



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Audit Committee

Thursday, April 28, 2016

9:30 a.m.

- 1. **Call to Order**.....Nicholas A. Majett, Chairperson
- 2. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
 - A. **FY 2016 Internal Audit Plan Status Update**
 - B. Status Update on Audit Findings
 - C. **Contract Monitoring and Compliance Audit Part I**
 - D. Hotline Update
- 3. **Executive Session*** Nicholas A. Majett, Chairperson
- 4. **Adjournment**..... Nicholas A. Majett, Chairperson

* The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(1); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10);proprietary matters under D.C. Official Code § 2-575(b)(11); decision in an adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14), and other matters provided in the Act.

DC WATER

Audit Committee Meeting



April 28, 2016

Agenda

- FY 2016 Internal Audit Plan Status Update
- Status Update on Audit Findings
- Contract Monitoring & Compliance Audit Part I
- Hotline Update
- Executive Session

FY 2016 Internal Audit Plan Status Update

Audit	Status
FY 2016	
Retail Rates Implementation (Post)	Progress Report Complete
Overtime Audit and Analysis	Report Complete
Contract Monitoring & Compliance Part I	Report Complete
ROCIP	Fieldwork Complete, Reporting In-Process
Training, Licensing & Certification	Fieldwork Complete, Reporting In-Process
Contract Monitoring & Compliance Part II	Fieldwork In-Process
Engineering – Contractor Management	Fieldwork In-Process
Annual Budgeting & Planning	Fieldwork In-Process
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

Status on Prior Audit Findings - Summary

Last Audit Committee meeting, we presented the following status of prior audit findings:

Category	Corrective Actions				
	Total	Open	Closed	Pending Testing	Action Deferred*
Audit Findings Prior to FY 2015	44	15	16	9	4
FY 2015 Audit Findings (Non-IT)	11	8	2	1	0
Total	55	23	18	10	4

The current status of all prior audit findings is represented in the following table:

Category	Corrective Actions				
	Total	Open	Closed	Pending Testing	Action Deferred*
Audit Findings Prior to FY 2015	28	8	11	4	5
FY 2015 Audit Findings (Non-IT)	9	3	5	0	1
Total	37	11	16	4	6

Of the 82 audit findings prior to FY 2015, 17 remain in-progress and 80% are closed.

Update on Audit Findings Prior to FY 2015

Audit Report/Subject	Report Issue Date	Corrective Actions				
		Total	Open	Closed	Pending Testing	Action Deferred*
Organizational Policies & Procedures	02/23/2010	1	0	0	0	1
Safety Program Training & Compliance	10/07/2010	1	0	0	0	1
Human Capital Management	11/29/2011	1	0	0	0	1
Maintenance Services	04/18/2012	2	2	0	0	0
IT Helpdesk & Computer Operations	10/05/2012	1	0	0	1	0
Fleet Management	04/17/2013	2	0	1	0	1
Process Control System (PCS)	09/04/2013	4	0	4	0	0
Sewer - Emergency Maintenance	06/18/2013	1	0	1	0	0
Water Services - Distribution Maintenance Branch	10/28/2013	2	1	1	0	0
OSHA	02/18/2014	1	1	0	0	0
Disposal of Assets	02/18/2014	1	1	0	0	0
Emergency Management - Recovery	05/12/2014	1	0	1	0	0
DSS - Construction & Repair	05/12/2014	3	0	0	3	0
Emergency Management - Mitigation	06/27/2014	1	0	1	0	0
IT Asset Management	09/10/2014	2	0	2	0	0
Warehouse Operations	09/15/2014	2	1	0	0	1
GIS Mapping	06/23/2014	2	2	0	0	0
	Total	28	8	11	4	5

*Of the 5 action deferred items, 4 items are related to union approval of policies and 1 is a business process improvement.

Update on Audit Findings Prior to FY 2015, cont.

Status by Business Area

	DETS	Blue Plains	Customer Care & Operations	Office of the General Counsel	IT	Support Services	Finance	Office of the General Manager
Closed Since Last AC Meeting	0	4	4	0	2	1	0	0
Open Management Action Plans	2	2	1	0	0	3	0	0
Pending Testing	0	0	3	0	1	0	0	0
Action Deferred	0	0	0	0	0	1	0	4
28 Total	2	6	8	0	3	5	0	4

