



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Audit Committee

Thursday, July 22, 2021

9:30 a.m.

Microsoft Teams Meeting

Join on your computer or mobile app

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Or call in (audio only)

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Phone Conference ID: 512 977 819#

1. **Call to Order**..... Floyd Holt, Chairperson
2. **Roll Call**.....Linda Manley, Board Secretary
3. **Action Item:**..... Wayne Griffith, EVP, Performance
 - A. [Contract No. 19-PR-OCEO-13, RSM US LLP \(RSM\)-Option Year 1 and Funding of Option Years 2 and 3](#)
4. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
 - A. [FY 2021 Internal Audit Plan Status Update](#)
 - B. Status Update on Prior Audit Findings
 - C. [Contract Monitoring & Compliance Internal Audit](#)
 - D. Hotline Update
5. **Executive Session*** Floyd Holt, Chairperson
6. **Adjournment**..... Floyd Holt, Chairperson

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

**DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY
BOARD OF DIRECTORS CONTRACTOR FACT SHEET**

ACTION REQUESTED

GOODS AND SERVICES CONTRACT OPTION YEARS 1-3

**Internal Audit Services
(Joint Use-Indirect)**

Approval to exercise Option Year 1, and fund Option Years 2 and 3, for Internal Audit Services in the total amount of \$2,318,000.00. Each option year will be awarded annually.

CONTRACTOR/SUB/VENDOR INFORMATION

PRIME: RSM US LLP (RSM) 1250 H Street, NW Washington, DC 20005	SUBS: TFC Consulting Inc. 9200 Corporate Blvd, Suite 260 Rockville, MD 20850 LSBE	PARTICIPATION: 10%
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DESCRIPTION AND PURPOSE

Base Years (2) Contract Value:	\$1,460,000.00
Option Years in Contract:	3
Base Years Date:	10-01-2019 - 09-30-2021
Option Year 1 Value:	\$743,000.00
Option Year 1 Date:	10-01-2021 – 09-30-2022
Option Year 2 Value:	\$775,000.00
Option Year 2 Date:	10-01-2022 – 09-30-2023
Option Year 3 Value:	\$800,000.00
Option Year 3 Date:	10-01-2023 – 09-30-2024

Purpose of the Contract:

The purpose of this contract is to provide internal audit services for DC Water.

Contract Scope:

The services include but are not limited to a formal process for risk assessment, analysis of existing processes and procedures, and facilitating organizational objectives in areas including operational, financial, and internal controls under the direction of DC Water’s Audit Committee. The services shall result in efficiencies and best practices that can be shared across DC Water. The firm administers DC Water’s Fraud Hotline system as well.

Spending Previous Year:

Cumulative Contract Value:	10-01-2019 - 09-30-2021	\$1,460,000.00
Cumulative Contract Spending:	10-01-2019 - 06-11-2021	\$ 715,714.20

Contractor’s Past Performance:

According to the COTR, the Contractor’s quality of services; timeliness of responses; conformance to DC Water’s policies, procedures and contract terms; and invoicing all meet expectations.

PROCUREMENT INFORMATION

Contract Type:	Fixed Hourly Rate	Award Based On:	Highest Ranked Offeror
Commodity:	Services	Contract Number:	19-PR-OCEO-13
Contractor Market:	Open Market with Preference Points for LBE and LSBE Participation		

BUDGET INFORMATION

Funding:	Operating	Department:	Internal Audit
Project Area:	DC Water Wide	Department Head:	Wayne Griffith

ESTIMATED USER SHARE INFORMATION

User – Operating	Share %	Dollar Amount
District of Columbia	87.73%	\$2,033,581.00
Washington Suburban Sanitary Commission	9.22%	\$213,720.00
Fairfax County	1.76%	\$40,797.00
Loudoun Water	0.80%	\$18,544.00
Other (PI)	0.49%	\$11,358.00
TOTAL ESTIMATED DOLLAR AMOUNT	100.00%	\$2,318,000.00

 / 6 July 2021
 Wayne Griffith Date
 Chief Strategy and Performance Officer
 and EVP, Strategy and Performance

_____ / _____
 Dan Bae Date
 VP of Procurement and Compliance

_____ / _____
 Matthew T. Brown Date
 CFO and EVP of Finance and Procurement

_____ / _____
 David L. Gadis Date
 CEO and General Manager

DC WATER

Audit Committee Meeting



July 22, 2021

Agenda

- FY 2021 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits
 - Contract Monitoring & Compliance Audit
- Hotline Update
- Executive Session

