



District of Columbia Water and Sewer Authority Board of Directors

Audit and Risk Committee January 22, 2026 / 09:30am

Microsoft Teams meeting

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1. **Call to Order**..... Christopher Herrington, Chairperson
2. **Roll Call**..... Michelle Rhodd, Board Secretary
3. **[DC Water's FY25 Audited Financial Statement Performance](#)**..... [Henok Getahun, Controller](#)
4. **[FY25 Financial Statement and Uniform Guidance Audit Results](#)**..... [SB& Company, LLC](#)
5. **[Internal Audit Update](#)**..... [Cherry Bekaert](#)
 - A. FY 2026 Internal Audit Plan Status Update
 - B. Status Update on Prior Audit Findings
 - C. Hotline Update
6. **[ERM and Non-Revenue Water Update](#)** [Francis Cooper, Director EPMO, and Chris Collier, VP Water Operations](#)
7. **Executive Session*** Christopher Harrington, Chairperson
8. **Adjournment**..... Christopher Herrington, Chairperson

This meeting is governed by the Open Meetings Act. Please address any questions or complaints arising under this meeting to the Office of Open Government at opengovoffice@dc.gov.

1The 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 certain matters, including but not limited to: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); terms for negotiating a contract, including an employment contract, under D.C. Official Code § 2-575(b)(2); obtain legal advice and preserve attorney-client privilege or settlement terms under D.C. Official Code § 2-575(b)(4)(A); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security matters 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); third-party proprietary matters under D.C. Official Code § 2-575(b)(11); train and develop Board members and staff under D.C. Official Codes § 2- 575(b)(12); adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters or violations of laws or regulations where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14); and other matters provided under the Act.



FY 2025 Financial Statements

Presentation to Audit and Risk Committee, January 22, 2026

Henok Getahun, Controller

District of Columbia Water and Sewer Authority





Purpose

- 💧 Review results of DC Water's fiscal year 2025 audited financial statement



Highlights

- DC Water received an unmodified (“clean”) audit opinion from our external auditors, SB and Company
 - This was the fifth audit completed in the Oracle financial system
- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 28th consecutive year for the 2024 Annual Comprehensive Financial Report
- DC Water also received, for the third time, the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its Fiscal Year 2024 annual financial report.
 - *Special thanks to Office of Marketing and Communications for their work on the PAFR*





Highlight – GASB

During FY 2025 DC Water adopted the following new standards issued by Governmental Accounting Standard Board (GASB):

- Statement No. 101, Compensated Absences
 - Requirement: Governments to recognize and measure a liability for compensated absences attributable to past service that are payable or likely to be used for time off
 - Implementation: DC Water restated prior year financial statement to record a \$8.7 million accrual for union sick leave balances deemed more likely than not to be used

- Statement No. 102, Certain Risk Disclosures
 - Requirement: Governments to disclose information about certain risks related to concentrations or constraint that could make them vulnerable to substantial financial impact.
 - Implementation: Potential risks that may arise from concentration and constraints have been assessed and have concluded that there are no material risks that require disclosure





Financial Overview

- 💧 DC Water's financial position remains strong and continues to grow
- 💧 The net position increased to \$3.8 billion – an increase of \$345.9 million, or 10.0%, over FY 2024
 - This is driven by current year operating result and capital contributions
- 💧 Total revenues increased to \$1.1 billion – an increase of \$35.4 million, or 3.4%
 - Primarily due to \$10 million increase in capital contributions and retail water rate increase of 8%
- 💧 Total expenses, including depreciation and interest expenses, increased to \$731.0 million – an increase of \$8.9 million, or 1.2%
 - Due to increased in cost of personnel services, electricity, water purchases and depreciation offset by decreased in interest expense

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
Statements of Net Position
As of September 30, 2024
(In thousands)

	2024	2023
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 236,104	\$ 233,200
Investments	172,872	185,000
Restricted cash and cash equivalents	247,133	228,000
Restricted investments	10,114	—
Contract receivables, net of allowance for doubtful accounts	115,986	112,950
Due from other jurisdictions	11,934	9,705
Due from Federal government	120,536	131,854
Due from District government	1,431	8,715
Inventory	28,813	21,857
Prepaid assets	15,439	17,410
Total current assets	954,492	907,931
Non-current assets		
Restricted assets:		
Cash and cash equivalents	—	145,913
Investments	303,714	4,415
Total restricted cash and cash equivalents and investments	303,714	148,398
Capital assets		
In service	9,867,196	8,482,166
Less accumulated depreciation	(2,651,807)	(2,503,170)
Net capital assets in service	7,215,389	5,978,996
Construction in progress	1,910,860	1,862,347
Net capital assets	9,126,249	7,841,343
Due from other jurisdictions	6,807	6,054
Total non-current assets	9,133,056	7,853,403
Total assets	18,677,548	16,931,334
Deferred Outflows of Resources		
Deferred assets on debt refunding	76,172	80,080
Total assets and deferred outflows of resources	18,753,720	17,011,414
Liabilities		
Current liabilities:		
Accounts payable	908	147,329
Unearned revenue	—	41,539
Accounts payable	—	64,852
Contract liabilities	—	50,000
Current debt	—	74,457
Due to other jurisdictions	13,071	13,071
Compensation payable	14,626	14,626
Total current liabilities	18,625	395,873
Long-term liabilities		
Long-term debt	9,708,742	9,708,742
Other long-term liabilities	9,419	9,419
Total long-term liabilities	9,718,161	9,718,161
Total liabilities	9,736,786	10,114,034
Deferred liabilities		
Deferred liabilities on debt refunding	73,591	73,591
Total liabilities and deferred liabilities	9,810,377	10,187,625
Net Position		
Net investments in capital projects	3,189,817	2,643,709
Restricted for:		
Capital projects	13,177	13,177
Debt service	77,719	77,719
Unrestricted	5,587,837	5,197,809
Total net position	\$ 3,868,553	\$ 3,441,115

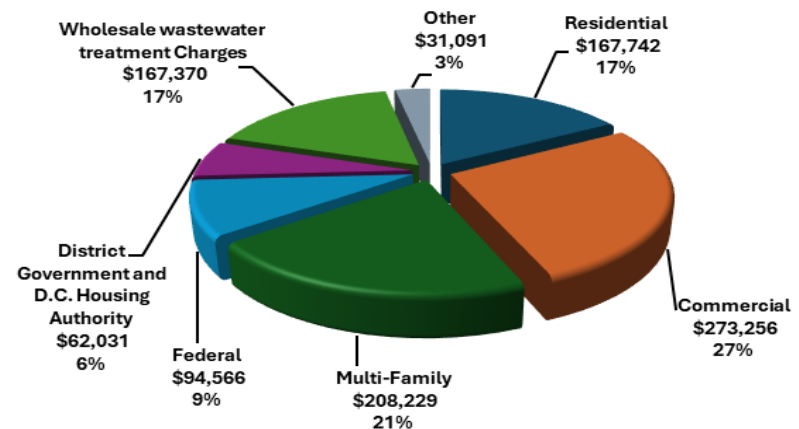


Operating Revenues

- The Authority's operating revenues increased \$26.3 million (2.7%) to \$1.0 billion, driven by:
 - Residential, commercial and multi-family, and the District revenues increased due to rate adjustments
 - Wholesale wastewater treatment revenues increased due to higher operating expense and IMA annual settlement
 - Federal revenue declined as consumption normalized in 2025 following leak repairs that had temporarily increased usage in 2024
 - Other income declined due non-receipt of the Build America Bonds(BAB) subsidy of \$5 million in FY2025

Revenues remain diversified

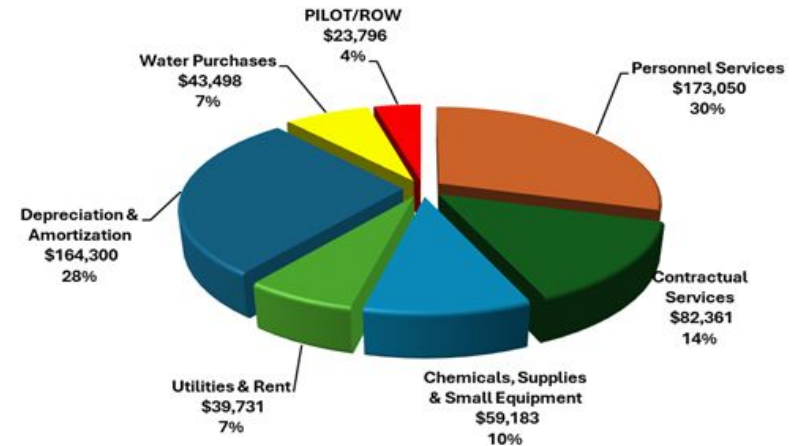
(\$in thousands)	2025	2024	\$ Variance	% Variance
Residential, commercial and multi-family customers	\$ 637,161	\$ 611,963	\$ 25,198	4.1%
Federal government	94,566	106,502	(11,936)	-11.2%
District government and D.C. Housing	62,031	58,447	3,584	6.1%
Charges for wholesale wastewater treatment	167,370	152,701	14,669	9.6%
Other	43,156	48,369	(5,213)	-10.8%
Total operating revenues	\$ 1,004,284	\$ 977,982	\$ 26,302	2.7%





Operating Expenses

- 💧 The Authority's operating expenses increased by \$25.2 million (4.5%) to \$585.9 million
 - Depreciation & amortization increased as the Northeast Boundary Tunnel costs were transferred from construction in progress to in-service
 - Increased O&M costs for personnel, utilities and rent, and water purchases
 - Utility increased due to higher unit cost of electricity
 - Water purchases increased due to higher operating cost of the Washington Aqueduct
 - Chemicals, supplies and small equipment expenses decreased due to lower chemical costs, partially offset by higher costs for critical supplies and parts used for operations



(\$in thousands)	2025	2024	\$ Variance	% Variance
Personnel Services	\$ 173,050	\$ 167,274	\$ 5,776	3.5%
Contractual Services	82,361	81,621	740	0.9%
Chemicals, Supplies & Small Equipment	59,183	60,370	(1,187)	-2.0%
Utilities & Rent	39,731	34,202	5,529	16.2%
Depreciation & Amortization	164,300	154,897	9,403	6.1%
Water Purchases	43,498	38,904	4,594	11.8%
PILOT/ROW	23,796	23,430	366	1.6%
Total Operating Expenses	\$ 585,919	\$ 560,698	\$ 25,221	4.5%



Change In Net Position

- The Authority's net position increased by \$345.9 million (or 10.0%) to \$3.8 billion
- Net position increased as a result of:
 - Current year operations (revenues and expenditures)
 - Capital contributions mostly Federal grants and appropriations, and contributions

(\$ in thousands)	2025	2024
Operating revenues	\$ 1,004,284	\$ 977,982
Operating expenses	585,919	560,698
Net nonoperating expenses	(119,021)	(133,698)
Change in net position before capital contributions	299,344	283,586
Capital contributions	46,583	35,831
Change in net position	345,927	319,417
Net position, beginning of year	3,443,183	3,123,766
Net position, end of year	\$ 3,789,110	\$ 3,443,183



Cash and Investment Overview

- 💧 Total restricted and unrestricted cash and investment was \$959.0 million
 - Unrestricted cash and investments increased to \$398.8 million vs. \$388.9 million in FY 2024
 - Includes Board-required cash reserves and the Rate Stabilization Fund
 - Use is restricted by the Trust Indenture and Board policies
 - Restricted cash and investments increased to \$560.2 million vs. \$374.5 million in FY 2024 due to bond issuances in FY 2025, bond principal repayments and bond drawdowns in FY 2025
 - Mainly bond proceeds that will be drawn down to fund capital projects
 - Use is externally restricted by debt covenants