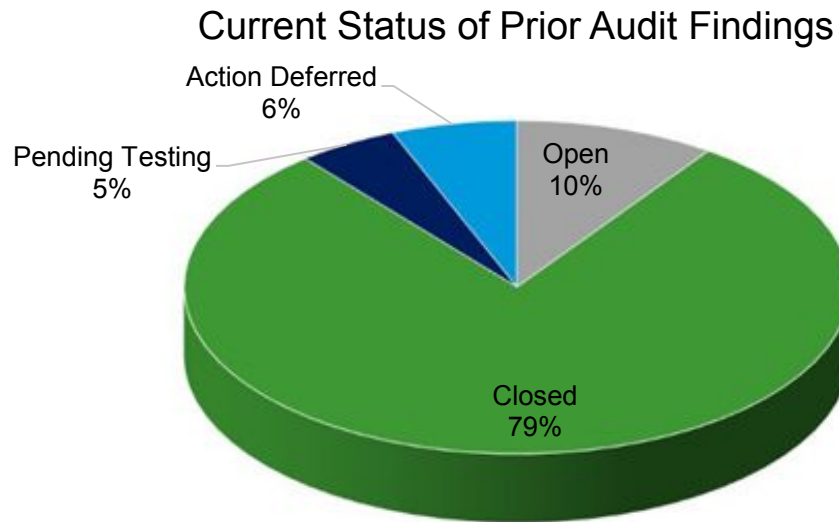
Corrective Action Themes

Category	# of corrective actions
Policy and Procedure:	
Policy or Procedure does not exist	2
Policy or Procedure needs to be updated	2
Policy requires union approval	4
Total	8
Asset Management	7
Catch Basin Pilot Program	1
Contractor / Vendor Dependency	3

Corrective Action by Due Date

Due Date	# of corrective actions
Past Due	0
FY 2016 Quarter 3	1
FY 2016 Quarter 4	4
FY 2017 Quarter 1	0
FY 2017 Quarter 2	1
FY 2017 Quarter 3	1
FY 2017 Quarter 4	1

Update on Audit Findings Prior to FY 2015, cont.



	Audit Committee Meeting Date					
	3/26/2015	4/23/2015	6/23/2015	10/22/2015	2/25/2016	4/28/2016
Open	44	34	37	29	15	8
Closed	19	12	3	4	16	11
Pending Testing	14	12	6	10	9	4
Action Deferred	5	5	5	5	4	5

Update on FY 2015 Audit Findings

Audit Report / Subject	Report Issue Date	Corrective Actions				
		Total	Open	Closed	Pending Testing	Action Deferred
Intellectual Property Program Assessment	01/08/2015	5	1	3	0	1
Timekeeping Audit	04/08/2015	2	0	2	0	0
Procurement – Pre-Award, Selection, and Award	05/18/2015	2	2	0	0	0
	Total	9	3	5	0	1

Status by Business Area

	Support Services	Finance	Office of the General Manager
Closed Since Last AC Meeting	0	2	3
Open Management Action Plans	2	0	1
Pending Testing	0	0	0
Action Deferred	0	0	1
9 Total	2	2	5

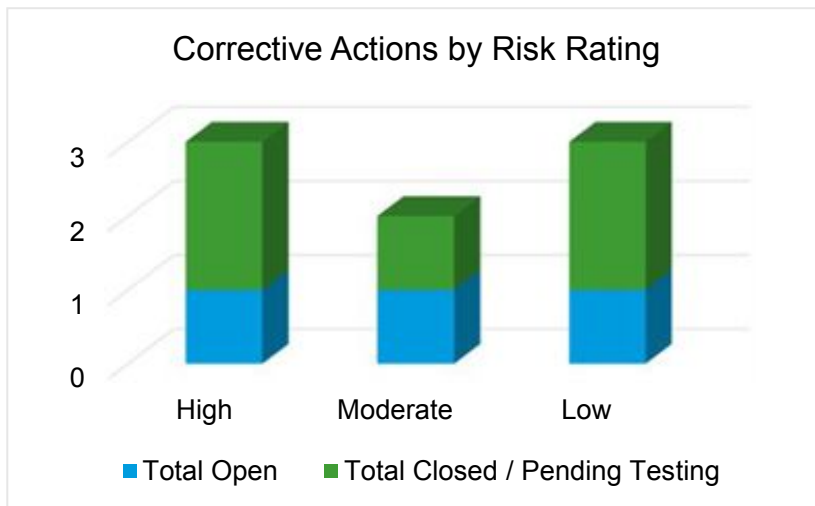
Corrective Action by Due Date

Due Date	# of corrective actions
Past Due	0
FY 2016 Quarter 3	2
FY 2016 Quarter 4	1

Update on FY 2015 Audit Findings, cont.

Audit Report / Subject	Risk Rating of Open Items				# CAP Extensions*
	Total	High	Moderate	Low	
Intellectual Property Program Assessment	1	0	1	0	
Timekeeping Audit	0	0	0	0	0
Procurement – Pre-Award, Selection, and Award	2	1	0	1	2
Total	3	1	1	1	9

*CAP Extensions are the number of corrective action plans that did not meet the original estimated completion date and was granted an extension. All extension were less than 6 months.



