



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Audit Committee

Thursday, April 24, 2014

9:30 a.m.

1. **Call to Order**..... Edward L. Long, Jr., Chairperson

2. **Review of Internal Audit Status**.....Joseph Freiburger
A. **Employee Benefits Report**

3. **Internal Audit Outsourcing RFP Recommendation**.....Mark Kim

4. **Action Item**.....Mark Kim
A. **Contract No. 14-PR-CFO-01, McGladrey LLP**

5. **Follow-Up Item** Joseph Freiburger

6. **Executive Session**Edward L. Long, Jr.

7. **Adjournment**.....Edward L. Long, Jr.



Internal Audit Update

Audit Committee Meeting

April 24, 2014

The following represents a summary of the activities and achievements since the February 27, 2014 meeting.

I. Highlights

Performance of scheduled internal audits – Internal Audit performed audit work in nine separate audit areas. One final report was issued to conclude the work performed under the FY2014 Internal Audit Plan (Employee Benefit Plans). We have completed the fieldwork and prepared the initial draft report for three audits from the FY2014 Internal Audit Plan (Sewer Service – Distribution, Outside Contractor Management – Part 1, and Emergency Management – Recovery) and are in the process of obtaining Management feedback and issuing the final audit report. Additionally, five audits from the FY2014 Internal Audit Plan (Emergency Management – Mitigation and Response, IT – Disaster Recovery, OSHA Reviews – Part 2, GIS System, and Outside Contractor Management – Part 2) are in progress. The chart below depicts the FY2014 planned projects and their status for the fiscal year.

A. **Stage of Audits & Special Projects** – The following represents an indication of the stage of completion for each scheduled audit and requested special projects.

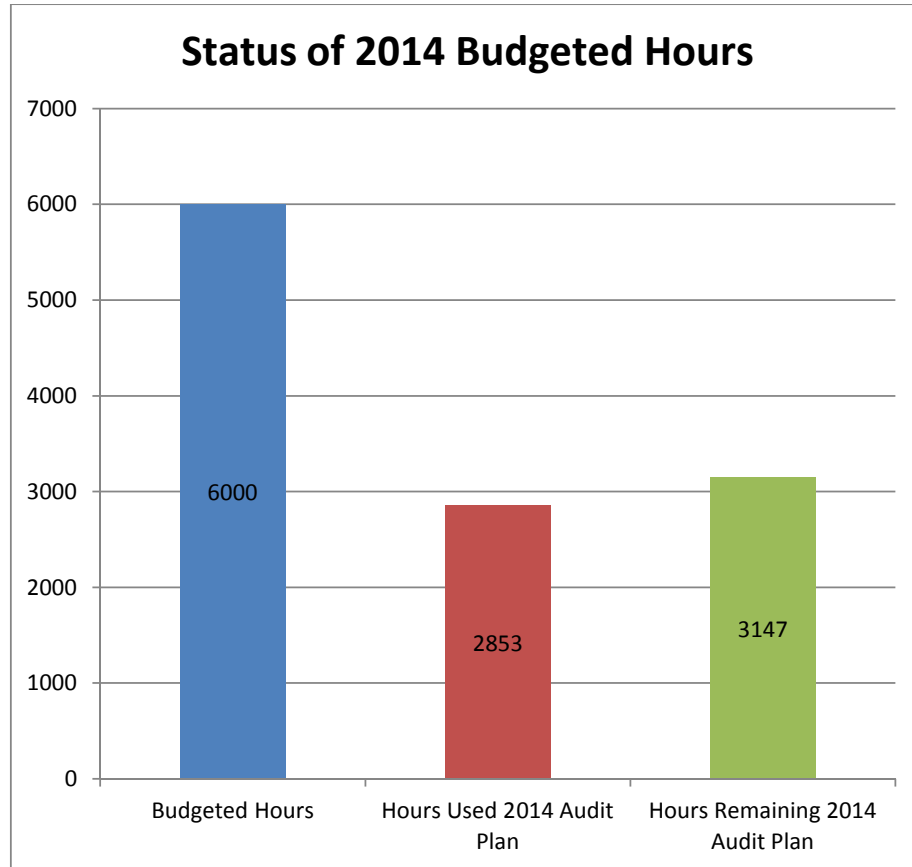
PROJECT	PLANNING / SCOPING	FIELDWORK	DRAFT REPORT	FINAL REPORT
Legal Operations				
Disposal of Assets				
Clean Rivers Project Management				
OSHA Reviews, Part 1				
Employee Benefit Plans				
Sewer Services – Construction & Repair				
Outside Contractor Management, Part 1				
Emergency Management - Recovery				
Emergency Management – Mitigation and Response				
IT – Disaster Recovery				
OSHA Reviews, Part 2				
IT – Asset Management				
GIS System				