Net Capital Assets

- Net capital assets, including construction in progress less depreciation, increased by \$461.2 million, or 5.4%, to \$9.0 billion
 - Blue Plains, at \$3.5 billion, is the largest capital investment
 - There is \$1.8 billion worth of construction in progress, including Clean Rivers, Enhanced Clarification Facilities, Potomac Interceptor Projects - Rehabilitation Phase 2, and Lead-Free DC Project

(\$ in thousands)	2025	2024	2023
Wastewater treatment plant	\$ 3,498,674	\$ 3,458,793	\$ 3,425,716
Wastewater collection facilities	1,134,279	1,124,918	1,113,072
Water distribution system	1,679,731	1,571,735	1,326,108
Deep tunnel system	2,382,554	1,269,654	1,269,654
Purchased capacity	475,077	454,759	425,995
Buildings	146,847	84,926	84,903
Capital equipment	480,248	457,252	433,426
Right to use assets (SBITA)	69,786	60,949	52,892
Construction in progress	1,819,890	2,582,242	2,410,601
Less accumulated depreciation	(2,665,807)	(2,505,170)	(2,356,614)
Net capital assets	<u>\$ 9,021,279</u>	<u>\$ 8,560,058</u>	<u>\$ 8,185,753</u>



Debt Administration

- 💧 At the end of fiscal year 2025, the Authority's long-term debt totaled approximately \$4.1 billion, an increase of \$253.3 million, or 6.7%, due to the issuance of new bonds
 - Over the next ten years, DC Water anticipates issuing \$3.3 billion in new debt to pay for the capital program
- 💧 The combined debt service coverage ratio for fiscal year 2025 was 2.4 times, demonstrating strong financial capacity and the ability to service debt

(\$ in Thousands)	Balance 9/30/2025	Balance 9/30/2024	Balance 9/30/2023
Outstanding bonds and notes	\$ 3,862,451	\$ 3,597,195	\$ 3,717,967
Unamortized bond premiums	228,716	237,175	235,144
Unamortized bond discounts	(1,063)	(1,191)	(1,320)
Total bonds and notes	<u>\$ 4,090,104</u>	<u>\$ 3,833,179</u>	<u>\$ 3,951,791</u>



Conclusion

- 💧 DC Water received a clean audit opinion for the 29th year in a row, reflecting our commitment to financial transparency and excellence
 - The 5th audit in the Oracle financial system
- 💧 Net position continues to grow, driven by strong operations and strategic infrastructure investments at DC Water
- 💧 Audit results reaffirm sound financial policies and management's commitment to maintaining strong financial performance and metrics





SB & Company, LLC

District of Columbia Water & Sewer Authority September 30, 2025

January 22, 2026
Audit Committee Meeting



January 22, 2026

Dear Audit Committee Members and Board of Directors
of the District of Columbia Water and Sewer Authority:

We are pleased to present the results of our audit of the financial statements. The purpose of our audit is to express an opinion on whether the financial statements presents fairly, within materiality, the financial position and results of operations of the Authority in accordance with generally accepted accounting principles. As part of our audit, we considered the internal controls 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 controls.

This Report to the Audit Committee Members and Board of Directors summarizes our audit process, results of the audit, our observations, and required communications by either the profession or our firm.

This audit was designed to express an opinion on the financial statements. We considered, and will continue to consider, the current and emerging business needs, along with an assessment of risk that could materially affect the financial statements and aligned with our audit procedures accordingly. We conducted the audit with the objectivity and independence that you, the Committee, and the users of your financial statements expect.

We received the full support and assistance of the personnel. This report is intended solely for the information and use of the members of the Audit Committee, the Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

At SB & Company, LLC, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to evaluate our services and communicate back to us your evaluation of our services and how we can better exceed your expectations. This communication is most important to us as it will ensure that we do not overlook a single detail as it relates to the quality of our services.

We appreciate this opportunity to meet with you.

Very truly yours,

By: 
Graylin Smith
SB & Company, LLC

10200 Grand Central Avenue, Suite 250
Owings Mills, MD 21117
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Washington, DC 20005
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Key Engagement Team Members

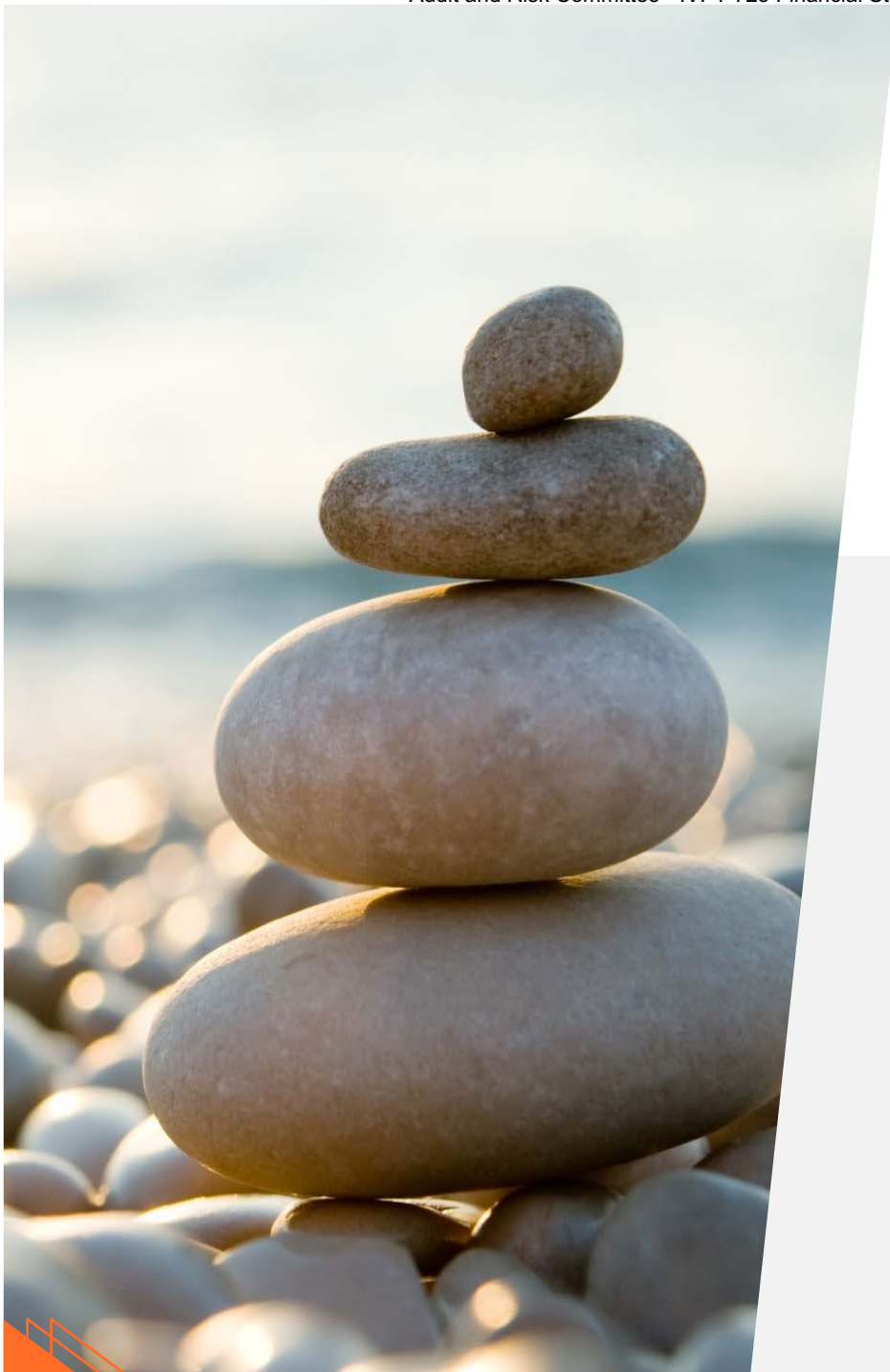
Introduction of SBC Team Present

- ▶ Gray Smith – Engagement Partner
- ▶ Chris Lehman – Audit Partner
- ▶ Richard Lee – Engagement Senior Manager
- ▶ Jamarr Bailey – Audit Manager
- ▶ Yuwen Tian – Engagement Senior

Other Key Members Not Present

- ▶ Monique Booker – Advisory Partner
- ▶ Bill Seymour – Concurring Partner
- ▶ Julie Paris – IT Risk Manager





Scope of Services

- ▶ Audited financial statements as of and for the year ended September 30, 2025 (issued December 22, 2025)
- ▶ Annual Comprehensive Financial Report for 2025
- ▶ Federal Awards OMB Uniform Guidance Single Audit
- ▶ Management Letter
- ▶ Review of the Annual Green Bond Report
- ▶ Agreed-Upon Procedures on Second Quarters' financial statements
- ▶ Consent letter, if requested, related to bond issue
- ▶ Available to answer accounting, reporting, internal controls, federal grant, and other related questions if requested





Summary of the Results

- ▶ First year of our audit – additional procedures required
- ▶ Issued an unmodified opinion
- ▶ No audit adjustments
- ▶ No material weakness
- ▶ Issued opinion within planned timing
- ▶ Received management's full cooperation
- ▶ Did not discover or made aware of any material fraud
- ▶ Provided management with housekeeping suggestions
- ▶ Adopted a new accounting standard
- ▶ Single audit in process
- ▶ Green Bond report in process

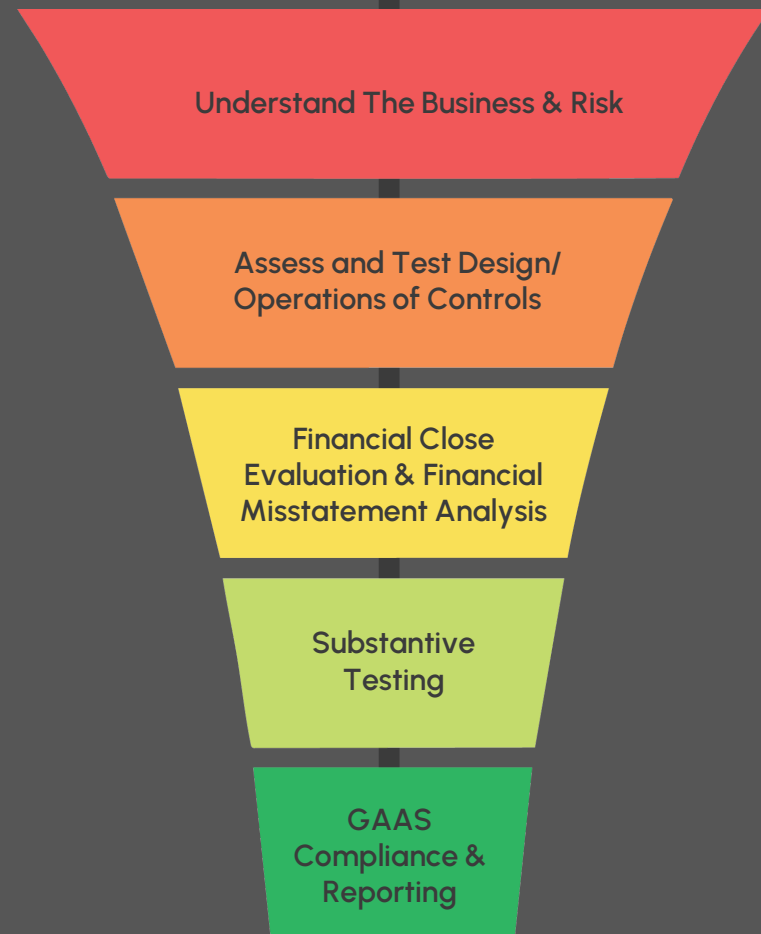


FORCAM Audit Approach

🔍 Focus On Risk, Controls, Account Misstatement

Audit Goals

- ▶ Detect Financial Statement Misstatements
- ▶ Detect Error:
 - ▶ Accounting Principle
 - ▶ Estimate
 - ▶ Information Processing
 - ▶ Account Balances
 - ▶ Footnote Disclosures
- ▶ Risk Mitigation Process:
 - ▶ Understand
 - ▶ Evaluate
 - ▶ Verify Facts
- ▶ Fraud
- ▶ Business Failure
- ▶ Business Improvement Opportunities
- ▶ Client Expectations




Significant Accounts & Processes

How we evaluate the process by which a client's financial transactions result in financial statements.