Follow-up on IT-Related Items**

Audit Report / Subject	Total
IT Policy and Procedure	2
Network Security Assessment	17
SCADA / PCS Security Review	17
Total	36

** IT Reports are confidential and issued during executive session.

Contract Monitoring & Compliance Audit Part I

The scope of the Contract Monitoring & Compliance Audit included:

- 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 process, and
- Identify process improvement opportunities and recommend internal control enhancements to improve the Contractor management process.

Internal Audit selected a sample of four contracts from various departments to evaluate contract monitoring and compliance. Part I of the Contract Monitoring & Compliance Audit contains one of the contracts selected by Internal Audit. Part II of this audit will contain the remaining three contracts. The Authority enters into many contracts each year, as illustrated by the contractual services expenditures in the following table:

Contractual Services Expenditures ¹	
FY 2013 Actual	\$68,430,000
FY 2014 Actual	\$68,172,000
FY 2015 Actual	\$66,241,000
FY 2016 Approved	\$79,244,000

¹Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget; FY 2015 Consolidated Annual Financial Report

Contract Monitoring & Compliance Audit Part I, cont.

Contract # WAS-12-063-AA-RA: Department of Security, Protective Services

Allied Barton Security Services provides DC Water with professionally trained and reliable armed commissioned Special Police Officers (SPOs) to safeguard DC Water’s property and personnel in order to prevent and deter unauthorized access or the removal of property, prevent malicious injury or damage, and assist DC Water in all other related security matters.

Contract Overview	
Contractor	Allied Barton Security Services
Award Date	12/19/2012
Original Contract Period	12/1/2012 – 12/15/2013
Contract Award	\$4,934,348.12
Type of Contract	Firm fixed price, hourly labor rate and four (4) one (1) year option periods
COR	Director, Department of Security
COTR	Security Manager, Department of Security

DC Water has had an ongoing relationship with Allied Barton for over eight years. As of January 2016, 69 Allied Barton SPOs monitor 12 DC Water post sites. The Allied Barton contract makes up 82% of the Department of Security’s FY 2016 operating expenditures budget.

Contract Monitoring & Compliance Audit Part I - Observations

Observations	Risk Rating
1. Completion and documentation of training requirements	High
2. Frequency and monitoring of performance reviews	Moderate
3. Standard operating procedures review and update	Low
4. Contractor deliverables	Low

We have also communicated two process improvement recommendations to management during the course of this audit.

We are satisfied with management’s responses and planned actions, and will perform follow-up on the observations in the course of routine follow-up procedures.

Hotline Update

Last audit committee meeting we reported that 8 cases were open. Since the last audit committee meeting:

Hotline Calls	
Calls Received	14
Fraud Claims	4
Other	10
Cases Closed	12
Cases Currently Open	10

