invoice payments include non-compliance with DC Water Accounts Payable policy and potential violation of contract requirements that could result in penalties of interest or late fees, along with diminished vendor relationships.

Recommendation: The implementation of the new ERP was the key driver of this issue. Through the continued use of Oracle and continued tracking of Accounts Payable on-time payment metrics, we believe the root cause of this issue to have already been resolved.

Management Action Plan: N/A – resolved since issue occurred. See recommendation for additional detail.

Appendix A – Rating Definitions

RSM defined observations based on the following risk rating definitions:

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

RSM US LLP

1250 H St NW
Washington, DC 20005

+1 800 274 3978
www.rsmus.com

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