Outside Contractor Management, Part 2				
Maintenance Services				
Warehousing & Inventory				
IT – Lawson Integration				

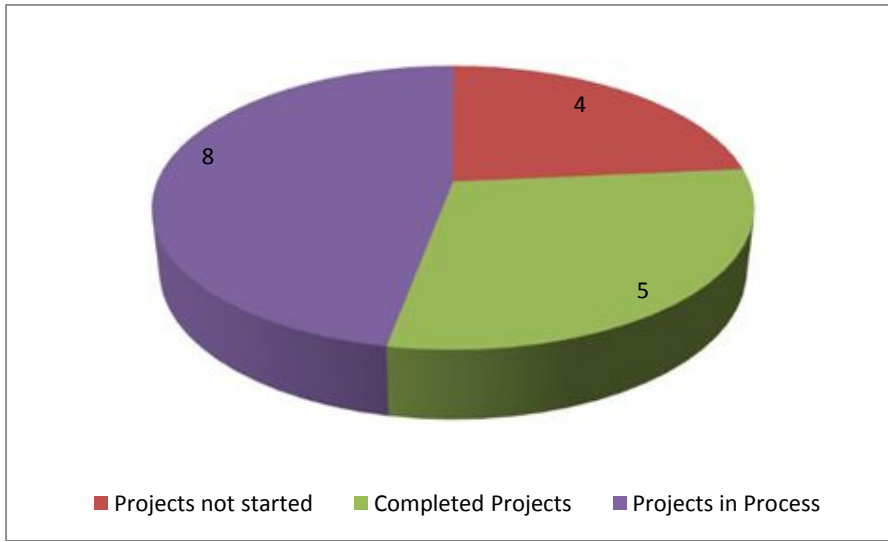
B. **Analysis of key milestone dates** – The following represents an indication of the date of completion of key project milestones.

PROJECT	START DATE	FIELD-WORK END DATE	DRAFT REPORT ISSUANCE DATE	FINAL REPORT
Legal Operations	10/14/2013	1/17/2014	1/24/2014	2/11/2014
Disposal of Assets	10/14/2013	12/6/2013	1/22/2014	2/18/2014
Clean Rivers Project Management	11/13/2013	1/17/2014	1/27/2014	2/11/2014
OSHA Reviews, Part 1	12/18/2014	1/22/2014	1/29/2014	2/18/2014
Employee Benefit Plans	1/29/2014	3/26/2014	3/31/2014	4/2/2014
Sewer Services – Construction & Repair	2/6/2014	3/31/2014	4/4/2014	
Outside Contractor Management, Part 1	2/11/2014	3/28/2014	4/2/2014	
Emergency Management - Recovery	2/7/2014	4/8/2014	4/10/2014	
Emergency Management – Mitigation and Response	4/7/2014			
IT – Disaster Recovery	3/31/2014			
OSHA Reviews, Part 2	4/10/2014			
IT – Asset Management				
GIS System				
Outside Contractor Management, Part 2	4/7/2014			
Maintenance Services				
Warehousing & Inventory				
IT – Lawson Integration				

C. **Analysis of Hours** – The chart below indicates the actual hours used through March 31, 2014 toward completion of the internal audit plan, along with an indication of the total hours included in the FY2014 plan.