AUDIT PLAN STATUS UPDATE

Internal Audit Plan Status Update

Audit	Status
FY 2020	
Oracle Embedded Risk Assurance Phase 1	Report Complete
FY 2021	
Work Order Management – DMS	Report Complete
Procurement Audit	Report Complete
Succession Planning Assessment	Report Complete
Remote Workforce Security Assessment	Report Complete
Contract Compliance Audit	Report Complete
PCS Review	Reporting in Progress
<i>Strategic Plan Monitoring Audit</i>	<i>Deferred to next FY</i>
Materials Management Audit	Planning in Progress
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

FY21 Audit Plan Changes

- Oracle Embedded Risk Assurance Phase 1:
 - The SOD review was performed during the first phase on the pre-production environment
 - The results of the SOD assessment were provided to management to validate and remediate accordingly
 - Given the nature of the pre-production evaluation, the results were determined to be utilized for management's consumption, with a secondary evaluation of the production environment tentatively set for the fall of 2021
- Strategic Plan Monitoring Audit:
 - A new strategic plan has been developed and will roll out over the next quarter
 - Deferring the audit until next fiscal year so Internal Audit can review the operating effectiveness of the new internal control environment post-roll out
- Materials Management Audit:
 - Originally planned for FY22; moved up to FY21 in place of deferred Strategic Plan Monitoring Audit
 - Objective to review the design and operating effectiveness of the materials management operations and inventory control environment

Internal Audit Plan FY 2021 Timeline

	Oct - 20	Nov - 20	Dec - 20	Jan - 21	Feb - 21	Mar - 21	Apr - 21	May - 21	Jun - 21	Jul - 21	Aug - 21	Sep - 21	Oct - 21
▶ FY20 Oracle Embedded Risk Assurance	█												
▶ Work Order Management – DMS	█	█	█	█									
▶ Procurement Audit				█	█	█	█						
▶ Succession Planning Assessment				█	█	█	█						
▶ Remote Workforce Security Assessment				█	█	█	█						
▶ Contract Compliance Audit							█	█	█	█			
▶ PCS Review							█	█	█	█	█		
▶ Materials Management Audit										█	█	█	█
▶ FY 2022 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	<p>Identification and monitoring of training requirements by position</p> <p><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></p>	9/30/2017	1/1/2022	4
2	2017	4/27/2017	Data Privacy Assessment	<p>Finding Issued in Executive Session</p>	5/1/2017	11/30/2021	7
3	2017	10/26/2017	Entity Level Assessment	<p>Lack of a comprehensive risk management function to evaluate entity-wide risk</p>	10/1/2018	3/31/2022	3
4				<p>Lack of Authority-wide policy and procedure management function</p> <p><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></p>	9/30/2018	2/28/2022	3
5	2018	1/24/2019	Enterprise Work Order Management Assessment	<p>DWO – Inadequate capture of labor and materials cost data in Maximo work orders</p> <p><i>Status notes: Pilot for hydrant program is complete. Roll out of valve application is anticipated by the end of the fiscal year.</i> <i>Reason for extension: Deprioritized due to COVID.</i></p>	9/30/2020	9/30/2021	1
6	2019	4/25/2019	Legal Operations Assessment	<p>Lack of definition of Office of Legal Affairs’ role in matters across the Authority</p> <p><i>Status notes: Milestones provided by Legal regarding closure of this item. Meetings have been held with Division Chiefs to discuss the process of drafting a service level agreement (SLA) to formalize the role Legal Affairs will play and how and when Divisions should reach out to Legal for counsel.</i> <i>Reason for extension: Lack of departmental bandwidth / prioritization.</i></p>	9/30/2020	9/30/2021	1

