



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, February 6, 2014*

11:00 a.m.

1. **Call to Order**..... Bradford Seamon, Chairperson
  
2. **Review of Internal Audit and Plan Development**.....Joseph Freiburger
  - A. [Overview of Internal Audit Role](#)
  - B. [Risk Assessment and Internal Audit Plan for FY2014](#)
  
3. **Adjournment**..... Bradford Seamon



# *Internal Audit and the Audit Committee*

*February 2014*

## What's Internal Auditing?

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its “objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

The Institute of Internal Auditors





## High level comparison

### Internal Audit

- Broad focus
  - Accurate records
  - Efficiency/effectiveness
  - Accomplishing objectives
  - Safeguarding assets
  - And more!
- Diverse skills sets are required
- Integral part of the organization

### Financial Statement Audit

- Specific focus
  - Accurate financial statements
  - Going concern
  - Reviewing historical data
  - Compliance with accounting and other regulations
- Primarily accounting skills
- Independent from the organization

## Internal Auditors Assess Risks...

- To help keep bad things from happening
- To help assure good things can happen
- To help management understand
  - Where their risks are
  - Whether the risks are under control
  - Whether the risks are worth taking

## Finding Risk is Not Enough

- Internal auditors evaluate the controls that help organizations manage risks
  - Are controls in place?
  - Do the controls work?
  - Are additional controls needed?
  - Are there unnecessary controls?
  - Are the controls cost-effective?



## Five Critical Tasks

- Determine whether controls are adequate
- Suggest improvements to increase efficiency and effectiveness or to lower operating costs
- Determine whether policies and procedures are followed
- Determine whether laws and regulations are being obeyed
- Detect fraud or manipulation of records

## Effective Governance





# Stakeholder Needs

## Key Stakeholders

- Audit committee/board
- GM
- CFO or individual to whom IA reports administratively
- Potentially, other chief officers

## Secondary Stakeholders

- Other business unit executives
- External auditors and regulators
- Investors and creditors
- Citizens and taxpayers

## Tertiary Stakeholders

- Employees and retirees
- Potentially, the general public

## Internal Auditors

- Find out what's working and what's not
- Keep an eye on the corporate climate
- Look at the organization with fresh eyes
- Look beyond the financial statements
- Advocate improvements
- Raise red flags
- Tell it like it is

## Internal Auditors

- Keep senior management aware of critical issues
- Ensure factual communications of financial, operational and compliance data
- Make suggestions based on knowledge of operations throughout the organization

## Audit Committee

- Helps organization achieve a commitment to strong internal controls; emanating from the “Tone at the Top”
- Review Internal Audit plans, reports and significant findings
- Evaluate the organization’s adherence to established practices relative to ethics, conflicts of interest, misconduct or fraud
- Ensure that the organization is properly addressing risk factors

## Audit Committee

- Ensure management is appropriately addressing reported audit findings
- Ensure sufficient resources are allotted to the internal audit effort
- Establish a direct reporting relationship with the external audit team
- Report back to the Full Board

## *Contact Information*

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# *Proposed FY 2014 Internal Audit Plan*

# FY 2014 Internal Audit Plan

ACTIVITY	OVERALL LIKELIHOOD	OVERALL IMPACT	COMMENTS	Est. Hrs FY2014	Date Last Audited
Maintenance Services	High	High		300	FY2013
Procurement Operations	High	High		350	FY2010
Warehousing & Inventory	High	Moderate		350	FY2013
Disposal of Assets	High	Moderate		325	
IT - Asset Management	High	Moderate		250	
IT - Lawson Integration	High	Moderate		250	
Employee Benefit Plans	High	Moderate		325	
OSHA	Moderate	High		200	
Clean Rivers Project Management	Moderate	High		325	
GIS System	Moderate	Moderate		300	
Outside Contractor Management	Moderate	Moderate		250	
Business Continuity	Moderate	Moderate		300	
Legal Operations	Moderate	Moderate		275	
Sewer Services - Distribution	Moderate	Moderate		250	
Board meetings, Management team meetings, Status Reporting				400	
Management Requests and Special Investigations			Internal Audit is available to assist with other special projects as requested by management and/or the Audit Committee.	400	
Follow-up			Follow-up will be conducted based on FY13 Internal Audit findings and management's action plans to ensure appropriate and effective resolution of findings.	600	
Update Risk Assessment and Develop Plan			Review the existing Audit Universe and risks identified to determine whether any organizational changes impact the processes identified or risk ratings.	150	
Operation of DC Water Fraud, Waste & Abuse Hotline				400	
<b>TOTAL</b>				6000	