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		DC Water & Sewer Authority Proposed Internal Audit Plan WORKING DRAFT - as of April 28, 2016					
Legend							
X	Required Internal Audit Activity						
X	Proposed Future Audit						
X	Audit In Progress						
X	Audit Issued						
X	Follow Up In Progress						
X	Audit Closed						
Audit Universe	Last Audit	2013	2014	2015	Proposed 2016	Preliminary 2017	
Overall Internal Audit Management							
Risk Assessment for Audit Plan Development				X			
Update Risk Assessment and Audit Plan Development					X	X	
Quality Control - Board Meetings, Status Reporting				X	X	X	
Hotline Management				X	X	X	
Follow-up and Cycle Audits							
Open Action Items - Remediation and Follow-up Procedures				X	X	X	
Blue Horizons - Strategic Plan Monitoring					X	X	
Contract Monitoring & Compliance Reviews	2014		X		X		
Audits by Department and/or Division							
Office of the General Manager							
Intellectual Property	2015			X			
Organization Policies & Procedures	2010						
Blue Plains (Wastewater Treatment)							
Maintenance Services							
Maintenance Services - Operations	2012						
Maintenance Services - Work Order Management					X		
Wastewater Treatment - Operations							
Chemical Purchasing	2013	X					
Process Control System (PCS)	2013	X		X			
Customer Services							
Customer Services							
Customer Billing & Collections	2011				X		
Retail Rates Pre- and Post-Implementation Monitoring	2015			X	X		
Emergency Management							
Emergency Management - Mitigation & Response	2014		X				
Emergency Management - Recovery	2014		X				
Sewer Services							
Sewer Services - Construction & Repair	2014		X				
Sewer Services - Emergency Maintenance	2013	X					
Utility Services - Drinking Water							
Pumping & Storage Water Leakage Review	2011						
Utility Services - Water Distribution	2013	X					
Utility Services - Water Maintenance	2013	X					
Support Services							
Facilities							
Facilities - Work Order Management							X
Fleet							
Fleet - Operations	2013	X					
Fleet - Intergovernmental Support (Ambulance Services)							X
Human Capital Management							
Employee Benefit Plans	2014		X				
Employee Recruitment and On-Boarding							X
Human Capital Management - Operations	2011						
Training, Certification and Licensing					X		
Occupational Safety and Health							
OSHA	2014		X				
Safety Programs, Training & Compliance	2010						
Procurement							
Materials Management - Disposal of Assets	2014		X				
Materials Management - Operations and Inventory	2014		X				X
Procurement Operations	2010						
Business Development Plan - Rapid Assessment					X		
Procurement Pre-Award Selection Process	2015			X			
Purchasing Cards (P-Card Program)	2013	X					X
Department of Engineering & Technical Services							
Long-Term Control Plan							
Clean Rivers Project Management	2014		X				
Clean Rivers - Vendor / Contractor Monitoring & Project Administration				X			
Engineering and Technical Services							
Engineering - Vendor / Contractor Monitoring & Project Administration	2015			X			
Engineering - Construction Management					X		
Engineering - Design and Program Management & Permitting	2013	X					X
Finance							
Financial Accounting and Reporting							
Payroll - General Operations	2012						
Timekeeping	2015			X			
Overtime					X		
Budget, Planning and Analysis							
Annual Budgeting & Planning					X		
Treasury, Debt and Risk Management							
Cash Receipts	2013	X					
Investments and Cash Management	2013	X					
Rolling Owner Controlled Insurance Program (ROCIIP)					X		
Information Technology							
Governance: Planning and Organization:							
Information Technology - Remediation and Follow-Up				X	X	X	
Vendor Risk Management / Compliance and Monitoring (Shadow IT)	2015			X			
Information Security Policy Review	2015			X			
Incident Management & Response Review						X	
Human Resource/Employee Privacy Review						X	
Enterprise SDLC Review	2013	X				X	
IT Governance Review	2012				X		
Crisis Management / Business Continuity Program	2014		X			X	
Technical & Operations: Information Security and Application Support:							
Operational Applications ITGC - SCADA	2015			X			
Network Penetration Testing (Corp/SCADA/Wifi)	2015	X		X			
Customer Data Collection and CIS (Integrated)					X		
DB/OS Privileged User	2010					X	
Software and Asset Management	2014	X	X				
Help Desk Operations	2012						
GIS System	2014						
Internal Network & Telecommunications	2013	X	X				
General Counsel							
Legal Operations - Case Management	2014		X				
Regulatory Compliance Monitoring	2013	X					
Contingency and Requested Audits and Projects							



Internal Audit Report Contract Monitoring & Compliance Audit Part I

April 2016



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Contract Monitoring & Compliance Audit
Internal Audit Report
Issued: April 2016



TRANSMITTAL LETTER

April 2016

The Audit Committee of DC Water
 5000 Overlook Avenue, SW
 Washington, DC 20032

Pursuant to the approved 2016 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of Contract Monitoring & Compliance Part I. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on April 28th, 2016. Our report is organized in the following sections:

Executive Summary	This provides a summary of the observations and opportunities related to our internal audit of the Contract Monitoring & Compliance process.
Background	This provides an overview of the Contract Monitoring & Compliance process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Detailed Observations	This section gives a description of the observations noted during our work and recommended actions as well as management’s response, responsible party, and estimated completion date.

We would like to thank the staff and all those involved in assisting the Internal Auditors in connection with this review.

Respectfully Submitted,

Internal Auditors





EXECUTIVE SUMMARY

Background

DC Water’s FY 2016 contractual services budget is approximately \$76,944,000. The responsibility for ensuring contract compliance at DC Water and Sewer Authority (“DC Water” or “Authority”) is designated to the Contracting Officer Representative (COR) and/or Contracting Officer’s Technical Representative (COTR) for each contract. The COR is 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.

Internal Audit selected a sample of four contracts from various departments to evaluate contract monitoring and compliance.

This report is Part I of the Contract Monitoring & Compliance Audit, and contains one of the contracts selected by Internal Audit. Part II of this audit contains the remaining three contracts.

Contract # WAS-12-063-AA-RA: Department of Facilities and Security, Protective Services

Allied Barton Security Services (“Allied Barton” or the “Contractor”) provides DC Water with professionally trained and reliable armed commissioned Special Police Officers (SPOs) to safeguard DC Water’s property and personnel in order to prevent and deter unauthorized access or the removal of property, prevent malicious injury or damage, and assist DC Water in all other related security matters. DC Water has had an ongoing relationship with Allied Barton for over eight years. As of January 2016, 69 Allied Barton SPOs monitor 12 DC Water post sites.

Fieldwork was performed February 2016 through April 2016.