Significant Audit Risk for the Authority

- 
- 
- ▶ Cash and cash equivalents
 - ▶ Investments
 - ▶ Inventory
 - ▶ Accounts receivables and allowance
 - ▶ Capital assets
 - ▶ SBITA's
 - ▶ Accounts payable
 - ▶ Salary accrual
 - ▶ Compensated absence
 - ▶ Other accrued liabilities
 - ▶ Unearned revenue
 - ▶ Debt
 - ▶ Deferred debt gains/losses
 - ▶ Defeasement accounting
 - ▶ Restricted net position
 - ▶ Water and wastewater charges
 - ▶ Federal government revenue
 - ▶ DC Housing Authority revenue
 - ▶ Wholesale wastewater treatment
 - ▶ Other revenue
 - ▶ Salary, wages, and related charges
 - ▶ Disbursement expenses
 - ▶ Depreciation and amortization
 - ▶ Interest expenses
 - ▶ Footnote disclosures

Evaluation of Control Environment

Area	Points to Consider		Effectiveness
Control Environment	<ul style="list-style-type: none"> ▶ Key executive integrity, ethics and behavior ▶ Control consciousness and operating style ▶ Commitment to competence ▶ Exercise oversight responsibility 	<ul style="list-style-type: none"> ▶ Organizational structure, responsibility, and authority ▶ Enforce accountability ▶ HR policies and procedures 	✓
Risk Assessment	<ul style="list-style-type: none"> ▶ Define objectives and risk tolerances ▶ Identify, analyze, and respond to risk ▶ Assess fraud risk ▶ Identify, analyze, and respond to change 	<ul style="list-style-type: none"> ▶ Mechanisms to anticipate, identify, and react to significant events ▶ Processes and procedures to identify changes in GAAP, business practices, and internal controls 	✓
Control Activities	<ul style="list-style-type: none"> ▶ Design control activities ▶ Design activities for the information system ▶ Implement control activities ▶ Existence of necessary policies and procedures ▶ Clear financial objectives with active monitoring ▶ Logical segregation of duties 	<ul style="list-style-type: none"> ▶ Periodic comparisons of book-to-actual and physical count-to-books ▶ Adequate safeguards of documents, records, and assets ▶ Assess controls in place 	✓
Information and Communication	<ul style="list-style-type: none"> ▶ Use quality information ▶ Communicate internally ▶ Communicate externally ▶ Adequate performance reports produced from information systems ▶ Information systems are connected with business strategy 	<ul style="list-style-type: none"> ▶ Commitment of HR and finance to develop, test, and monitor IT systems and programs ▶ Business continuity and disaster plan for IT ▶ Established communication channels for employees to fulfill responsibilities ▶ Adequate communication across organization 	✓
Monitoring Activities	<ul style="list-style-type: none"> ▶ Perform monitoring activities ▶ Remediate deficiencies ▶ Periodic evaluations of internal controls ▶ Internal Audit function 	<ul style="list-style-type: none"> ▶ Implementation of improvement recommendations ▶ Compliance review 	✓



Evaluation of Key Processes

Process	Function	Understand	Evaluate	Effectiveness
Treasury	Cash Management	✓		
	Investment Accounting	✓	✓	✓
	Investment Monitoring	✓		
	Investment Valuation	✓		
	Investment Policy	✓	✓	✓
	Reconciliation	✓	✓	✓
	Debt Accounting	✓		
	Debt Compliance	✓		
Estimation	Methodology	✓	✓	✓
	Information	✓	✓	✓
	Calculation	✓	✓	✓
Financial Reporting	Accounting Principles and Disclosure	✓	✓	✓
	Financial Statement Preparation	✓	✓	✓
	Closing the Books	✓		
	Consolidation	✓		
	General Ledger and Journal Entry Processing	✓	✓	✓
	Verification and Review of Results	✓		
Expenditures	Vendor File Maintenance	✓		
	Purchasing	✓	✓	✓
	Receiving	✓	✓	✓
	Accounts Payable and Cash Disbursement	✓	✓	✓



Evaluation of Key Processes

Process	Function	Understand	Evaluate	Effectiveness
Payroll	Hiring	✓		
	Sensitive Data Control	✓		
	Attendance Reporting	✓	✓	✓
	Payroll Accounting and Processing	✓	✓	✓
	Payroll Disbursements	✓	✓	✓
	Separation	✓	✓	✓
Procurement	Bidding	✓	✓	✓
	Contract Issuance	✓		
	Contract Monitoring	✓	✓	✓
Purchase Cards	Card Issuance and Collection	✓	✓	✓
	Training	✓	✓	✓
	Purchase Approval and Accounting	✓	✓	✓
	Monitoring	✓	✓	✓
	Travel and Entertainment Reimbursement	✓	✓	✓
	Card Termination	✓		



Evaluation of Key Processes

Process	Function	Understand	Evaluate	Effectiveness
Revenue	Meter Reading	✓	✓	✓
	Exception Investigation and Follow Up	✓		
	Budget Billing	✓		
	Billing Reconciliation	✓	✓	✓
	Billing	✓	✓	✓
	Cash Receipts	✓	✓	✓
	Revenue Recognition	✓	✓	✓
	Cutoff	✓	✓	✓
Fixed Assets	Physical Custody	✓		
	Capital Project Management	✓	✓	✓
	Capitalization Policy	✓	✓	✓
	Asset and Construction in Process Accounting	✓	✓	✓
	Depreciation	✓	✓	✓
	Asset Retirement, Disposal, and Impairment	✓		
Compliance	Assess Internal and External Risk	✓		
	Regulatory Compliance	✓		
	Monitor Compliance	✓		
	Compliance	✓		



Evaluation of Key Processes

Process	Function	Understand	Evaluate	Effectiveness
Grant Compliance	Acceptance	✓	✓	✓
	Grant Oversight	✓		
	Compliance	✓	✓	✓
	Reporting	✓	✓	✓
	Monitoring	✓		
	Accounting	✓	✓	✓
	Billing and Collection	✓		
	Grant Close Out	✓		
Internal Audit	Audit Plan	✓		
	Report Results	✓		
	Findings Follow Up	✓		
Information Technology	Computer Operations	✓	✓	✓
	Segregation of Duties and Management Oversight	✓	✓	✓
	Information Security and Transaction Authorization	✓	✓	✓
	Program Integrity and Change Management	✓	✓	✓
	Application Controls – Expenditure, Payroll, and Revenue	✓	✓	✓
	Cyber Mitigation and Recovery	✓		
	Third-Party Vendor Controls	✓	✓	✓
	Monitor Third-Party Vendor Controls	✓		
	User Controls	✓	✓	✓



Assessment of Internal Controls

Scope of Internal Controls Testing

- ▶ The purpose of our audit was to express an opinion on the financial statements that they are not materially misstated within GAAP
- ▶ Determine if designed and operations of key controls were effective in mitigating significant financial statement misstatement risk
- ▶ Our audit included consideration of internal controls 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 controls.
- ▶ Level of testing and evaluation of the design and operating effectiveness is based on the level of risk, materiality, perceived strength of controls, and auditor's reliance on specific controls
- ▶ To evaluate a control, we understand the control, perform a walkthrough of the process, and test transactions to determine if controls worked during the year
- ▶ Required to report significant deficiencies and material weaknesses in internal controls
- ▶ Other deficiencies or suggestions noted during the audit that are of a lesser magnitude than a material weakness or significant deficiency have been communicated to management.
- ▶ Our consideration of internal controls was not designed to identify all deficiencies in internal controls that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified



Meaning of Types of Control Deficiencies

Material Weakness

A deficiency, or a combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the 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 probable. Reasonably possible is defined as the chance of the future 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 controls over financial reporting or compliance that is less severe than a material weakness yet important enough to merit attention by those charged with governance.



Financial Statement Highlights

Summary of Net Position (in thousands)

Description	As of September 30,			2025 vs 2024	
	2025	2024 (Restated)	2023 (Restated)	Amount	%
Current assets	\$ 954,492	\$ 907,260	\$ 847,979	\$ 47,232	5.2
Restricted assets	302,714	148,398	325,839	154,316	104.0
Capital assets	9,021,279	8,560,058	8,185,753	461,221	5.4
Other noncurrent assets	6,897	6,054	12,402	843	13.9
Total assets	10,285,382	9,621,770	9,371,973	663,612	6.9
Deferred outflows of resources	76,372	80,980	85,588	(4,608)	(5.7)
Current liabilities	484,109	458,423	499,799	25,686	5.6
Long-term debt outstanding	4,012,046	3,758,742	3,876,155	253,304	6.7
Long-term liabilities	1,999,859	1,966,811	1,931,226	33,048	1.7
Total liabilities	6,496,014	6,183,976	6,307,180	312,038	5.0
Deferred inflows of resources	76,630	75,591	26,617	1,039	1.4
Net investments in capital assets	3,189,837	2,875,021	2,622,251	314,816	11.0
Restricted for:					
Capital projects	13,177	13,005	7,958	172	1.3
Debt service	77,719	73,727	76,260	3,992	5.4
Unrestricted	508,377	481,430	417,295	26,947	5.6
Total net position	\$ 3,789,110	\$ 3,443,183	\$ 3,123,764	\$ 345,927	10.0



Financial Statement Highlights

Change in Net Position (in thousands)

Description	Fiscal Years			2025 vs 2024	
	2025	2024	2023	Amount	%
Operating revenues	\$ 1,004,284	\$ 977,982	\$ 898,763	\$ 26,302	2.7
Operating expenses	585,919	560,698	545,310	25,221	4.5
Net non-operating expenses	(119,021)	(133,698)	(125,515)	14,677	(11.0)
Change in net position before capital contributions	299,344	283,586	227,938	15,758	5.6
Capital contributions	46,583	35,831	29,519	10,752	30.0
Change in net position	345,927	319,417	257,457	26,510	8.3
Net position - beginning of year, as restated	3,443,183	3,123,766	2,866,307	319,417	10.2
Net position - end of year	<u>\$ 3,789,110</u>	<u>\$ 3,443,183</u>	<u>\$ 3,123,764</u>	<u>\$ 345,927</u>	10.0



Financial Statement Highlights

Revenues by Major Source (in thousands)

Description	Fiscal Years			2025 vs 2024	
	2025	2024	2023	Amount	%
Operating revenues:					
Water and wastewater user charges:	\$ 793,758	\$ 776,912	\$ 701,804	\$ 16,846	2.2
Charge for wholesale wastewater treatment	167,370	152,701	152,755	14,669	9.6
Other	43,156	48,369	44,204	(5,213)	(10.8)
Total operating revenues	1,004,284	977,982	898,763	26,302	2.7
Nonoperating revenues					
Interest income	26,081	27,757	20,878	(1,676)	6.0
Total revenue before capital contributions	1,030,365	1,005,739	919,641	24,626	2.4
Capital contributions	46,583	35,831	29,519	10,752	30.0
Total revenues	\$ 1,076,948	\$ 1,041,570	\$ 949,160	\$ 35,378	3.4