Open High Risk Prior Audit Findings

	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date	# Extensions
7	2019	4/25/2019	Occupational Safety and Health Internal Audit	Outdated comprehensive safety plan for the Authority	3/1/2020	9/30/2021	4
				<i>Status notes: Safety policies are now going through the process of leadership review. A schedule has been developed to track progress towards review of all policies leading up to the new target date.</i> <i>Reason for extension: Delays in development of large volume of policies. COVID-19 delays for pandemic priorities.</i>			
8	2019	7/25/2019	Purchasing Card Internal Audit	Non-compliance with documented PCard and TCard policies	5/25/2020	On hold	0
				<i>Status notes: PCard policy has been updated and updated training conducted for all cardholders. TCard policy updates are on-hold given other COVID-19 response priorities and limited TCard usage.</i>			
9	2020	4/23/2020	Facilities Management Internal Audit	Utilization of Maximo – Inconsistent Entry of Materials & Labor	6/15/2020	8/31/2021	2
10				Work Order Monitoring – Lack of Supervisor Review & KPIs	6/15/2020	8/31/2021	2
				<i>Status notes: Facilities is currently working on adding new items to the Oracle system and Materials Management is setting up a new virtual warehouse for Facilities to utilize and apply materials costs to individual work orders. Mobile devices are currently being configured and should be ready for testing by Facilities by mid-July. After testing is complete, all 20 iPads will be distributed to Facilities for full use moving forward.</i> <i>Reason for extension: Competing IT priorities that delayed the distribution of tablets and development of tablet software. Transitioning to new ERP also resulted in delays to population of Maximo inventory listing.</i>			

Legend

Past due

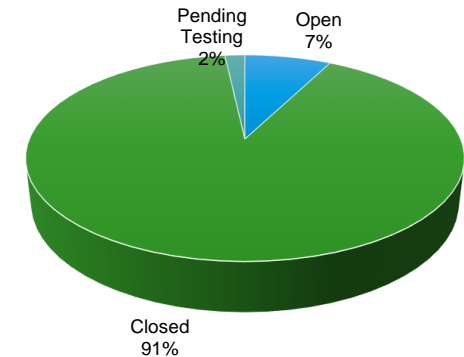
Original target date has not yet come due

9

Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
Prior to FY20 Audit Findings					
Training, Licensing & Certification	7/28/2016	7	1	6	0
Annual Budgeting and Planning	4/27/2017	1	0	1	0
HR/Employee Privacy Review	4/27/2017	7	1	6	0
Entity Level Assessment	10/26/2017	7	2	5	0
Materials Management Operations and Inventory	10/26/2017	4	0	4	0
Integrated Work Order Management	1/24/2019	10	2	8	0
Legal Operations	4/25/2019	4	3	1	0
Occupational Safety and Health	4/25/2019	4	2	2	0
Purchasing Card Internal Audit	7/25/2019	3	1	1	1
CIS Application Security SOD Review	10/24/2019	4	0	2	2
Asset Management Assessment	1/23/2020	2	1	1	0
	Total	53	13	37	3

FY16 – FY19 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 FY19 with the status of "Pending Testing" or "Open". Audits conducted prior to FY19 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 - FY19.

10

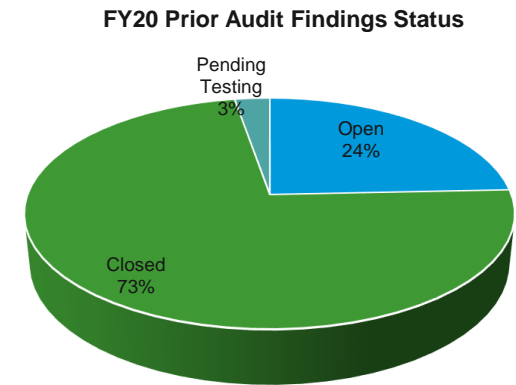
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Color Key	
	At least 1 original remediation target date has been extended



Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
FY20 Audit Findings					
Work Order Planning Assessment	4/23/2020	4	0	3	1
Phase 2: Physical Security Penetration Testing	4/23/2020	3	0	3	0
Facilities Management Audit	4/23/2020	3	2	1	0
Benefits and Compensation Audit	4/23/2020	5	1	4	0
Engineering Change Order Assessment	10/22/2020	3	0	3	0
SCADA ICS Review	10/22/2020	16	5	11	0
Customer Billing and Collections Audit	10/22/2020	3	1	2	0
	Total	37	9	27	1



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 – FY20 are closed. Management's target closure rate is 90%.