II. 2014 Audit Plan Status



A. Reports Issued Since Last Audit Committee Meeting

1. Employee Benefits

Our overall audit objectives included an evaluation of the activities performed by the Benefit Operations personnel. Specific audit objectives included:

- To ensure policies and procedures are current and sufficiently govern Benefit Operations;
- To ensure benefit rates negotiated by the third party, AON, are authorized by DC Water Management;
- To assess the accuracy of initial benefit information and changes entered into Ceridian (DC Water’s payroll system), along with ensuring that proper documentation is retained;
- To determine whether deductions for employee benefit deferrals are being accurately completed;
- To determine whether terminated employees are being identified and the relevant information is entered into the Ceridian system timely;
- To determine whether supporting documentation is obtained prior to granting benefits to employee dependents; and,
- To determine whether payments paid to outside providers are accurate and properly authorized.

Internal Audit concluded that the Benefit Operations process appeared to be designed and operating effectively. We concluded that the internal controls surrounding the Benefit Operations were effective.

Internal Audit identified some items that should be addressed by management in order to further strengthen DC Water’s Benefit Operations. In particular, there is a need to address the following:

- The benefit policies and procedures have not been formally reviewed and approved on an annual basis; and,

- Information entered into Ceridian is not reviewed by an individual separate from the individual who initially entered the information, thereby ensuring the accuracy of the data.

This audit resulted in the addition of two Management Action Items in the chart in Section III Follow Up.

III. Follow Up

In addition to our work performed relative to the audit projects identified in the FY2014 Internal Audit Plan, Internal Audit conducted follow-up activity relative to previously reported audit comments. The table below summarizes the issues by area of responsibility and the current status of the action plan proposed by Management.

	Chief Engineer	AGM Blue Plains	AGM Customer Care & Operations	Chief Financial Officer	General Counsel	Chief Information Officer	AGM Support Services	General Manager	Total
New Management Action Plans Since Previous Meeting	-	-	-	-	-	-	2	-	2
Management Action Plans Implementation Date Not Expired	1	9	22	3	2	1	9	-	47
Management Action Plans Implementation Date Expired	-	-	-	-	-	-	-	-	-
Total	1	9	22	3	2	1	11	-	49

Please note that there are no Management Action Plans with Expired Implementation Dates at this time.

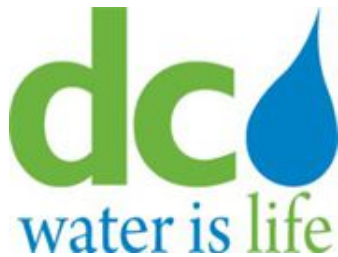
IV. Other Topics

Special Project: HCM Recruiting

Internal Audit is currently assisting the HCM department with a review of their recruiting procedures, which includes an examination of all files and documentation associated with a selection of new hires and promotions.

Fraud Hotline

To date, a total of 15 cases have been received as a result of the Fraud, Waste and Abuse hotline. One of the 15 cases has been received since the February 27 Audit Committee meeting. The new case pertains to customer billing and is being investigated. Fourteen of the 15 reports have been investigated and closed.