# FY 2014 Internal Audit Plan

Q1 2014	Est. Hrs	Q2 2014	Est. Hrs	Q3 2014	Est. Hrs	Q4 2014	Est. Hrs
Legal Operations	275	Employee Benefit Plans	325	Procurement	325	Maintenance Services	300
		Sewer Services - Distribution	275	OSHA	100		
Disposal of Assets	325	Outside Contractor Management	125	IT Asset Management	250	Warehousing & Inventory	350
Clean Rivers Project Management	325	Business Continuity	300	GIS System	300	IT - Lawson Integration	250
OSHA	100			Outside Contractor Management	125		
Follow-Up Activity	150	Follow-Up Activity	150	Follow-Up Activity	150	Follow-Up Activity	150
						Update Risk Assessment & FY2012 Internal Audit Plan	150
Board Meetings, Management Team Meetings & Status Reporting	100	Board Meetings, Management Team Meetings & Status Reporting	100	Board Meetings, Management Team Meetings & Status Reporting	100	Board Meetings, Management Team Meetings & Status Reporting	100
<b>Total IA Hours</b>	<b>1275</b>	<b>Total IA Hours</b>	<b>1275</b>		<b>1350</b>		<b>1300</b>
		Plus: Management Requests & Special Projects					400
		Operation of DC Water Fraud, Waste & Abuse Hotline					400
		<b>Total FY2014</b>					<b>6000</b>

# FY 2014 Risk Assessment Results

Audit Universe	LIKELIHOOD	IMPACT	LAST AUDITED
Regulatory Compliance Monitoring	High	High	FY2010; FY2013
Maintenance Services	High	High	FY2012
Procurement Operations	High	High	FY2010
Capital Projects	High	High	FY2012
IT - External Network Intrusion	High	High	FY2010; FY2013
IT Operating & Business Applications (Lawson, Maximo, AMR, Ceridian)	High	High	FY2011
Warehouse & Inventory	High	Moderate	FY2012
IT Governance	High	Moderate	FY2012
IT Asset Management	High	Moderate	
Disposal of Assets	High	Moderate	
Employee Benefit Plans			
Engineering Project Planning & Design; Procurement	Moderate	High	FY2010; FY2013
Engineering Contractor Management and Project Management	Moderate	High	FY2012
Clean Rivers - Engineering Project Planning; Design and Management	Moderate	High	
Process Control System (PCS)	Moderate	High	FY2013
Water Leakage Monitoring	Moderate	High	FY2011
Automated Meter Reading & Customer Billing	Moderate	High	FY2011
Fleet Management	Moderate	High	FY2011; FY2013
Accounts Payable	Moderate	High	FY2012
General Ledger	Moderate	High	
Investments	Moderate	High	FY2013
Debt Management	Moderate	High	
Chemical Purchasing	Moderate	High	FY2013
OSHA	Moderate	High	

# FY 2014 Risk Assessment Results

Audit Universe	LIKELIHOOD	IMPACT	LAST AUDITED
Organization Policies & Procedures	Moderate	Moderate	FY2010
Organization Governance	Moderate	Moderate	
Legal Operations	Moderate	Moderate	
Government Relationships	Moderate	Moderate	
Permit Issuance and Processing	Moderate	Moderate	FY2012
Biosolids Management	Moderate	Moderate	FY2012
Sewer Services - Emergency Maintenance	Moderate	Moderate	FY2013
Sewer Services - Distribution Operations	Moderate	Moderate	
Utility Services - Water Distribution	Moderate	Moderate	FY2013
Utility Services - Water Maintenance	Moderate	Moderate	FY2011; FY2013
P Card Program	Moderate	Moderate	FY2011; FY2013
HCM Recruitment & Training	Moderate	Moderate	FY2010
HCM Employee New Hire, Changes & Termination Processing	Moderate	Moderate	FY2011
Facility Security & Emergency Planning	Moderate	Moderate	FY2011
Safety Programs, Training & Compliance	Moderate	Moderate	FY2010
Labor Relations - Contract Mgt. & Compliance	Moderate	Moderate	
Fixed Assets & Equipment	Moderate	Moderate	
Financial Statement Consolidation & Reporting	Moderate	Moderate	
Insurance Program Procurement & Insurance Claims Management	Moderate	Moderate	FY2012
IT - Access Provisioning and DeProvisioning	Moderate	Moderate	FY2010
IT - Disaster & Recovery Planning, Backup and Recovery	Moderate	Moderate	FY2011
IT - Internal Network & Telecommunications	Moderate	Moderate	FY2013
IT Vendor and Contractor Management	Moderate	Moderate	FY2011
IT Help Desk and Computer Operations	Moderate	Moderate	FY2012
IT System Development Life Cycle & Change Management	Moderate	Moderate	FY2010
GIS System	Moderate	Moderate	
Outside Contractor Management	Moderate	Moderate	
Business Continuity	Moderate	Moderate	