Objective and Scope

Our procedures were performed in accordance with the internal audit scope and approach, set forth in our audit notification letter, dated 2/11/2016, and were limited to those procedures described therein.

Our scope included the following:

- Determine Contractor compliance with specific contract terms and provisions, as applicable;
- Identify the monitoring controls and evaluation process in-place for these contracts, including follow-up of remediation of underperformance;
- Review invoice and change order approval process, and
- Identify process improvement opportunities and recommend internal control enhancements to improve the Contractor management process.

Overall Summary / Highlights

The observations identified during our assessment are summarized on the next page. We have assigned relative risk or value factors to each observation. Ratings are not assigned to opportunities as these items represent best practices and/or recommended initiatives. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. Only observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

Observation Ratings (See Appendix A for definitions)

	Number of Observations by Risk Rating		
	High	Moderate	Low
Contract Monitoring & Compliance Part 1	1	1	2

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



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

Following is a summary of observations noted in the areas reviewed. Definitions of the rating scales are included in the Appendices.

Observations and Improvement Opportunities	
Observations	Rating
<p>1. COMPLETION AND DOCUMENTATION OF TRAINING REQUIREMENTS</p> <p>The Contractor has not held a DC Water training session since November 2014. In December 2014, Allied Barton experienced manpower shortages and in March 2015, their sub-contractor pulled out of the contract. At the same time, a new Project Manager from Allied Barton was promoted from his original position as Assistant Project Manager. Allied Barton did not train Specialized Police Officers (SPOs) on DC Water specific training for employees that were added to the DC Water contract during this period of time.</p> <p>Additionally, some trainings are required by Allied Barton to be completed prior to employment. There is no documentation evidencing completion of these trainings.</p> <p>According to Article 1.B.9 of the executed contract, DC Water's Security Manager is responsible for conducting training sessions and issuing tests to all Contractor supervisors and SPOs. The Project Manager is responsible for maintaining a training file for each SPO assigned to DC Water.</p> <p>The Contractor currently has employees working on the contract that have not received DC Water specific training.</p>	High
<p>2. FREQUENCY AND MONITORING OF PERFORMANCE REVIEWS</p> <p>DC Water's contract with Allied Barton stated that the "Contractor is required to conduct no less than two semi-annual performance reviews of its personnel; random drug screening; and local and national criminal background investigations of all SPOs assigned to this contract." Currently, Allied Barton is only conducting an annual performance review and the random drug screening is conducted separately, on a rolling schedule throughout the year.</p> <p>DC Water has not monitored Allied Barton to verify that these performance reviews, drug screenings and background investigations are occurring consistently with in the contract terms and conditions.</p> <p>If DC Water is not properly monitoring the performance review process, the Authority cannot properly determine whether or not SPOs are performing sufficiently.</p>	Moderate



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions (continued)

Observations	Rating
<p>3. STANDARD OPERATING PROCEDURES REVIEW AND UPDATE</p> <p>During our walkthrough, we determined that the Department of Security does not review and update the DC Water Security Operations Standard Operating Procedures (SOPs) on an annual basis. According to Article 1.B.1 of the executed contract with Allied Barton, management is responsible for ensuring that the Contractor has a working knowledge of DC Water’s SOPs. Though changes in procedures are communicated via e-mail, they are not formally documented in the SOPs. Without reoccurring and documented reviews of SOPs by management, the Authority cannot guarantee that the Contractor’s knowledge of the SOPs meets those required under the contract.</p>	<p style="text-align: center;">Low</p>
<p>4. CONTRACTOR DELIVERABLES</p> <p>The Contractor does not provide a bi-weekly update identifying those employees hired or terminated for the period submitted for billing. According to Article 1.B.19 of the executed contract, the Contractor submits a monthly report delineating the names of Contractor security personnel hired, reassigned, removed or terminated from this contract. This includes:</p> <ol style="list-style-type: none"> 1. A bi-weekly update identifying those employees hired or terminated for the period submitted for billing. 2. A quarterly “base” listing of the full names of all employees authorized by the Contractor to perform security services under the contract. <p>Currently, DC Water is aware of SPO turnover through the timekeeping and daily site logs received from Allied Barton. The Contractor provides an employee listing each month from which the Department of Security manually calculates the turnover rate for the billing cycle. However, the Authority does not receive a bi-weekly update from Allied Barton as specified in the contract.</p>	<p style="text-align: center;">Low</p>



EXECUTIVE SUMMARY (CONTINUED)

Process Improvement Opportunities

Opportunity

- 1. Contract Compliance** – The Contractor’s turnover rate that is calculated monthly is significantly lower than the 25% monthly rate for any two consecutive months as stated in the contract. Within the past 8 months, Allied Barton has not exceeded a 6% monthly turnover rate. The large gap in actual performance and what is listed in the contract could allow for the Contractor to have employee turnover issues without being in violation of the contract.
- 2. Contractor Termination of SPO** – The Contractor does not maintain records of terminated employees. The Department of Security doesn’t have access to the employees’ training files after they have been terminated.



BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

The responsibility for ensuring contract compliance at DC Water and Sewer Authority (“DC Water” or “Authority”) is designated to the Contracting Officer Representative (COR) and/or Contracting Officer’s Technical Representative (COTR). 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. The Authority enters into many contracts each year, as illustrated by the contractual services expenditures in the following table:

Contractual Services Expenditures ¹	
FY 2013 Actual	\$68,430,000
FY 2014 Actual	\$68,172,000
FY 2015 Actual	\$66,241,000
FY 2016 Approved	\$79,244,000

Internal Audit selected a sample of four contracts from various departments of operations to test for contract monitoring and compliance. The Department of Security’s contract with Allied Barton Security Services (“Allied Barton” or the “Contractor”) will be issued during Phase I of the internal audit report. The internal audits for the three remaining contracts will be issued as Phase II during the July Audit Committee meeting.

The Department of Security’s FY 2016 budgeted operating expenditures for contracts is approximately \$5,665,000¹.

Contract # WAS-12-063-AA-RA: Department of Security, Protective Services

Allied Barton provides DC Water with professionally trained and reliable armed commissioned Special Police Officers (SPOs) to safeguard DC Water’s property and personnel in order to prevent and deter unauthorized access or the removal of property, prevent malicious injury or damage, and assist DC Water in all other related security matters. DC Water has had a relationship with Allied Barton for over 8 years.

Contract Overview	
Contractor	Allied Barton Security Services
Award Date	12/19/2012
Contract Period	12/1/2012 – 12/15/2013 (Year 1 of second awarded contract)
Contract Award	\$4,934,348.12
Type of Contract	Firm fixed price, hourly labor rate and four (4) one (1) year option periods
COR	Director, Department of Security
COTR	Security Manager, Department of Security

¹Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget; FY 2015 Consolidated Annual Financial Report



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

Over the course of the contract period there have been roughly 60-70 SPOs assigned to DC Water at any given time. The COR and the COTR have an open line of communication with the Project Manager, as he provides management supervision on-site Sunday through Saturday (including holidays). The Project Manager is also responsible for monitoring DC Water’s C-Cure 9000 System to perform electronic monitoring of each security checkpoints at all assigned DC Water sites.

Allied Barton is required to provide DC Water with certain deliverables periodically throughout the term of the contract. The Contractor provides the Authority with bi-weekly updates identifying employees hired or terminated for the period submitted for billing, a quarterly "base" listing of full names of all employees authorized by the Contractor to perform security services at facilities under the contract, and a monthly report delineating the names of Contractor security personnel hired, reassigned, removed or terminated from this contract.

Allied Barton coverage as of January 2016	
Number of SPOs	69
Number of post sites	12

There have been two contract modifications to-date. The first was for a personnel change, in which the Project Manager (PM) was replaced by the Assistant Project Manager (APM) due to performance issues. In this case, the Director of Procurement and the Contracting Officer approved the change order. The other modification to the contract was a rate change. The Authority notified the Contractor of the change in rate and was acknowledged by the signature of an authorized representative from Allied Barton.

On a monthly basis, the Contractor sends invoices that are reviewed by the Security team. The Director of Security signs off after the invoices have been reviewed by the security team’s Electronic Security Specialist and Executive Assistant. They review the invoice against the annual budget and compare the invoice to a timekeeping report from Allied Barton. The approved invoice is then sent to Finance for payment.

DC Water conducted a previous internal audit of Allied Barton’s security contract in June 2008. Management provided responses to Internal Audit’s report with an action plan detailing their plans for each finding. The findings from the prior audit were addressed and are not duplicative of any of the observations from this report.

Statistics and Financial Information

DC Water is currently exercising its option to extend the contract and is in Option Year No. 3. The Allied Barton contract makes up 82% of the Department of Security’s total operating expenditures budget for FY 2016, as illustrated below:

Approved FY 2016 Department of Security Operating Expenditures Budget	
Allied Barton budget for FY 2016 ²	\$5,352,000
Total operating expenditures budget - Department of Security ³	\$6,562,000
Allied Barton FY 16 contract as a % of total Security operating expenditures budget	82%

²Source: Allied Barton Option Year 3 Fact Sheet of the Executed Contract

³Source: DC Water Revised FY 2015/ Approved FY 2016 Operating Budget





Contract Monitoring & Compliance Audit
 Internal Audit Report
 Issued: April 2016

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The objectives of the Contract Monitoring & Compliance Audit is to obtain an understanding of how contracts are managed 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 in the categories of compliance. The audit scope is based on the following objectives:

- 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 process, and;
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall Contractor management process.