**Employee Benefits
Internal Audit Report**

March 31, 2014

INTERNAL AUDIT TEAM

Director:	Joe Freiburger
Principal:	Dennis FitzGerald
Senior:	Jay Masten

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EXECUTIVE SUMMARY

Background

The DC Water Employee Benefit Operations is managed within the DC Water Human Capital Management department. Benefit Operations is currently staffed by three positions which includes a Benefits Manager, Systems Analyst, and Benefits Specialist. DC Water offers a comprehensive benefits package that enables DC Water to attract and retain a highly qualified and diverse workforce. The DC Water Benefits Program is a cafeteria plan as defined by the Internal Revenue Service under section 125. New hires become benefit eligible the first of the month following their date of hire. The benefits program consists of health insurance, group term life insurance, dental insurance, vision coverage, disability insurance, flexible spending accounts, group legal services, and retirement. DC Water's retirement plan consists of a section 401(a) defined contribution plan, and a section 457(b) deferred compensation plan. Eligible employees automatically become a participant in the section 401(a) defined contribution plan upon date of hire. DC Water contributes 7% of annual base pay plus 5% of annual base pay over the Social Security wage base on behalf of eligible employees. Eligible employees can voluntarily elect to participate in the section 457(b) deferred compensation plan any time after date of hire. DC Water contributes a matching contribution of 100% of the amount eligible employees contribute to the 457(b) plan up to 5% of their annual base pay. DC Water has a retirement plan committee that oversees the 401(a) and 457(b) retirement plans. The committee has been sanctioned by the Board of Directors and meets with an investment consultant on a semiannual basis to review the investment options that are offered in the plans.

The DC Water Benefit Operations is tasked with responsibility for health and welfare benefits administration, pension benefits administration, managing the employee assistance program, and the wellness program. DC Water utilizes the services of AON in conjunction with the in-house Benefit Operations for the administration of benefits.

Objectives

Our overall audit objectives included an evaluation of the activities performed by the Benefit Operations personnel. Specific audit objectives included:

- To ensure policies and procedures are current and sufficiently govern Benefit Operations.
- To ensure benefit rates negotiated by the third party, AON, are authorized by DC Water Management.
- To assess the accuracy of initial benefit information and changes entered into Ceridian (DC Water's payroll system), along with ensuring that proper documentation is retained.
- To determine whether deductions for employee benefit deferrals are being accurately completed.

- To determine whether terminated employees are being identified and the relevant information is entered into the Ceridian system timely.
- To determine whether supporting documentation is obtained prior to granting benefits to employee dependents.
- To determine whether payments paid to outside providers are accurate and properly authorized.

Audit Scope and Procedures

This audit was conducted in accordance with the approved FY2014 internal audit plan. The audit was initiated in February 2014, completed in March 2014, and included an evaluation of the Benefits Operations during the period of January 1, 2013 through December 31, 2013. The audit procedures consisted of interviews with appropriate parties, flowcharting of operations, reviewing of pertinent documents and reports, and testing of a sample of transactions.

Summary of Work

Internal Audit concludes that the Benefit Operations process appears to be designed and operating effectively. We conclude that the internal controls surrounding the Benefit Operations are effective.

Internal Audit has identified some items that should be addressed by management in order to further strengthen DC Water's Benefit Operations. In particular, there is a need to address the following:

- The benefit policies and procedures have not been formally reviewed and approved on an annual basis;
- Information entered into Ceridian is not reviewed by an individual separate from the individual who initially entered the information, thereby ensuring the accuracy of the data.

SC&H Consulting
By:

Joe Freiburger, CPA, CIA

II. DETAILED OBSERVATIONS & RECOMMENDATIONS

I. Formalized Review of Policies and Procedures

Observation:

Internal Audit observed that the Policies and Procedures adhered to by the Benefits personnel are not reviewed and approved on an annual basis. The annual review of policies and procedures is a best practice which aids in ensuring that transactions are processed in accordance with Management’s direction.

Risk:

Failure to review and approve policies and procedures can lead to outdated or incorrect policies being followed by Benefits personnel.

Recommendation:

Internal Audit suggests implementing a formalized process of review and approval of the benefits-related policies and procedures by HCM management on an annual basis. The policies and procedures review should be evidenced by a sign-off indicating the review by an authorized party.

Business Owner(s):

Otho Milbourne , Benefits Manager,
Human Capital Management

Management’s Action Plan

The Benefits Branch will update standard operating procedures to capture process changes that occur during the calendar year by the first quarter of the following year. The new updated procedures will be reviewed and approved by the Benefits Manager.