Financial Statement Highlights

Change in Cash Flows (in thousands)

	Fiscal Years		
	2025	2024	2023
Cash flows from operating activities	\$ 529,116	\$ 511,498	\$ 460,857
Cash flows from capital and related financing activities	(353,091)	(681,327)	(549,502)
Cash flows from investing activities	(295,801)	295,362	(55,197)
Net (decrease) increase in cash and cash equivalents	\$ (119,776)	\$ 125,533	\$ (143,842)



Financial Statement Highlights

Fiscal Year 2024 Restatement for Compensated Absences (in thousands)

Description	Restated Statement of Net Position		
	As Previously Reported	Restated as of September 30, 2024	2024 (Restated)
Compensated absence payable	\$ 17,190	\$ 8,740	\$ 25,930
Net position, beginning of year	3,132,504	(8,740)	3,123,764
Net position, end of year	3,451,921	(8,740)	3,443,181



Financial Statement Highlights

Significant Current Year Transactions

- ▶ Adoption of GASB No. 101, *Compensated Absences*
- ▶ Adoption of GASB No. 102, *Certain Risk Disclosures*
- ▶ Debt issue, including defease of debt

New Pronouncements to Be Adopted in the Future

GASB No.	Title	Adoption Date Beginning
103	Financial Reporting Model Improvements	June 15, 2025
104	Disclosure of Certain Capital Assets	June 15, 2025
105	Subsequent Events	June 15, 2026



Uniform Guidance Compliance Audit

Scope of Compliance Audit

- ▶ Express 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
- ▶ Review the system of internal controls and compliance related to federal grant reporting and compliance requirements

Major Programs Tested

FALN 66.468, Safe Drinking Water and Infrastructure Investment and Jobs Act Program	\$ 30,794,500
FALN 66.418, Constructions Grants for Wastewater Treatment Works	6,572,500
Total federal assistance tested	<u>\$ 37,367,000</u>
Total federal assistance dollars received	<u>\$ 71,780,580</u>
Test percentage of federal assistance	52.0%

Compliance Audit Results

- ▶ As the audit is currently in process, we will provide a verbal update
- ▶ The Authority is considered a low-risk auditee and requires coverage of at least 20% of federal grant expenditures



Required Communications

1. Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

- ▶ *The significant accounting policies used by management are described in the notes to the financial statements and all were appropriate.*

3. Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

- ▶ *We have reviewed the significant accounting policies adopted by the Authority and have determined that those policies are acceptable accounting policies.*

4. Audit Adjustments

We are required to inform the Authority's oversight body about adjustments arising from the audit (whether recorded or not) that could in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process. We also are required to inform the association's oversight body about unadjusted audit differences that were determined by management to be, individually and in the aggregate, immaterial.

- ▶ *There were no adjustments identified during the audit process.*



Required Communications

5. Fraud and Illegal Acts

We are required to report to the Authority's oversight body any fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

- ▶ *Our procedures identified no instance of fraud or illegal acts.*

6. Material Weaknesses in Internal Controls

We are required to communicate all significant deficiencies in the Authority's systems of internal controls, whether or not they are also material weaknesses.

- ▶ *There were no material weaknesses noted during the audit.*

7. Other Information in Documents Containing Audited Financial Statements

We are required to review other documents that contain the audited financial statements looking for inconsistencies with information in the audited statements.

- ▶ *We will review the ACFR and Green Bond report for inconsistencies with the financial statements before they are issued.*

8. Disagreements with Management on Financial Accounting and Reporting Matters

- ▶ *None.*

9. Serious Difficulties Encountered in Performing the Audit

- ▶ *None.*

10. Major Issues Discussed with Management Prior to Acceptance

- ▶ *None, other than our normal new client acceptance procedures.*

11. Management Representations

- ▶ *We will receive written representations from management as part of the completion of the audit. There were no unusual representations provided to us.*

12. Consultation with Other Accountants

- ▶ *To our knowledge, there were no consultations with other accountants since our appointment as the Authority's independent public accountants.*



Required Communications

13. Independence

As part of our client acceptance process, we go through a process to ensure we are independent of the organization.

- ▶ ***We are independent of the Authority.***

14. Non-attest Services

We are required to report all non-attest services we performed during the year.

- ▶ ***We did not perform any non-attest services for the Authority.***

15. Subsequent Events

We are required to evaluate material subsequent events or transactions after year end until the date of our opinion that may require an adjustment to the financial statements or additional footnote disclosure.

- ▶ ***Are you aware of any subsequent events that would require an adjustment or additional disclosure to these financial statements? Are you aware of any such subsequent event or transaction?***

16. Our Responsibility Related to Fraud

We must:

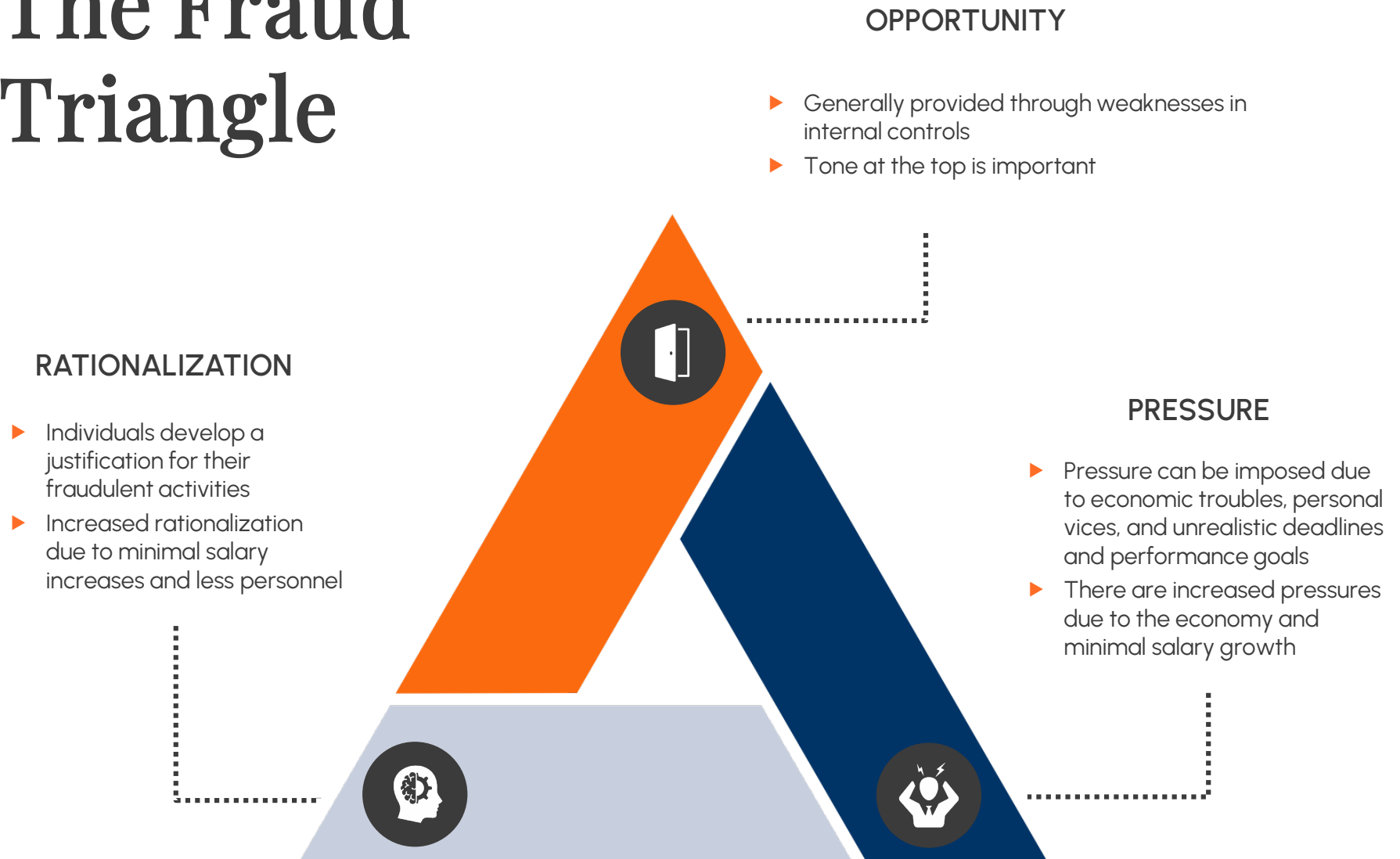
- Plan and perform the audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud;
- Comply with AU-C Section 240: Consideration of Fraud in a Financial Statement Audit;
- Approach all audits with an understanding that fraud could occur in any entity, at any time, by anyone; and
- Perform mandatory procedures required by GAAS and our firm policies.

▶ ***Examples of Procedures Performed***

- ▶ ***Discuss thoughts and ideas on where the financial statements might be susceptible to material misstatement due to fraud;***
- ▶ ***Understand pressures on the financial statement results;***
- ▶ ***Understand the tone and culture of the organization;***
- ▶ ***Look for unusual or unexpected transactions, relationships, or procedures;***
- ▶ ***Discussions with individuals outside of finance;***
- ▶ ***Evaluate key processes and controls;***
- ▶ ***Consider information gathered throughout the audit; and***
- ▶ ***Apply professional skepticism.***



The Fraud Triangle



Responsibility for Mitigating Fraud

1. Management:

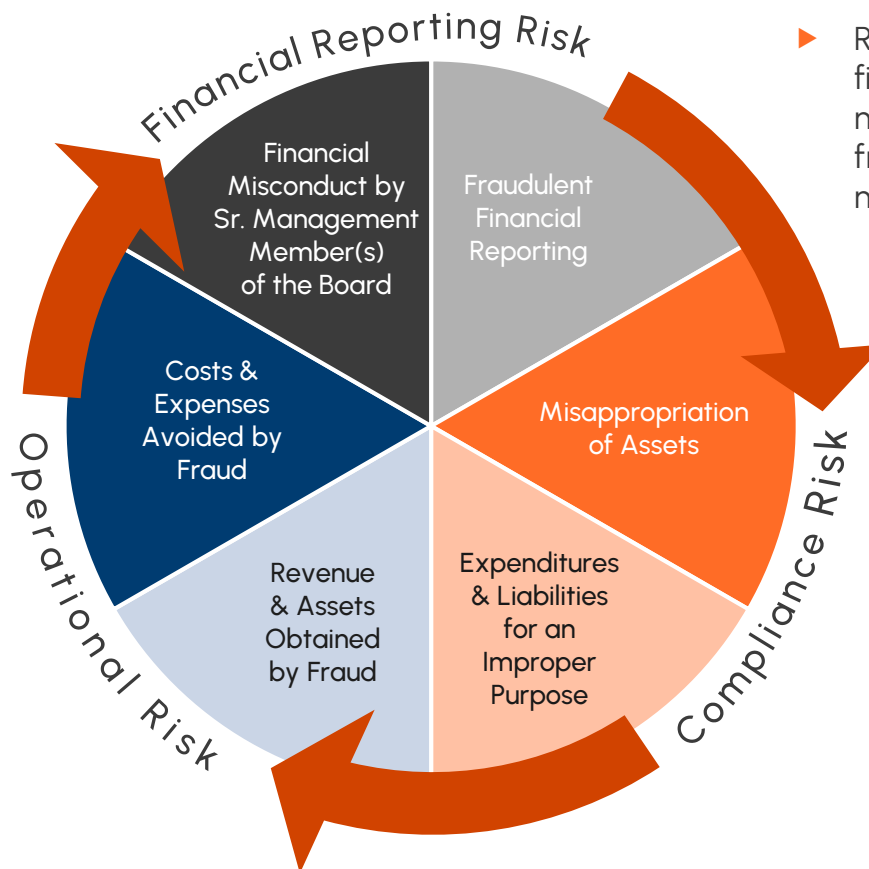
- ▶ CFO/Controller: controls to deter and detect fraud
- ▶ General Counsel/ Compliance: monitoring