Approach

Our audit approach consisted of the following phases:

Understanding of the Process

The purpose of this phase was to gain an understanding of DC Water's contract monitoring and compliance process. 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. This phase included the execution of applicable tests of compliance with DC Water's contract. The time period covered by testing was FY 2015 and FY 2016 from 10/01/2015 through 3/31/2016.

Contract # WAS-12-063-AA-RA: Department of Security, Protective Services

We conducted the following testing and procedures to verify that the Contractor was meeting contractual requirements:

- Performed a review of the invoice process to verify:
 - Invoices are submitted on a monthly basis and reflect Contract # and PO #.
 - Invoices define the period of services provided.
 - Invoices describe the services provided.
 - Invoices define the hourly rate billed by position and have the authorized signatures.
- Performed a review of the use of an electronic monitoring system and verified the Project Manager generates bi-weekly reports detailing the results of all electronic monitoring activities.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (Continued)

- Performed a review of the Contractor's use of building security logs to track site access by SPOs to verify:
 - Log entries were made by SPOs at their assigned DC Water sites including post assignment, date and time of arrival and departure on duty.
 - Appropriate paperwork for observation of any incident.
 - Irregular activities or occurrences are reported to DC Water's Security Manager.
- Conducted testing to verify that the Contractor is training SPOs in all required courses.
- Performed a review of the Contractor's performance review process to verify:
 - The Contractor conducted no less than two semi-annual performance reviews of its personnel.
 - The Contractor conducted random drug screenings.
 - The Contractor conducted local and criminal background checks.

Reporting

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



DETAILED OBSERVATIONS

Contract Monitoring & Compliance Internal Audit			
1.	<u>Completion and Documentation of Training Requirements</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: High		
	<p>The Contractor has not held a DC Water training session since November 2014. In December 2014, Allied Barton experienced manpower shortages and in March 2015, their sub-contractor pulled out of the contract. At the same time, a new Project Manager from Allied Barton was promoted from his original position as Assistant Project Manager. Allied Barton did not train Specialized Police Officers (SPOs) on DC Water specific training for employees that were added to the DC Water contract during this period of time.</p> <p>Additionally, some trainings are required by Allied Barton to be completed prior to employment. There is no documentation evidencing completion of these trainings.</p> <p>According to Article 1.B.9 of the executed contract, DC Water's Security Manager is responsible for conducting training sessions and issuing tests to all Contractor supervisors and SPOs. The Project Manager is responsible for maintaining a training file for each SPO assigned to DC Water.</p> <p>The Contractor currently has employees working on the contract that have not received DC Water specific training.</p>	<p>The Department of Security should identify all site/shift supervisors and SPO's that need to complete the DC Water training and then have Allied Barton hold a training session for those employees and administer the final exam. The Project Manager should maintain documentation of the completion of this course in each SPO's training file.</p>	<p>Response: Management agrees with this observation. The Contractor will conduct a comprehensive check to ascertain all SPOs who have not received the required DC Water specific security operational training. The test will continue to be a computer module driven test with the results forwarded to DSEC. Once completed all tests results will be forward to the Contracting Officer's Technical Representative (COTR) to be included in the existing monthly report.</p> <p>All identified SPOs in need of DCW specific security training shall be fully trained and certified within sixty days and/or by June 30, 2016.</p> <p>Responsible Party: Security Manager, Department of Security</p> <p>Target Date: June 30, 2016</p>



DETAILED OBSERVATIONS (CONTINUED)

Contract Monitoring & Compliance Internal Audit			
2.	<u>Frequency and Monitoring of Performance Reviews</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>DC Water's contract with Allied Barton stated that the "Contractor is required to conduct no less than two semi-annual performance reviews of its personnel; random drug screening; and local and national criminal background investigations of all SPOs assigned to this contract." Currently, Allied Barton is only conducting an annual performance review and the random drug screening is conducted separately, on a rolling schedule throughout the year.</p> <p>DC Water has not monitored Allied Barton to verify that these performance reviews, drug screenings and background investigations are occurring consistently with in the contract terms and conditions.</p> <p>If DC Water is not properly monitoring the performance review process, the Authority cannot properly determine whether or not SPOs are performing sufficiently.</p>	<p>The Department of Security should request evidence that the Contractor is conducting the performance reviews, appropriate background checks and drug screenings.</p> <p>Additionally, DC Water should review the contract language and determine if the annual performance reviews are frequent enough and clarify the frequency of the drug screening and background checks.</p>	<p>Response: Management agrees with this observation with mitigation. The contract language will be modified to the following: <i>"Contractor is required to conduct no less than two semi-annual performance reviews of its personnel; one (1) drug screening associated with his/her license renewal process and one (1) random drug screening; a local and national criminal background investigations of all SPOs assigned to this contract to be conducted via the Security Officer's Management Branch (SOMB) during annual license renewal."</i></p> <p>The change will reflect the intent of the specified contract deliverable and will reflect that this area complies with DCMR Title, 6-A, and the DC Code.</p> <p>Responsible Party: Security Manager, Department of Security; Procurement</p> <p>Target Date: August 2016</p>