Action Deferred Update

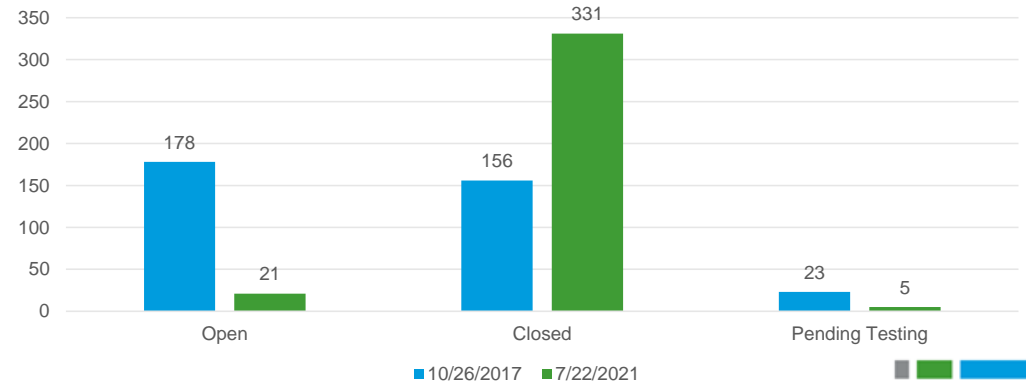
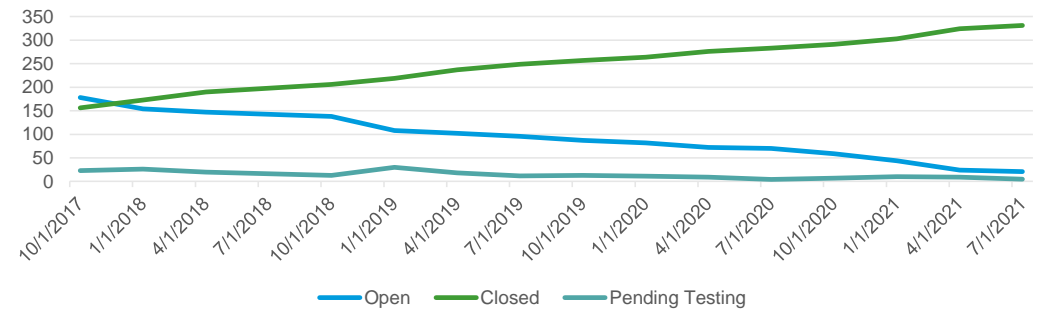
The following items are considered “action deferred” items that are contingent on other action occurring and not included in the Prior Audit Findings Update slides above:

1. Intellectual Property Personnel Policy: Legal, Innovation Director, and Senior Executive team completed reviews of the draft policy. Finalized policy pending CEO signature.

Follow-up Semi-Annual Summary

- For FY14 – FY20 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 July 2021, there are:
 - 21 open audit items
 - 331 closed audit items
 - 5 pending testing
- In total, 93% of all prior audit findings from FY14 – FY20 are closed
 - 40 audit items have been closed in FY21 to date.
 - Management is targeting 90% prior audit findings closure going forward

Follow-Up Progress



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 testing period covered the period of April 1, 2020 through March 31, 2021.

Scope

Internal Audit selected a sample of three goods and services contracts within the Office of the CFO, the Department of Security Services, and the Department of Wastewater Treatment. Our scope for each contract included the following:

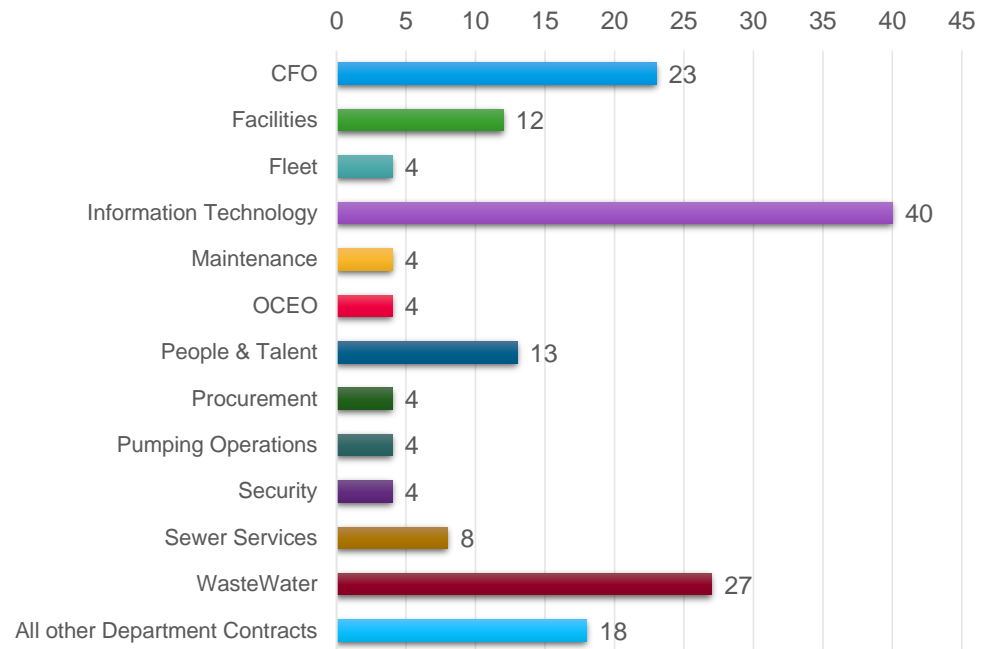
- Determine contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval processes;
- Review 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