2. Audit Committee:

- ▶ Evaluate management identification of fraud risk and mitigation
- ▶ Evaluate implementation of fraud controls
- ▶ Reinforce "tone at the top"
- ▶ Conduct special investigations

3. External Auditor:

- ▶ Evaluate management programs and controls to deter and detect fraud for identified risks
- ▶ Reasonable assurance that financial statements are free of material misstatement due to fraudulent financial reporting or misappropriation of assets
- ▶ Compliance with fraud standard (SAS 99)
 - ▶ Conversations with finance and operations personnel
 - ▶ Disaggregated analytics
 - ▶ Surprise audit procedures
 - ▶ Journal entry testing



Bullseye Service Philosophy

Our Bullseye Philosophy – Foundation for Driving Outstanding Client Service

SBC is piloted by a set of standards that emphasize our most essential core value: quality. Our **Bullseye Philosophy** drives our overall objective to deliver quality across four parameters:

Product/Deliverable

Provide the technical advice and depth to not only generate accurate, comprehensive, and compliant financial statements and reports, but are aesthetically professional and delivered in a timely manner.

Client Service

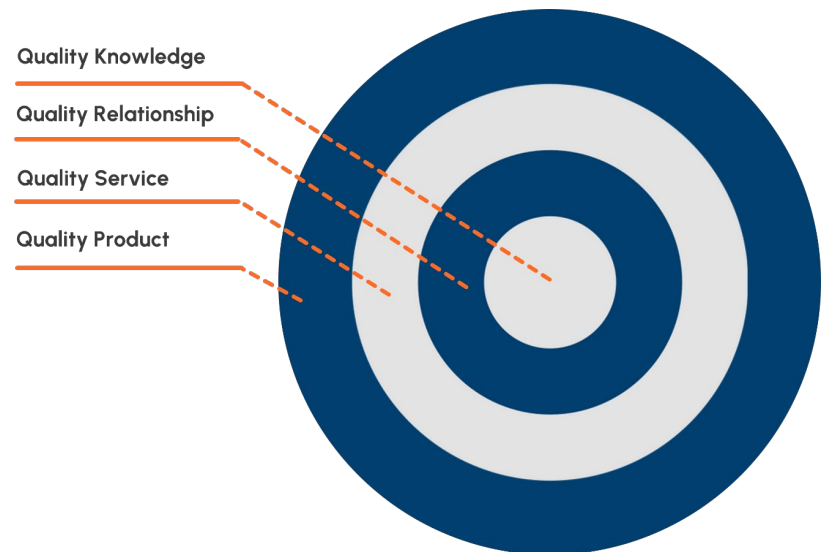
Promise partner attention, effective project management, continuous communication, staff that asks relevant questions, and overall responsiveness and proactive ideas...with minimal disruption.

Sustained Relationship

Build a relationship where we proactively anticipate your expectations and needs. We work with you to resolve issues.

Knowledge Transfer

Provide industry and business insights to fulfill our mantra of helping you “run your business,” making good business decisions, and operating more effectively.



Questions?



Engagement Team Profile and Contact Information



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Knowledge,
Quality,
Client Service.

Thank you.



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FY 2026 Internal Audit Plan

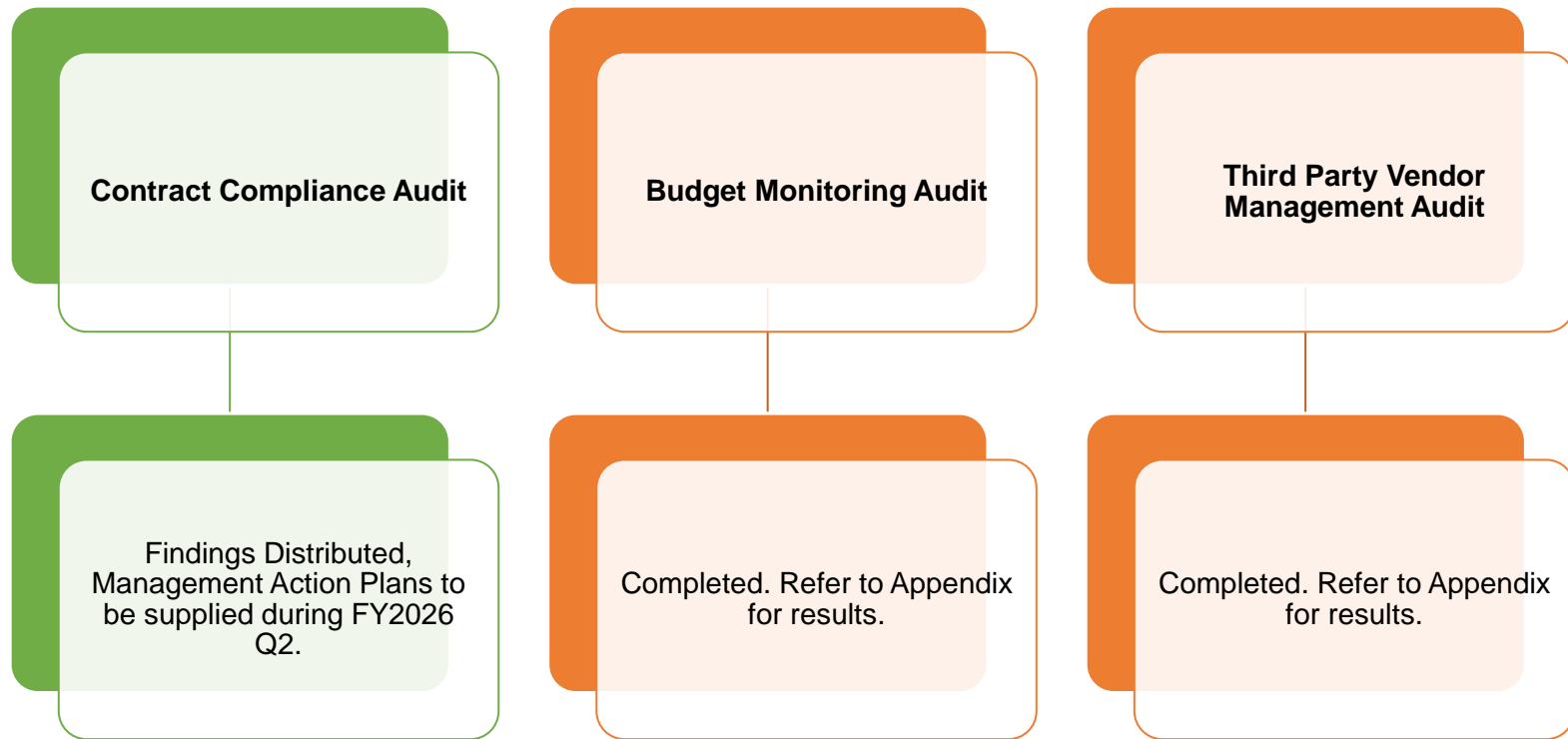
Audit and Risk Committee Report January 22, 2026

dc Internal Audit Plan FY 2026 Timeline & Status

	Oct – 25	Nov – 25	Dec – 25	Jan – 26	Feb – 26	Mar – 26	Apr – 26	May – 26	Jun – 26	Jul – 26	Aug – 26	Sept – 26	Oct – 26	Status
Customer Billing and Collections Audit														Started
Emergency Management Policy Gap Analysis														Started
Legal Operational Audit														Started
Recruitment, Performance Evaluation, Compensation Analysis & Training/ LMS Assessment														Started
Asset Management Lifecycle														Started
Cloud Security														Not Started
Work Order Management - Department of Maintenance Services														Not Started
Procurement, Contracting, & Contract Compliance Audit														Not Started
Physical Security - HQO & Fort Reno														Not Started
Operational Technology Resiliency Audit														Not Started
FY 2027 Risk Assessment														Not Started
Ongoing Follow-up Procedures														Ongoing
Ongoing Hotline Monitoring														Ongoing

Legend			
	Cycle Audits		Management Assessment
	Ad Hoc Audits		Ongoing Procedures

dc FY 2025 Internal Audit Plan Status Update



Legend			
Cycle Audits	Management Assessment		
Ad Hoc Audits	Ongoing Procedures		

dc FY 2026 Internal Audit Plan – Q1 In Progress

**Customer Billing and Collections
Audit**

**Emergency Management Policy Gap
Analysis**

Legal Operations Audit

Legend

Cycle Audits	Management Assessment
Ad Hoc Audits	Ongoing Procedures

dc FY 2026 Internal Audit Plan – Q2 Notification Issued

Asset Management Lifecycle

**Recruitment, Performance Evaluation,
Compensation Analysis & Training/LMS
Assessment**

Legend

	Cycle Audits		Management Assessment
	Ad Hoc Audits		Ongoing Procedures



PRIOR AUDIT FINDINGS- FOLLOW UP STATUS

dc Quarterly Progress Highlights

Eight total prior audit findings were closed, 6 high risk and 2 low risk.

High Risk

- FY23 Fleet Management Audit: Lack of Formal Policies and Procedures
- FY25 Facilities Work Order Management Audit: Unaudited Maximo User Access Listing
- FY25 Safety Audit: User access not monitored for SRS.
- FY25 Safety Audit: Training matrix not routinely updated.
- FY25 Safety Audit: Lack of monitoring for corrective actions.
- FY25 Safety Audit: Training records not being maintained.

All high risk findings prior to FY25 have been completed.

One low-risk prior audit finding will need to be extended because the original SME, former HCM Systems Manager, is no longer available. The EVP, Director, ERP System & Controls, will reassign the responsibilities, and additional time will be required to complete the remaining work.

The status for prior audit findings has been updated by removing FY17-FY22 from the totals since all audit findings from FY17 through FY22 have been addressed and closed.



Open High Risk Prior Audit Findings

There are a total of 21 open findings, which include the following 1 high-risk finding.