Implementation Date: March 31, 2015

II. Secondary Review of Benefit Information Entered In Ceridian

Observation:

Internal Audit noted that the same person that received the benefits application information from employees, also entered the information into Ceridian, and reviewed their own data input. Sound internal control dictates that the functions of entry and authorization be segregated. This allows for the detection of errors and deters potential improprieties.

Risk:

The presentation of inaccurate and/or incomplete information in the monthly progress reports and General Manager report could potentially affect management’s ability to make well-informed decisions.

Recommendation:

Internal Audit recommends that one employee receive and input the employee benefit information into the system, while a second individual (either same level or one level above) review and verify that the information was entered correctly, as well as making certain that the trial payroll information agrees with the source documentation. This will ensure proper segregation of duties.

Business Owner(s):

Otho Milbourne, Benefits Manager,
Human Capital Management

Management’s Action Plan

One member of the Benefits Branch will receive and input benefit information into the system, while a second individual (either same level or one level above) will review and verify that the information was entered correctly by checking trial payroll information to ensure that it agrees with the source documentation

Implementation Date: April 15,2014

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

ACTION REQUESTED

GOODS AND SERVICES CONTRACT AWARD

Internal Audit Outsourcing

(Joint Use - Indirect Cost)

Approval to execute a contract for a base period of two (2) years with up to three (3) one-year options in the amount of \$4,290,000.00.

CONTRACTOR/SUB/VENDOR INFORMATION

PRIME: McGladrey LLP 1501 M Street Washington, DC 20005	SUBS: HGM Management and Technologies, Inc. (Local Small Business Enterprise)	PARTICIPATION: 10%
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DESCRIPTION AND PURPOSE

Base Year Contract Value:	\$1,656,000.00
Contract Base Period:	730 days (2 years)
Number of Option Years:	3
Anticipated Contract Start Date:	10-01-2014
Anticipated Contract Completion Date:	09-30-2019
Proposal Closing Date:	02-28-2014
Proposals Received:	6
Proposal Range:	\$4,230,000.00 – \$4,458,000.00
Preference Points Received:	1.9

Purpose of the Contract:

The purpose of the contract is to provide internal audit functions for the District of Columbia Water and Sewer Authority (DC Water). The contract will provide services that include but are not limited to operational, financial and internal control reviews of systems, functions and programs as directed by the DC Water's Audit Committee.

Note: The cost for the two year base period is \$1,656,000.00. The cumulative cost for option years one (1) through three (3) is \$2,634,000.00.

The procurement method utilized was a Request for Proposal (RFP). Award will be made to one firm. McGladrey LLP is the highest rated offeror of all competitive range firms. The names of all responsive firms who submitted proposals are listed below.

Proposals were received from:

- Baker Tilley Virchow Krause, LLP
- Brooks and Associates CPAs, LLC
- Cotton & Company LLP
- McGladrey LLP
- Protiviti
- SC & H Group LLC

PROCUREMENT INFORMATION

Contract Type:	Fixed Price Blended Hourly Rates	Award Based On:	Highest Rating
Commodity:	Goods & Services	Contract Number:	14-PR-CFO-01
Contractor Market:	Open Market with preference points for LBE/LSBE participation		

BUDGET INFORMATION

Funding:	Operating	Department:	Office of the General Manager
Service Area:	DC Water Wide	Department Head:	George S. Hawkins

ESTIMATED USER SHARE INFORMATION

User - Operating	Share % *	Dollar Amount
District of Columbia	83.78%	\$3,594,162.00
Washington Suburban Sanitary Commission	11.84%	\$507,936.00
Fairfax County	3.03%	\$129,987.00
Loudoun County	1.17%	\$50,193.00
Potomac Interceptor	0.18%	\$7,722.00
Total Estimated Dollar Amount	100.00%	\$4,290,000.00

*Actual amounts will be reconciled and billed to customers accordingly.