The data represented to the right illustrates the number of active contracts held per department as of March 2021. 'All Other Department Contracts' refers to any departments that have three or fewer active contracts.

Internal Audit selected a sample of three goods and services contracts within the Office of the CFO, the Department of Security Services, and the Department of Wastewater Treatment to review and validate compliance with applicable terms and conditions. Contract details are on the following slides.

Number of Contracts per Department



Contract Monitoring & Compliance Audit

1

Contract # 16-PR-SEC-23: Department of Security Services, Security Systems Installation, Maintenance and Repair		
Contractor	Enterprise Security Solutions	Enterprise Security Solutions provides comprehensive solutions for custom security applications with a focus on critical infrastructure. Enterprise Security Solutions work for DC Water includes preventative maintenance, on-call service and repair, and new project installation and management services for security systems at various DC Water facilities.
Award Date	October 25, 2016	
Original Contract Period	October 1, 2016 - September 30, 2018 <i>*Contract is currently operating on an option year</i>	
Contract Award	\$5,180,885	
Type of Contract	Indefinite Delivery Indefinite Quantity contract; Two (2) year contract with three (3) option years	
COR/COTR	Department of Security Services	

2

Contract # 15-PR-CFO-25C: Office of the Chief Financial Officer, Financial Consulting Services		
Contractor	Raftelis Financial Consultants, Inc	Raftelis Consulting collaborates with DC Water to identify the financial policies, business processes, customer rates, and charges that promote financial integrity and the equitable recovery of costs to achieve the organization's objectives. The work includes, but is not limited to, benchmarking, assessments of assets & Infrastructure, analysis of rate structures, revenue generation, historical data and more.
Award Date	October 2, 2015	
Original Contract Period	October 2, 2015 - October 1, 2016 <i>*Contract is currently operating on an extension</i>	
Contract Award	\$64,800	
Type of Contract	Requirements Contract with payments based on firm fixed hourly rates; One (1) year contract with four (4) option years	
COR/COTR	Office of the Chief Financial Officer	

Contract Monitoring & Compliance Audit

3

Contract # 19-PR-DWT-21B: Department of Wastewater Treatment, Supply and Delivery of Methanol		
Contractor	Mitsubishi International	Mitsubishi International is a chemical manufacturer who supplies 10% of the methanol delivered to DC Water's Blue Plains Advanced Wastewater Treatment Plan. Methanol is used in the wastewater treatment process for assisting in meeting the plant's total nitrogen limits. Mitsubishi is responsible for delivering the methanol via tank truck, and offloading the chemical into DC Water's storage tanks.
Award Date	January 13, 2020	
Original Contract Period	January 13, 2020 – January 12, 2022	
Contract Award	\$1,400,000	
Type of Contract	Fixed Price Requirement Contract	
COR/COTR	Department of Wastewater Treatment	

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

HOTLINE UPDATE

Hotline Update

There have been three calls received since the April Audit Committee meeting.
As of 7/15/2021:

FY 21 Hotline Call Summary	
FY 21 Calls Received	7
FY 21 Cases Closed	7
FY 21 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

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DC WATER

Contract Monitoring & Compliance Internal Audit



July 2021

Table of Contents

Executive Summary and Objectives

Background

Approach

Observations and Recommended Action

Appendices

A Rating Definitions

EXECUTIVE SUMMARY, BACKGROUND AND APPROACH

3

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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 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 procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated April 15, 2021, and were limited to those procedures described therein.

Internal Audit selected a sample of three goods and services contracts. 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.

Fieldwork was performed April 2021 – June 2021.