Audit FY	Issue Date	Audit Report and Open Finding	Target Completion Date
2025	4/15/2025	Facilities Work Order Management Audit: <i>Facilities team is currently working towards completing the set action plans.</i>	
		Lack of Current Asset Retirement and Disposal Standard Operating Procedures (SOPs)	3/31/2026

Legend

Target date has not yet come due

Target date has passed

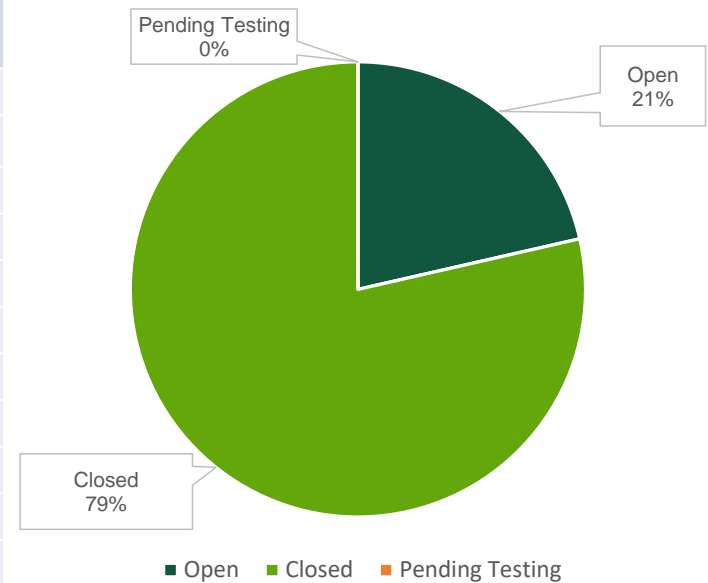




Status Update on FY23-FY25 Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing
FY2023 to FY2025 Audit Findings*					
Work Order Management Audit-DWO	7/23/2023	3	1	2	0
Fleet Management Audit	10/27/2023	6	1	5	0
Work Order Management-Facilities Audit	4/11/2025	13	6	7	0
Safety Audit	6/18/2025	8	2	6	0
Strategic Plan Monitoring Audit	9/29/2025	3	3	0	0
SCADA Penetration Testing	10/6/2025	4	0	4	0
Third-Party Vendor Management Audit	11/6/2025	3	3	0	0
Budget Monitoring Audit	11/12/2025	2	1	1	0
Contract Compliance Audit	12/16/2025	4	4	0	0
Total Closed Audit Findings		52	0	52	0
Total		98	21	77	0

FY2023 to FY2025 Audit Findings Status



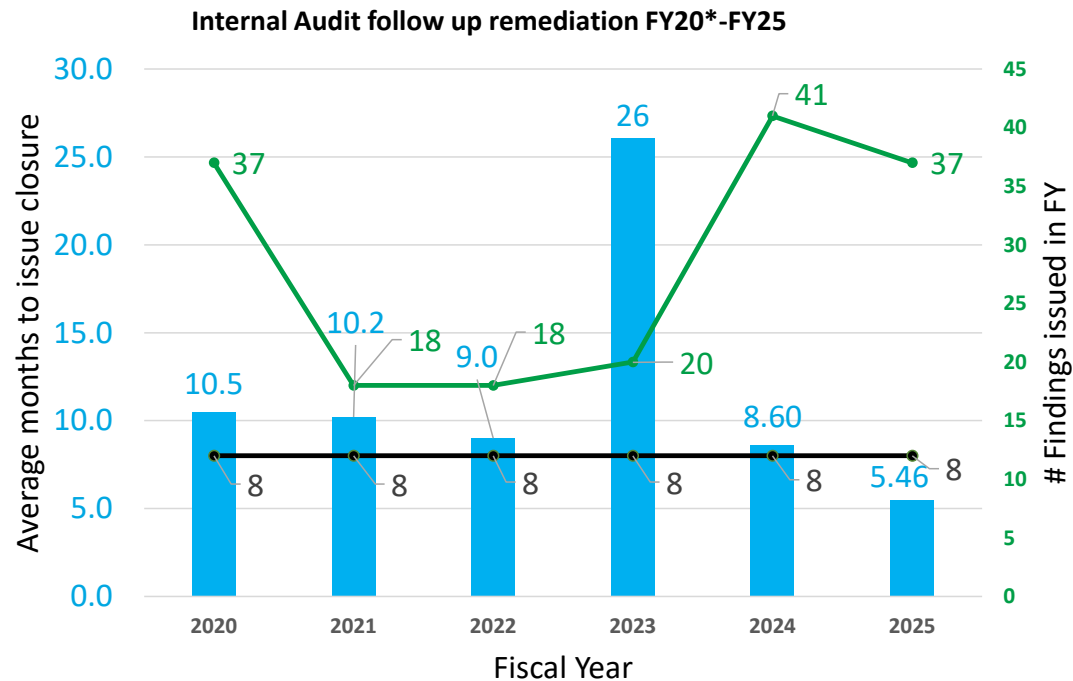
- Work Order Management Audit-DWO: Management Action Plan will not be fully implemented until 2028.
- Fleet Management Audit: Open finding regarding the manual tracking of employee credentials **estimated completion date will need to be extended again due to extenuating circumstances. Since CB took over from RSM in 10/2024, this will be the 4th extension.**
- Contract Compliance Audit: Findings Distributed, Management Action Plans to be supplied during FY2026 Q2. Findings have been added into the count above. Once management responses have been received, any high risk findings will be added to the 'Open High Risk Findings' slide.

***Note: All FY24 Audit Findings have been closed.**



Time to closure by fiscal year

The below graph illustrates the average number of months from audit finding issuance to audit finding closure year-over-year as of January 2026. Management has made significant improvements to achieve timelier audit finding closure as illustrated by the decline from FY23 to FY24. Management's target time to closure is 8 months.





Allegations Update



Allegations Update

Below is a summary of the cases received in FY26 as of January 13, 2026. There are two open FY26 cases.

FY 26 Allegation Summary			
FY 26 Allegations Received			6
FY 26 Cases Closed			4
FY 25 Allegations Open			4
FY 26 Allegations Open			2
FY 26 Open Allegation Breakdown			
Four FY25 cases are being investigated (one case logged as two calls.)			
Two FY26 cases are being reviewed and/or investigated.			
Allegation Source			
Hotline	6	Employee Email	0
Management Alert	0	Personal Conversation	0

FY 26 Closed Allegation Breakdown	
Theft of Time	0
Theft or Misuse of Company Assets	0
Policy Issues	0
Employee Relations	2
Sexual Harassment	0
Substance Abuse	0
Wage/Hour Issues	0
Workplace Violence/Threats	0
Closed Due to Lack of Information	2

Total Allegations by Fiscal Year:

Year	FY 21	FY 22	FY 23	FY 24	FY 25
# of Cases	7	18	15	25	19
Action Taken	0	2	2	1	8

FY26 Allegations by Quarter:

Year	Q1	Q2	Q3	Q4	Total
# of Cases	6	0	0	0	6
Action Taken	2	0	0	0	2

*Calls that do not pertain to fraud, waste, or abuse are automatically referred to the appropriate department head and closed by Internal Audit. These calls will never result in corrective action by Internal Audit and are not included in the FY26 Closed Allegation Breakdown



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Appendix

FY 2025 Internal Audit Plan - Completed

Budget Monitoring Audit

Based upon the DC Water FY2025 Risk Assessment results, we conducted an audit to understand the budget process is managed and monitored and (2) assess whether the system of internal controls are adequate and appropriate at the department level for promoting and encouraging the achievement of management's objectives. The data examined ranged from October 1, 2023, through September 30, 2025. The audit scope included the following objectives:

1. **Compliance Verification:** Ensure that budgetary procedures and practices comply with relevant laws, regulations, and internal policies.
2. **Budget Accuracy:** Assess the accuracy and reliability of budgetary data and assumptions used in preparing the budget.
3. **Performance Evaluation:** Evaluate whether budgetary objectives and targets are being met and identify any significant variances.
4. **Financial Control:** Examine the effectiveness of controls over budget preparation, approval, and monitoring processes.
5. **Integration Processes:** Evaluate the integration with other planning and control functions, the coordination with capital planning, performance management, and risk assessments.

FY 2025 Internal Audit Plan - Completed

Budget Monitoring Audit – Cont’d

6. Resource Allocation: Assess whether resources are being allocated and used efficiently and effectively to achieve organizational goals.
7. Variance Analysis: Analyze variances between budgeted and actual financial performance to identify causes and suggest corrective actions.
8. Reporting and Communication: Evaluate the adequacy and timeliness of budgetary reporting and communication to stakeholders.
9. Risk Management: Identify and assess risks associated with budget management, including potential financial shortfalls or overspending.
10. Forecasting and Planning: Review the processes for forecasting future financial performance and integrating these forecasts into budget planning.
11. Continuous Improvement: Provide recommendations for improving the budgeting process and enhancing financial management practices. Assimilate the information, confirm the results of testing, and prepare a draft and final report.

The audit was performed July 2025 through October 2025.

dc FY 2025 Internal Audit Plan - Completed

Budget Monitoring Audit Findings Summary

We identified two findings during the audit. These findings are categorized and assigned a risk rating of Medium or Low, as shown in the table.

Control Area:

- *Governance and Oversight* - Focuses on the framework and structures in place to ensure accountability, transparency, and effective decision-making within DC Water. We examined how leadership oversees operations, manages risks, and ensures compliance with regulations and strategic objectives.
- *Policies and Procedures* - Assesses the adequacy, clarity, and implementation of DC Water's operational budget processes. We reviewed whether they are up-to-date, aligned with best practices, and effectively communicated and enforced.

Finding (Total: 2)	Risk Rating		
Control Area	HIGH	MEDIUM	LOW
Governance and Oversight	0	1	0
Policies and Procedures	0	0	1
Totals	0	1	1

The detailed recommendations are further described in the Findings, Recommendations, and Process Improvements sections of this report.

dc FY 2025 Internal Audit Plan - Completed

Budget Monitoring Audit Process Improvement Summary

We identified five process improvement opportunities during the audit. These opportunities are assigned a risk rating of Low, as shown in the table. The process improvement opportunities are mapped to the following testing objectives:

Objective #1: Ensure that budgetary procedures and practices comply with relevant laws, regulations, and internal policies.

Objective #2: Assess the accuracy and reliability of budgetary data and assumptions used in preparing the budget.

Objective #4: Examine the effectiveness of controls over budget preparation, approval, and monitoring.

Objective #6: Assess whether resources are being allocated and used efficiently to achieve DC Water's goals.

Objective #8: Evaluate the adequacy and timeliness of budgetary reporting and communication to stakeholders.

The detailed recommendations are further described in the Findings, Recommendations, and Process Improvements sections of this report.

Opportunity (Total: 5)	Risk Rating		
	HIGH	MEDIUM	LOW
Budget Document Standardization	0	0	1
Budget Document Version Control	0	0	1
Compliance Verification	0	0	1
Resource Allocation	0	0	1
Stakeholder Feedback	0	0	1
Totals	0	0	5

FY 2025 Internal Audit Plan - Completed

Third Party Vendor Management Audit

Based upon the DC Water FY2025 Risk Assessment results, we conducted an audit to understand how the procurement process is managed and monitored and assess whether the system of internal controls are adequate and appropriate, at the department level, for promoting and encouraging the achievement of management's objectives. The data examined ranged from October 1, 2023, through July 31, 2025. The audit scope included the following objectives:

1. **Evaluate the Effectiveness of Program Management:** Assess the organization's comprehensive program in place for managing third-party vendor risks that guide the overall vendor risk management strategy.
2. **Review Planning and Due Diligence Processes:** Determine the adequacy of the planning and due diligence processes for identifying and evaluating potential risks associated with third-party vendors before engagement.
3. **Assess Vendor Classification and Risk Rating Systems:** Evaluate the systems and criteria used to classify vendors and assign risk ratings.
4. **Examine Contract Management Practices:** Review the organization's contract management practices to ensure that contracts with third-party vendors include essential risk mitigation and compliance clauses.

FY 2025 Internal Audit Plan - Completed

Third Party Vendor Management Audit

Based upon the DC Water FY2025 Risk Assessment results, we conducted an audit to understand how the procurement process is managed and monitored and assess whether the system of internal controls are adequate and appropriate, at the department level, for promoting and encouraging the achievement of management's objectives. The data examined ranged from October 1, 2023, through July 31, 2025. The audit scope included the following objectives:

5. **Analyze Ongoing Monitoring and Performance Evaluation:** Assess the ongoing monitoring routines for third-party vendors to ensure that vendor activities align with contractual obligations and organizational standards.
6. **Evaluate Vendor Access and Security Controls:** Examine the security and access controls in place for managing and monitoring vendor access to the organization's systems and data.
7. **Review Vendor Termination and Transition Procedures:** Evaluate the risk management procedures for terminating vendor relationships and ensure organizational data and resources are protected and retained.

dc FY 2025 Internal Audit Plan - Completed

Third Party Vendor Management Audit Findings Summary

We identified three findings during the audit. These findings are categorized and assigned a risk rating of High, Medium, or Low, as detailed in the Table.