 4.16.14
 Katy Chang Date
 Acting Procurement Director

 04/17/14
 Gail Alexander Beeves Date
 Director, Budget

 4/17/14
 Mark Kim Date
 Chief Financial Officer

 George S. Hawkins Date
 General Manager



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DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY | 5000 OVERLOOK AVENUE, SW | WASHINGTON, DC 20032

MEMORANDUM

To: Ayodele McClenney, Director, Occupational Safety & Health

Through: Randy E. Hayman, General Counsel *REH.*

From: Gregory Hope, Principal Counsel *GH*

C: Leonard Benson, Chief Engineer

Date: April 14, 2014

Re: OSHA’s Jurisdiction Over DC Water

The Office of the General Counsel (OGC) has been requested to provide advice concerning Occupational Safety and Health Administration (OSHA) jurisdiction over DC Water, employee escalation of concerns to OSHA, and employee options. OGC has researched your question and provides the following response.

OSHA National Standards

The laws and implementing regulations pertaining to occupational safety and health standards promulgated under the Occupational Safety and Health Act of 1970, as amended, do not apply to DC Water. Pursuant to 29 U.S.C. § 652(9), the Secretary of Labor is authorized to establish national consensus standards, which establish conditions, or adopt or use one or more practices, means, methods, operations, or processes, that are reasonably necessary to provide safe or healthful employment in places of employment. However, the OSHA statute and regulations only apply to private employers. See 29 U.S.C. § 652(5) and 29 CFR § 1910.2(c) (definition of employer). States, including the District of Columbia, may seek authorization for the development and enforcement of State standards that preempt Federal OSHA national standards, provided they have an OSHA approved State plan. See 29 U.S.C. § 667 (State jurisdiction and plans). The State plans must meet certain requirements, including ensuring the State standards are or will be at least as effective as the OSHA national standards, and where permissible by law, expanding the application of the State standards to all public agencies of the State. *Id.*

The District of Columbia does not have an OSHA approved State plan. Consequently the OSHA national standards only apply to private employers, e.g. DC Water’s contractors. While DC Water is an independent authority of the District government, it’s separate legal existence is within the District government. See D.C. Code § 34-2202.02(a). Therefore, as an instrumentality of the District government, OSHA’s national standards do not apply to DC Water. Further, no statutes or rules were

identified that would permit employee to file a complaint with OSHA regarding an alleged violation of an OSHA national standard.

However, as discussed below, there are some OSHA national standards that have either been incorporated by reference into District of Columbia regulations or by DC Water in its training requirements and standard operating procedures that DC Water would be required to comply with if it's employees perform those activities.

District Adopted OSHA National Standards

The District government has adopted certain OSHA standards in a few regulatory requirements that may be applicable to work performed by DC Water staff, including, but not limited to:

12A DCMR § 1607.14:

1607.14 Powered maintenance platforms. The structural supports for powered maintenance platforms shall be designed in accordance with the requirements in Subpart F, §1910.66 of Occupational Safety and Health Administration Standards listed in Chapter 35.

12F DCMR § P-306.2.5:

P-306.2.5 Trench safeguards. These requirements apply to any trench 4 feet (1219mm) or more of depth which serves as a workplace. The sides of all such trenches shall be securely supported by substantial and adequate sheeting, sheet piling, bracing, shoring or other approved method of support, or the sides of the excavation sloped to the angle of repose of the material being excavated, where there is apparent danger of slides, slips, cave-ins, or falling of earth and where the undercutting of banks or walls of the excavation is pertinent to the excavation system. Shoring will not be required where the trench is cut in solid rock or hard shale. All trenches shall be supplied with at least one ladder for each 50 feet (15 240mm) of length or fraction. The ladder shall extend from the bottom of the trench to at least 3 feet (914mm) above the surface of the ground. Minimum requirements for the size and spacing of trench shoring members shall be in accordance with current OSHA requirements.