Overall Summary and Highlights

There are no high risk observations to report. The observations identified during our assessment are outlined on pages 9-13:

1. COTR Training
2. Vendor Scorecard Completion
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
-	1	2

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





Background

Overview

Internal Audit selected a sample of three goods and services contracts within the Office of the CFO, the Department of Security Services, and the Department of Wastewater Treatment to review and validate compliance with applicable terms and conditions. These contracts were selected with the purpose of providing coverage within departments where Internal Audit does not have a scheduled audit in the near future, as well as to provide for a variation in the types of contracts. See next page for specific contract details.

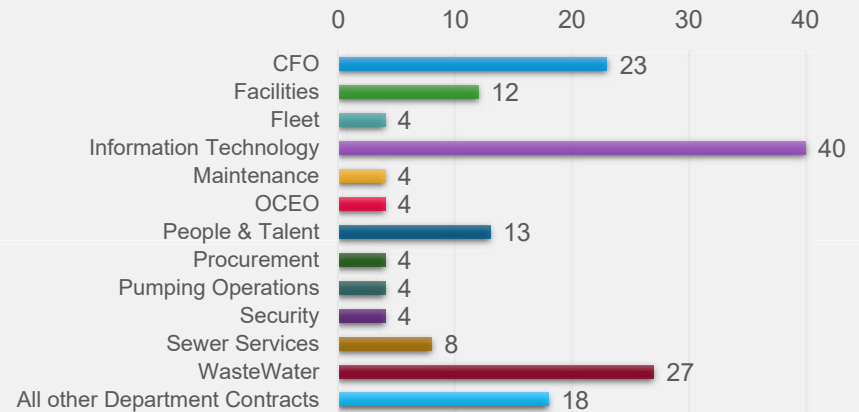
A designated Contracting Officer Representative (COR) and/or Contracting Officer's Technical Representative (COTR) is responsible for ensuring goods and services contract compliance at DC Water. The COR shall be responsible for all administration of the contract. The COTR is the technical expert for 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 operating contracts each year, as illustrated by the contractual services operating expenditures and budgets in the following table:

Contractual Services Operating Expenditures	
Year	Operating Expenditures
FY 2019 Actual	\$76,206,000
FY 2020 Approved	\$81,866,000
FY 2021 Approved	\$88,532,000

Background

Number of Contracts per Department



The data represented above shows the number of active contracts held per department as of March 2021. 'All Other Department Contracts' refers to any departments that have three or fewer active contracts.

Selected Contracts Overview

Contract # 16-PR-SEC-23: Department of Security Services, Security Systems Installation, Maintenance and Repair		
Contractor	Enterprise Security Solutions	Enterprise Security Solutions provides comprehensive solutions for custom security applications with a focus on critical infrastructure. Enterprise Security Solutions work for DC Water includes preventative maintenance, on-call service and repair, and new project installation and management services for security systems at various DC Water facilities.
Award Date	October 25, 2016	
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Award Date	January 13, 2020	
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Contract Award	\$1,400,000	
Type of Contract	Fixed Price Requirement Contract	
COR/COTR	Department of Wastewater Treatment	

6

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Approach

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 goods and services contracts. We submitted requests to the CORs and/or COTRs to gain a better understanding of the contract terms and determine how the contract is monitored. 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 April 1, 2020 through March 31, 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 and reflect the Contract # and PO #.
 - 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.
- Reviewed the Contractor's Safety Plan, if applicable, to ensure it met all contractual requirements and was properly approved.
- 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.

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: One of the three COTRs for our selected contracts has not received COTR training within the past two years, as he was appointed after the last training was offered in October 2019. Per a related finding in a 2016 audit of Contract Compliance, the Procurement team committed to teaming with the Office of the Chief Operating Officer (OCOO), Learning and Development (L&D), and Information Technologies (IT) to develop and implement a Vendor Performance Management Training program for CORs and COTRs. Historically, this training has been conducted live every other year. An on-demand training course was also developed for refresher training and upon new COTR appointment to a contract. However, although this on-demand training course is available in DiveIn, it has not been required or assigned to any COTRs. Therefore, COTRs appointed off-cycle of the bi-annual training do not currently receive formal training.

Root Cause Analysis: The implementation of the on-demand COTR training program was put on hold due to the COVID-19 pandemic. The Authority began developing this capability, but due to competing priorities, the final roll-out of an on-demand program to supplement the bi-annual COTR training was not completed.

Impact Analysis: Improperly trained COTRs may not fulfill their duties and responsibilities within their assigned contracts. The lack of formalized training may lead to misunderstanding of critical COTR monitoring duties and may cause DC Water to become non-compliant with agreed upon contract terms.