Control Activities:

- *Governance and Oversight* - Focuses on the framework and structures in place to ensure accountability, transparency, and effective decision-making within DC Water. It examines how leadership oversees operations, manages risks, and ensures compliance with regulations and objectives.
- *Policies and Procedures* - Assesses the adequacy, clarity, and implementation of DC Water's operational processes. It looks at whether they are up-to-date, aligned with best practices, and effectively communicated and enforced.

Findings (Total: 3)	Risk Rating		
Control Activities	HIGH	MEDIUM	LOW
Governance and Oversight	0	1	0
Policies and Procedures	0	1	1
Totals	0	2	1

The detailed recommendations are further described in the Findings, Recommendations, and Process Improvements section of this report.

dc FY 2025 Internal Audit Plan - Completed

Third Party Vendor Management Audit

Process Improvement Opportunity Summary

We identified one process improvement opportunity during the audit. This opportunity is assigned a risk rating of Low, as shown in the table.

Audit Objective #1: Evaluate the Effectiveness of Program Management: Assess whether the organization has a comprehensive program in place for managing third-party vendor risks, including clear governance structures and compliance with policies, procedures and regulations that guide the overall vendor risk management strategy.

We describe this opportunity further in the Findings, Recommendations, and Process Improvements section of the report.

Opportunity (Total: 1)	Risk Rating		
	HIGH	MEDIUM	LOW
Objective #1	0	0	1
Totals	0	0	1



Enterprise Risk Management (ERM)

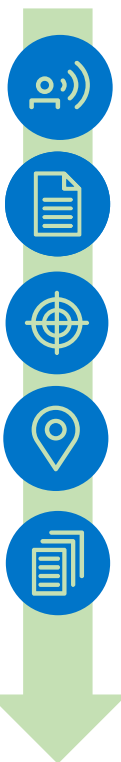
Francis Cooper

Director | Enterprise Program Management Office



Enterprise Risk Management Updates

Upcoming Milestones



1. Departmental Roadshows

Educate Authority departments via Roadshows on identifying Departmental Risks. Completed Roadshows to all Authority departments September 8, 2025.

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4. Board ERM Training

An overview of the training content and objectives will be provided in advance to the Board Chair for review and input.

5. Develop an ERM Annual Report

Project Name: Enterprise Risk Management (ERM)

Overall Project Status: Ongoing

The ERM program continues to evolve through cross-functional alignment, structured risk assessments, and an enterprise-wide risk governance framework. With core risk categories identified and treatment strategies underway, the next phase will prioritize data integration, KRI refinement, and continued leadership engagement to embed risk-informed decision-making and strengthen organizational resilience across DC Water.

Decisions Required

- ERM Board Training scheduling date confirmation

Milestones	Start Date	End Date	Status	Accomplishments	Upcoming Activities	Potential Risks, Issues, & Current Mitigation
FY26 plan presented to Audit and Risk Committee	10/23/25	10/23/25	●	<ul style="list-style-type: none"> 98% of non-union employees completed ERM 101 Compliance Training. ERM 201 reached 116 of 291 grade 17+ employees. 	<ul style="list-style-type: none"> Next Audit and Risk Committee briefing – April 22 	<ul style="list-style-type: none"> N/A
ERM Refresher Training	08/25/25	09/10/25	●			
ERM 202 Training	02/02/26	03/31/26	●			
ERM Board Training	TBD	TBD	●			
Develop ERM Annual Report	10/01/25	09/30/26	●			

Status Legend:





Non-Revenue Water Initiative

Francis Cooper

Director | Enterprise Performance Management Office

Chris Collier

Vice-President | Water Operations



Background and Purpose

*On May 27th, Mr. Gadis authorized the Enterprise Program Management Office team to provide facilitation and risk/performance management support across all participating DC Water clusters to remediate Non-Revenue Water Loss. Implementing our demonstrated DC Water ERM approach, which leverages existing **risk governance** structures and frameworks, documenting and coordinating **risk treatment and mitigation** plans, and monitoring progress through **risk and performance reporting**.*



RISK GOVERNANCE

Enhancing risk governance, coordination, and accountability across all non-revenue water loss mitigation activities within the Authority.



RISK TREATMENT AND MITIGATION

The EPMD team will lead the organization in risk management efforts designed to leverage our collective experience and knowledge as One DC Water to treat and mitigate varying identified risk drivers resulting in significant Non-Revenue Water Losses.



RISK AND PERFORMANCE REPORTING

Efficient and accurate risk and performance reporting is integral to managing to results.



Non-Revenue Water Risk Exposure

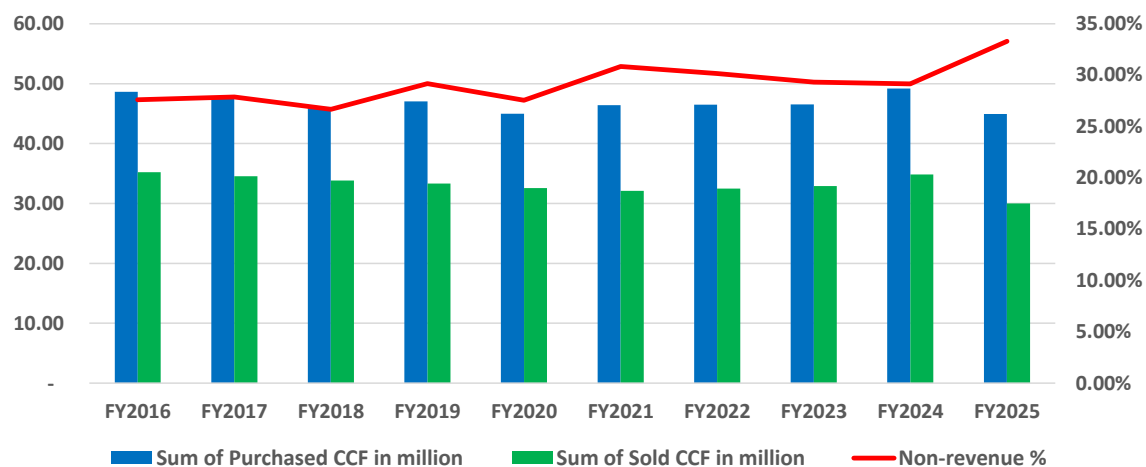
Strategic Risk - Revenue Erosion and Expenditure Increase:

The risk of potential inefficiencies in internal processes and resource prioritization and/or unfavorable external factors (e.g., increasing costs, continued water loss) may lead to revenue erosion.

Sub-Risk – Non-Revenue Water Loss (NRWL):

The risk of revenue losses due to **Apparent Losses** (nonphysical revenue losses) and **Real Losses** (physical volumes lost). It can also be derived by calculating the difference between water supplied and water billed. (Ref. AWWA M36)

Annual Water Balance Data Non Revenue Water (ccf)



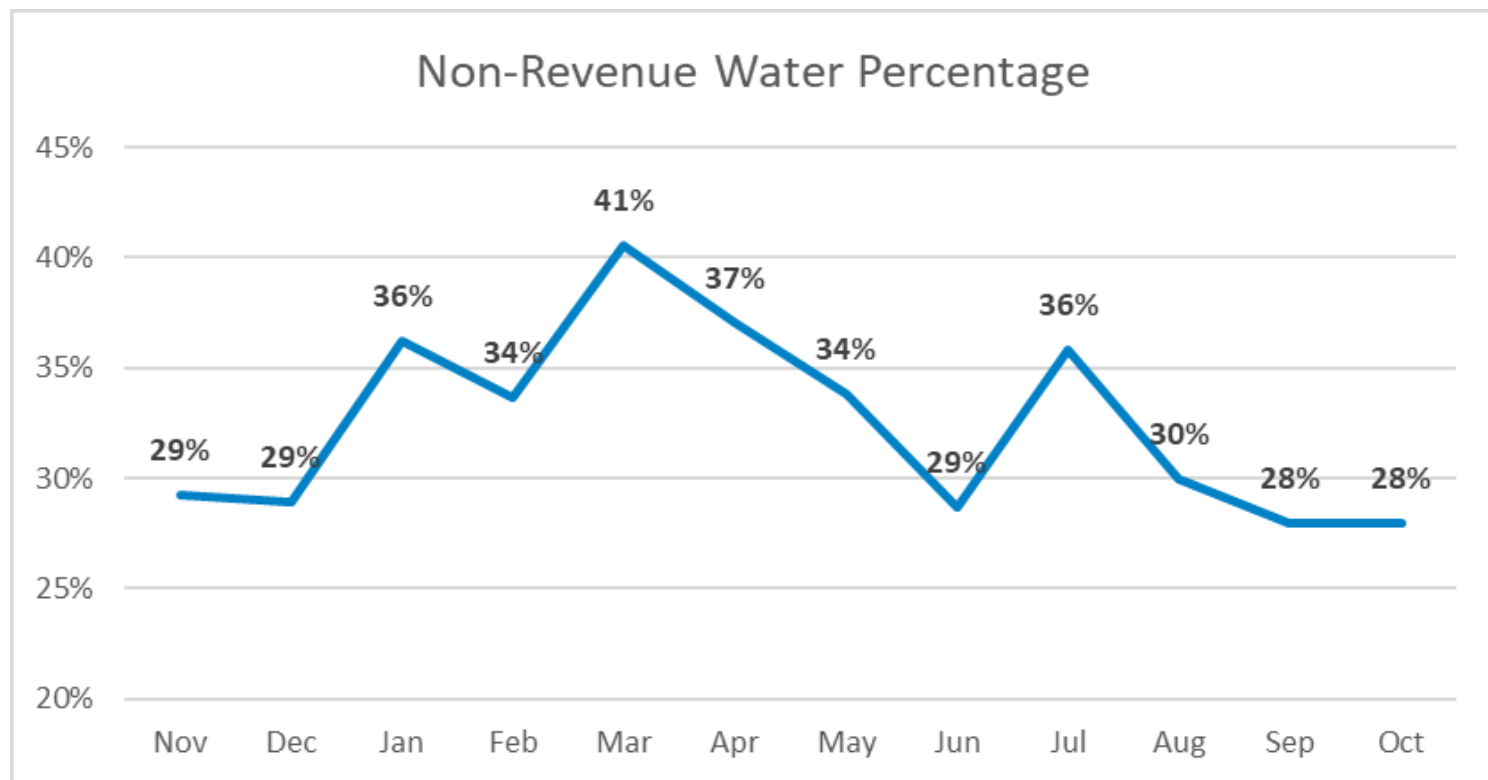
$$\text{NRW} = \text{System Input Volume (Purchased)} - \text{Billed Consumption}$$

- **Authorized unbilled consumption** (flushing)
- **Real Losses** (infrastructure)
- **Apparent Losses** (unauthorized consumption, meter issues)

**Data provided by Finance*



Non-Revenue Water Risk Exposure



**Data provided by Finance; there is a 2-month delay*



AWWA M36 Water Audit Results (FY24)