DETAILED OBSERVATIONS (CONTINUED)

Contract Monitoring & Compliance Internal Audit			
3.	<u>Standard Operating Procedure Review and Update</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>During our walkthrough, we determined that the Department of Security does not review and update the DC Water Security Operations Standard Operating Procedures (SOPs) on an annual basis. According to Article 1.B.1 of the executed contract with Allied Barton, management is responsible for ensuring that the Contractor has a working knowledge of DC Water's SOPs. Though changes in procedures are communicated via e-mail, they are not formally documented in the SOPs. Without reoccurring and documented reviews of SOPs by management, the Authority cannot guarantee that the Contractor's knowledge of the SOPs meets those required under the contract.</p>	<p>We recommend that the Department of Security document any changes to the SOPs that have been communicated via email. Additionally, the Department of Security should conduct, at minimum, an annual review of SOPs to verify that current procedures are documented. Subsequent to the annual review, the Contractor should be provided the latest version of the SOP and conduct any training, as needed, to communicate changes.</p>	<p>Response: Management agrees with this observation. The review process for SOPs are still in flux but in need of being ratified by the principal parties to the SOPs. The Contractor and DSEC's Physical Security Specialist shall within 45 days finalize the development of formal procedures for reviewing SOPs. Each time a SOPs has been either amended, updated and/or reviewed shall be reflected on the cover sheet of the appropriate SOP. Finally, to ensure contract compliance each SPO shall be required to initial a sheet that reflects the new SOP changes and that the SOP has been read by the subject officer.</p> <p>Responsible Party: Physical Security Specialist, Department of Security</p> <p>Target Date: August 2016</p>



DETAILED OBSERVATIONS (CONTINUED)

Contract Monitoring & Compliance Internal Audit			
4.	<u>Contractor Deliverables</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>The Contractor does not provide a bi-weekly update identifying those employees hired or terminated for the period submitted for billing.</p> <p>According to Article 1.B.19 of the executed contract, the Contractor submits a monthly report delineating the names of Contractor security personnel hired, reassigned, removed or terminated from this contract. This includes:</p> <ol style="list-style-type: none"> 1. A bi-weekly update identifying those employees hired or terminated for the period submitted for billing. 2. A quarterly "base" listing of the full names of all employees authorized by the Contractor to perform security services under the contract. <p>Currently, DC Water is aware of SPO turnover through the timekeeping and daily site logs received from Allied Barton. The Contractor provides an employee listing each month from which the Department of Security manually calculates the turnover rate for the billing cycle. However, the Authority does not receive a bi-weekly update from Allied Barton as specified in the contract.</p>	<p>The Department of Security should request that the Contractor submit the monthly report that contains the security personnel hired, reassigned, removed or terminated from the contract. Additionally, management should consider changing the contract language so that bi-weekly updates are no longer required since they are included in the monthly report.</p>	<p>Response: Management agrees with this observation. The Contractor is required to provide a bi-weekly report that reflects contract personnel hired, reassigned, removed or terminated and a list of all personnel authorized to provide security services pursuant to this contract.</p> <p>The Contractor has been informed of this oversight and bi-weekly reports reflecting this information shall commence on May 1, 2016. The monthly aggregate of both reports shall also be included on the monthly report.</p> <p>Responsible Party: Security Manager, Department of Security</p> <p>Target Date: May 1, 2016</p>




PROCESS IMPROVEMENT RECOMMENDATIONS

Contract Monitoring & Compliance Internal Audit	
<u>Opportunity</u>	<u>Recommendation</u>
<p>Contract Compliance – The Contractor’s turnover rate that is calculated monthly is significantly lower than the 25% monthly rate for any two consecutive months as stated in the contract. Within the past 8 months, Allied Barton has not exceeded a 6% monthly turnover rate. The large gap in actual performance and what is listed in the contract could allow for the Contractor to have employee turnover issues without being in violation of the contract.</p>	<p>DC Water should consider reducing the maximum monthly turnover rate as defined in the contract to 10% for any two consecutive months.</p>
<p>Contractor Termination of SPO – The Contractor does not maintain records of terminated employees. The Department of Security doesn’t have access to the employees’ training files after they have been terminated.</p>	<p>DC Water should consider implementing a record retention policy to protect the Authority from lawsuits, etc.</p>



APPENDIX A – RATING DEFINITIONS

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



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