Recommendation: We recommend that DC Water assign the on-demand COTR training to any COTRs that have not received training since the last formal training was offered in 2019. Going forward, these trainings should be available to be administered to new COTRs prior to beginning their work on a contract, as well as existing COTRs that may need refresher training. When the Oracle training module is implemented next fiscal year, Internal Audit recommends that COTR training is assigned by role within Oracle as applicable in order to track completion.

Observation 1: COTR Training (continued)

Management Action Plan:

Response: A training video is available in Dive In, DC Water's system for personnel performance management. All that remains is to make the training available is to invite COTRs and to record viewing. The necessity of in-person classroom training is being re-evaluated. Management believes this observation should have a risk rating of low, not medium, since the vast majority of COTRs are trained and experienced.

Responsible Party: Joel Grosser, Director of Procurement, Goods & Services

Target Date: September 2021

Observation 2: Vendor Scorecard Completion

Risk Rating: Low

Observation: Vendor scorecards were not completed for any of the three reviewed contracts during fiscal year 2020. The completion of a vendor scorecard following each contract year is a responsibility of the COTR. The vendor scorecard provides context regarding the nature of DC Water's relationship with the vendor, and is utilized in future decision-making regarding whether to continue the relationship. Timely completion of the vendor scorecard after concluding a contract year allows the COTR to provide vendor feedback in a timely manner.

Root Cause Analysis: The implementation of Oracle was a top priority for the Authority throughout fiscal year 2020. This prioritization of the system implementation caused a de-prioritization of the vendor scorecard process. The process was not developed within Oracle, which prevented COTRs from having the option to create and finalize vendor scorecards at the completion of their contracts.

Impact Analysis: Without formalized vendor scorecards at the completion of a contract year, the Authority does not have specific documentation regarding vendor performance to support decisions related to continuing or discontinuing the relationship.

Recommendation: We recommend that management work to create vendor scorecards and vendor management reporting capabilities within Oracle. The re-introduction of the vendor scorecard process will enable DC Water to make informed decisions on vendor relationships year over year.

Management Action Plan:

Response: Development of a new, custom-built Vendor Scorecard system has been underway for a couple of months and is nearly complete.

Responsible Party: Joel Grosser, Director of Procurement, Goods & Services

Target Date: September 2021

Observation 3: Late Invoice Payments

Risk Rating: Low

Observation: For the three in-scope contracts, Internal Audit reviewed a sample of invoices that were received between April 1, 2020 – March 31, 2021. Based upon our testing, it was identified that certain invoices were not paid within 30 days of the invoice issuance date. Timely 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. The delays in payment vary from 36 to 183 days after the invoice date. Specifically, the following was noted:

- Contract #1: Enterprise Security Solutions – 5 of 17 invoices were not paid within 30 days of invoice date
- Contract #2: Raftelis Financial Consultants – 3 of 4 invoices were not paid within 30 days of invoice date
- Contract #3: Mitsubishi International – 2 of 17 invoices (payments) were not paid within 30 days of invoice date

Root Cause Analysis: Late payments may be due to a number of delays including late submission of invoices by contractors, delay in COTR review and approval, disputes regarding invoice amount or detail provided, or delayed general processing of the invoices for payment. All late payments occurred during the COVID-19 pandemic. Additionally, DC Water was going through the Oracle ERP implementation, which may have caused a delay in COTR approvals as they learned how to use the new workflows.

Impact Analysis: The risks associated with late invoice payments include possible payment of interest or late fees, along with diminished vendor relationships.

Recommendation: We recommend COTR's receive training ensuring they are aware of vendor payment requirements.

Observation 3: Late Invoice Payments (continued)

Management Action Plan:

Response: Management does not dispute the invoice payment statistics calculated on the contract sample, but they do not reflect overall DC Water performance. FY20 on-time invoice payment was approximately 97%, and FY21 performance is about 93% so far. Management agrees with the root causes of the drop as surmised by the auditors, although there may be legitimate and proper reasons for delayed invoice approval.

COTR training already includes invoice payment responsibilities. General Oracle training already includes the process for approving invoices for applicable roles. Management recommends allowing the use of Oracle to stabilize, and then reassessing on-time payment performance before determining the best course of action.

Responsible Party: Multiple

Target Date: Performance will be evaluated sufficiently frequently to enable determination of trends

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).

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