AWWA Free Water Audit Software						FWAS v6.0
Water Balance						American Water Works Association. Copyright © 2020, All Rights Reserved.
Water Audit Report for: DC Water						
Audit Year: 2024						Oct 01 2023 - Sep 30 2024
Data Validity Tier: Tier III (51-70)						
Volume from Own Sources (VOS) (corrected for known errors) 0.000	System Input Volume 48,916.240	Water Exported (WE) (corrected for known errors) 12,135.010	Billed Water Exported			Revenue Water (Exported) 12,135.010
		Water Supplied 36,781.230	Authorized Consumption 27,134.859	Billed Authorized Consumption 26,902.619	Billed Metered Consumption (BMAC) (water exported is removed) 26,134.479	Revenue Water 26,902.619
				Unbilled Authorized Consumption 232.240	Billed Unmetered Consumption (BUAC) 768.140	Non-Revenue Water (NRW) 9,878.611
					Unbilled Metered Consumption (UMAC) 0.000	
			Water Losses 9,646.371	Apparent Losses 1,118.929	Unbilled Unmetered Consumption (UUAC) 232.240	
					Systematic Data Handling Errors (SDHE) 67.257	
					Customer Metering Inaccuracies (CMI) 984.416	
					Unauthorized Consumption (UC) 67.257	
				Real Losses 8,527.442	Leakage on Transmission and/or Distribution Mains Not broken down	
					Leakage and Overflows at Utility's Storage Tanks Not broken down	
					Leakage on Service Connections Not broken down	
Water Imported (WI) (corrected for known errors) 48,916.240						

*Awaiting 2025 Water Audit results



Water Operations Update

Stabilizing the Foundation and Diagnosing Root Causes

- **Completed comprehensive AMI system assessment** covering technology performance, meter-to-cash processes, field operations, warehouse practices, and policy alignment. Identified root causes behind declining AMI performance and operational inefficiencies.
- **Quantified the business impact of AMI underperformance**, including a ~91% read success rate versus a 98.5% industry benchmark, rising estimated bills, excessive manual reads, and warehouse backlogs of potentially functional meters and MTUs.
- **Established direct linkage between AMI performance and Non-Revenue Water (NRW)**, identifying AMI-related apparent losses tied to meter inaccuracies, billing workarounds, access constraints, and data handling practices.



Water Operations Update Continued

Stabilizing the Foundation and Diagnosing Root Causes

- **Completed FY2024 AWWA NRW Audit**, providing a defensible baseline:
 - NRW = **26.86%** (\approx **9.9 billion gallons, \$35.5M annually**)
 - Infrastructure Leakage Index (ILI) = **12.5**
 - Data Validity Score = **51 / 100 (Tier III)**
- **Leak Detection**
 - Water Operations successfully deployed Gutermann correlating leak detection equipment with multiple leaks identified and repaired (or in the process of being repaired).
- **Developed actionable “to-be” processes** for:
 - MTU and meter warranty/RMA handling
 - Field investigation prior to replacement
 - Exception billing, zero-consumption handling, and desktop investigations
(These processes are designed to recover value, reduce backlog, and prevent future degradation.)



Water Operations Update Continued

Transitioning from Reactive Fixes to Reliability & Revenue Recovery

- **Execute targeted AMI system cleanup and recovery (Procurement in process)**
 - Address ~14,000 locations requiring investigation, repair, or replacement using disciplined deployment management
 - Restore AMI read performance toward industry standard (>98%) to materially reduce estimated billing and manual reads
- **Operationalize new warehouse and field practices (Active process)**
 - Fully implement MTU and meter RMA processes
 - Dedicate resources to triage existing warehouse backlog and prevent recurrence
 - Shift field culture from “replace” to “investigate and repair first.”
- **Strengthen access, billing, and customer accountability (FY26 task)**
 - Enforce meter access and valve ownership policies consistently
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Water Operations Update Continued

Transitioning from Reactive Fixes to Reliability & Revenue Recovery

- **Advance NRW control maturity (FY26 task)**
 - Develop a formal **Water Loss Control Plan** integrating AMI, valve & hydrant programs, billing controls, and data governance
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 - Begin the process of developing DMA's (District Metered Areas), enhancing pressure zone monitoring and control
 - **Develop and establish a dedicated, proactive leak detection team** using AMI data and targeted field investigations to identify and reduce real losses early—shifting from reactive repairs to planned, reliability-focused NRW reduction.
- **Institutionalize performance management (FY26 task)**
 - Track KPIs for AMI read success, estimated billing rates, apparent losses, warranty recovery, and NRW trends
 - Align AMI and NRW outcomes to reliability, resilience, and financial stewardship objectives
 - Complete the FY25 M36 Water Audit by the end of March 2026

Project Name: Non-Revenue Water Risk Mitigation

Report Date: 01/8/26

% Complete: Ongoing


Overall Project Status: Ongoing

The project continues to mature through structured collaboration, standardized reporting, and transparent governance. With foundational risk treatment plans in place and enterprise reporting advancing toward completion, the next phase will emphasize data integration, KPI/KRI validation, and sustained executive oversight to ensure measurable reduction in NRW exposure across DC Water.

Decisions Required

- SET approval on risk mitigation activities

Milestones	Start Date	End Date	Status	Accomplishments	Upcoming Activities	Potential Risks, Issues, & Current Mitigation
NRWL presented to Audit and Risk Committee	10/23/25	10/23/25	●	<ul style="list-style-type: none">• AWWA ERM NRW Performance Dashboard approved by ERM• Completed FY24 Water Audit	<ul style="list-style-type: none">• Next ERM Meeting – January 20• Next Audit and Risk Committee briefing – January 22• FY25 Water Audit (In Progress)	None at this time
Audit & Risk Committee Meeting	01/22/26	01/22/26	●			



ENTERPRISE PROGRAM
MANAGEMENT OFFICE

Navigating Excellence
Providing DC Water with Data and Decisions

Status Legend:

●

Completed

●

On Target

●

At Risk

●

Behind

●

Not Started



Enterprise Risk Management (ERM)

Francis Cooper

Director | Enterprise Program Management Office

dc Enterprise Risk Management Updates

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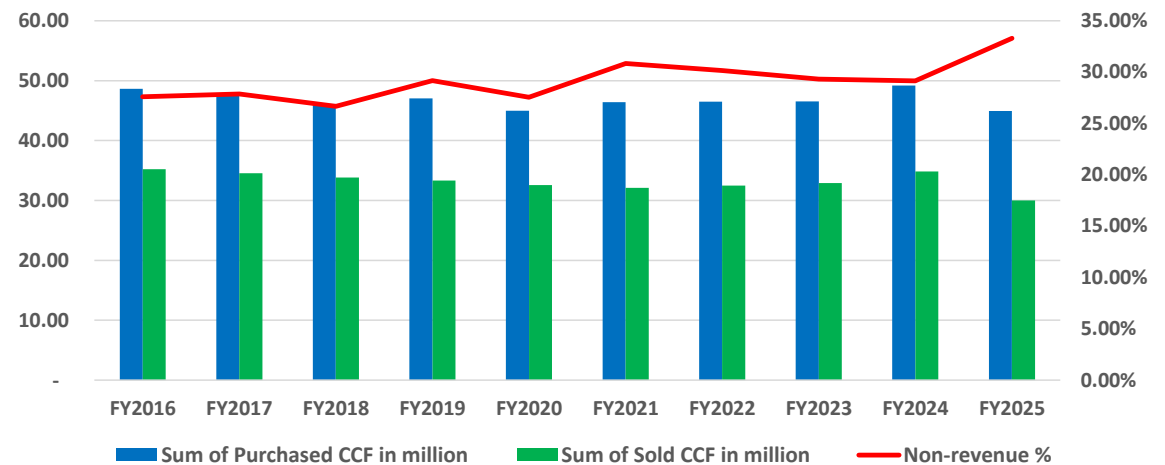
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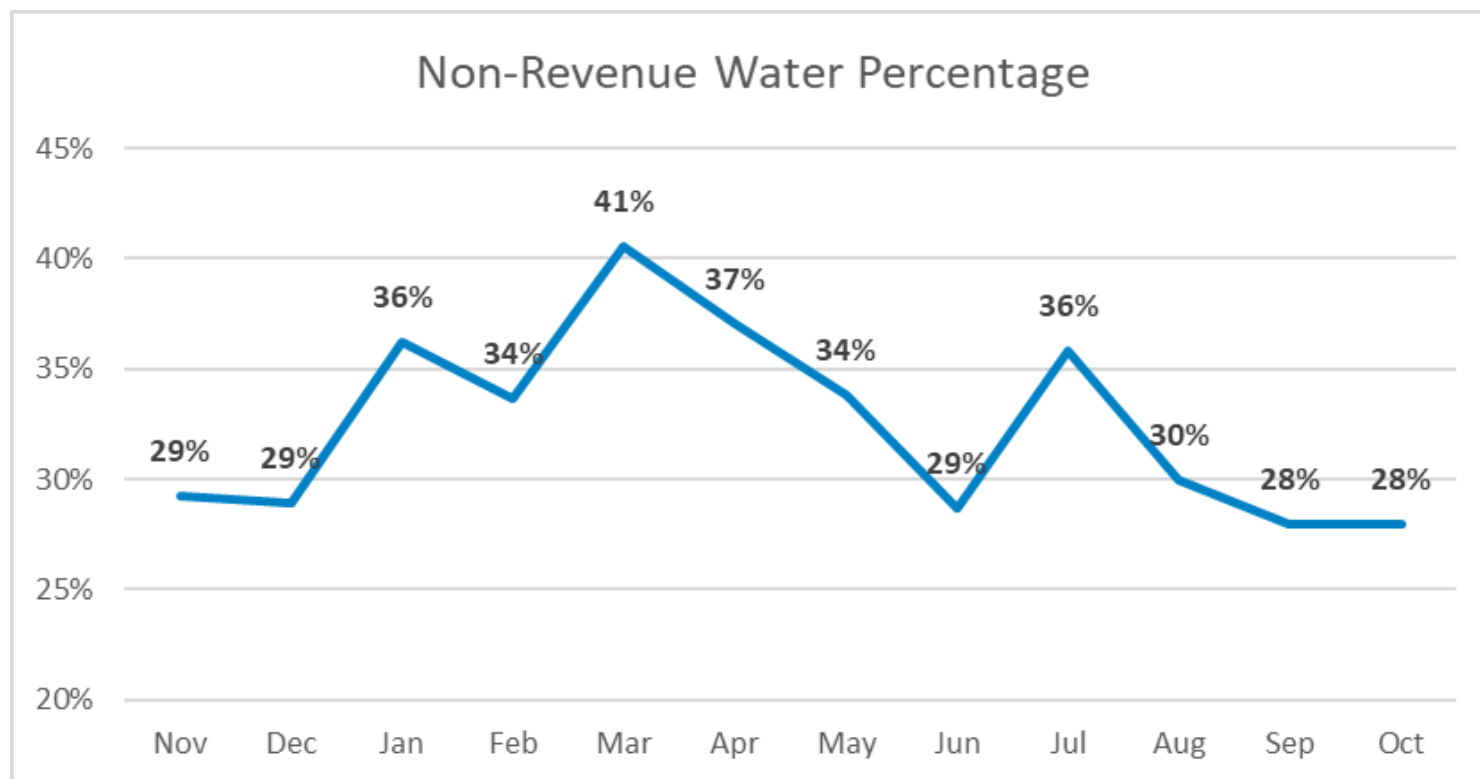
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Project Name: Non-Revenue Water Risk Mitigation

Report Date: 01/8/26

% Complete: Ongoing

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Audit & Risk Committee Meeting	01/22/26	01/22/26	●			

Status Legend:

 Completed
  On Target
  At Risk
  Behind
  Not Started