20 DCMR § 765.5(m):

765.5 Batch vapor cleaning machines shall be operated in accordance with the following procedures:

(m) If a lip exhaust is used on the open top vapor degreaser, the ventilation rate shall not exceed twenty meters cubed per minute per meters squared (20 m.3/min./m.2) or sixty-five feet cubed per minute per feet squared (65 ft.3/min./ft.2) of degreaser open area, unless a higher rate is necessary to meet federal Occupational Safety & Health Administration (OSHA) requirements.

DC Water's failure to comply with District regulations that reference OSHA national standards will not subject DC Water to OSHA enforcement authority, but that of the District government.

DC Water Adopted OSHA National Standards

DC Water has also adopted certain provisions of the OSHA national standards into DC Water's staff mandatory safety training requirements. For example, OGC staff are required to complete: HazCom Right to Know, 29 CFR § 1910.1200; and PPE, 29 CFR § 1910 subpart I. DETS staff are required to complete: HazCom Right to Know, 29 CFR § 1910.1200; PPE, 29 CFR § 1910 subpart I; and STS 30 Hour OSHA. Department of Water Service staff are required to complete: HazCom Right to Know, 29 CFR § 1910.1200; General Excavation Safety Awareness, 29 CFR § 1926.650; Competent Person Excavation, 29 CR § 1926.650. Some personnel are also required to complete Overhead Crane & Hoist Safety, 29 CFR § 1910.179; and Permit Required Confined Space Entry, 29 CFR 1910.146; and PPE, 29 CFR § 1910 subpart I.

DC Water has also adopted by reference or included references to some OSHA national standards into its Safety and Health Policy Procedures, including, but not limited to, Excavation and Trenching, 2/28/01; Overhead Cranes and Hoists, 2/28/01; Personal Protective Equipment, 2/28/01; and Scaffolding, 2/28/01. In these cases, DC Water staff compliance with these OSHA national standards would not subject to OSHA oversight authority, but to DC Water's internal enforcement authority.

OSHA's Whistle-Blower Investigation Authority

DC Water is subject to OSHA's whistle-blower provisions. The Secretary of Labor, through the Assistant Secretary of Labor for OSHA, is vested with the authority to investigate retaliation complaints that are filed by employees under certain federal laws: Safe Drinking Water Act, Federal Water Pollution Control Act, Toxic Substances Control Act, Solid Waste Disposal Act, Clean Air Act, and Comprehensive Environmental Response, Compensation and Liability Act of 1980. *See* 29 USC § 24.100. Employer's are prohibited from discharging, or retaliating against an employee with respect to the employee's compensation, terms, conditions, or privileges of employment; or intimidating, threatening, restraining, coercing, blacklisting, discharging, or disciplining an employee because the employee:

- (1) Commenced or caused to be commenced, or is about to commence or cause to be commenced, a proceeding under one of the statutes listed [above] or a proceeding for the administration or enforcement of any requirement imposed under such statute;
- (2) Testified or is about to testify in any such proceeding;
- (3) Assisted or participated, or is about to assist or participate, in any manner in such a proceeding or in any other action to carry out the purposes of such statute;
- (4) Notified the employer of an alleged violation of such statute;
- (5) Refused to engage in any practice made unlawful by such statute, if the employee has identified the alleged illegality to the employer; or
- (6) Testified or is about to testify before Congress or at any Federal or State proceeding regarding any provision (or proposed provision) of such statute.

See 29 CFR § 24.102.

Upon receipt of a complaint, the Assistant Secretary for OSHA will conduct an investigation to determine whether or not there is a reasonable cause to believe that the employer has retaliated against the complainant in violation of any the above named statutes. *See* 29 CFR § 24.105(a). If the Assistant Secretary concludes that there is reasonable cause to believe that a violation has occurred, he or she shall accompany the findings with an order providing relief to the complainant. *Id.* If the Assistant Secretary concludes that a violation has not occurred, the Assistant Secretary will notify the parties of that finding. *Id.*

The OSHA whistle-blower statutes and regulations do not permit a DC Water employee's can file a complaint regarding OSHA's national standards, which would not be applicable to DC Water.