# FY 2013 Risk Assessment Results

Audit Universe	LIKELIHOOD	IMPACT	LAST AUDITED
Customer Service Operations	Low	Moderate	FY2012
Payroll	Low	Moderate	FY2012
Grant Operations	Low	Moderate	FY2011; FY2013
IT Access Provisioning	Low	Moderate	
Community Outreach and Education	Moderate	Low	
Facility Operations, Maintenance & Costs	Moderate	Low	
Cash Receipts	Moderate	Low	FY2010; FY2013
Annual Budgeting & Planning	Moderate	Low	

## *Audit Universe & Ratings Summary*

- 6 Areas were rated High Likelihood and High Impact
- 4 Areas were rated High Likelihood and Medium Impact
- 13 Areas were rated Moderate Likelihood and High Impact
- 28 Areas were rated Moderate Likelihood and Moderate Impact
- 4 Areas were rated Low Likelihood and Moderate Impact
- 4 Areas were rated Moderate Likelihood and Low Impact

Total = 59

# Risk Ratings & Definitions

LIKELIHOOD		IMPACT	
<b>STRATEGIC RISK</b>	Inability to meet business goals, objectives or strategy due to: An ineffective or inefficient business model; An improper or ineffective organizational structure; or Improper or ineffective strategic planning	<b>REPUTATION IMPACT</b>	Improper instructions, communication and interactions with customers (internal or external), regulators or constituents that would result in negative public perception and could harm the reputation of the organization.
<b>LEGAL &amp; REGULATORY RISK</b>	Noncompliance with legal or regulatory requirements can result in fines, penalties or other adverse impact to the organization.	<b>BUSINESS OPERATIONS IMPACT</b>	A condition or issue that prevents the operations from functioning effectively, efficiently or from meeting internal/external goals and objectives; A vulnerability due to volume, complexity of transactions or activities
<b>ENVIRONMENT, HEALTH &amp; SAFETY RISK</b>	A condition or vulnerability that has an adverse effect on the environment or negatively impacts the health and/or safety to employees and/or local citizens	<b>FINANCIAL IMPACT</b>	Circumstances that could result in significant financial implications to the organization; Failure to meet financial obligations or requirements; Failure to comply with funding requirements thus impairing future funding.
<b>INFORMATION TECHNOLOGY RISK</b>	Technology used does not effectively support the current and future needs of the organization; Compromise to the integrity, access and/or availability of data or operating systems		
<b>CUSTOMER SERVICE / DELIVERY RISK</b>	Failure to provide service to customers (internal or external); Failure to respond to customers (internal or external) in a timely or effective fashion		
<b>FRAUD RISK</b>	Susceptibility to theft, waste, and abuse of DC Water resources; Assets and information that is vulnerable to theft or manipulation.		
<b>PERSONNEL / HR RISK</b>	Lack of proper skill set, resources, training or succession planning		
<b>INFORMATION &amp; COMMUNICATION RISK</b>	Inaccurate, inconsistent or untimely information or communications to customers, both internal and external, to the organization		
<b>CONTROL ENVIRONMENT</b>	Policies, procedures and day-to-day practices are in place to mitigate the inherent risks within the operation		

# Likelihood & Impact Definitions

LIKELIHOOD	
<b>High</b>	Immediate and high degree of vulnerability such that it is critical that the risk be managed and controlled in order for this area to achieve its objectives. If not properly controlled, that area could have a serious, long-term or detrimental effect on operations, and the achievement of organizational goals and objectives.
<b>Moderate</b>	Risk present should be addressed and controlled but the probability is not as severe as defined above. If not properly controlled, the area could effect operations, but achievement of organizational goals and objectives will still be met.
<b>Low</b>	The threat of a serious event occurring is either non-existent or remote. The area should be managed but the level of risk response is limited.
IMPACT	
<b>High</b>	If an event occurs, the financial ramifications would be severe and/or operations would suffer long-standing consequences.
<b>Moderate</b>	Indicates that the resulting consequences of an event would be negative and must be managed but would not have a substantial effect on finances or on-going operations.
<b>Low</b>	Indicates that the event occurring would have little or no impact financially or operationally.

CONTROL ENVIRONMENT	
<b>Weak</b>	Policies, procedures and normal practices are insufficient to mitigate the inherent risks.
<b>Moderate</b>	Controls are not optimal but adequate to mitigate the severe inherent risks.
<b>Strong</b>	Solid policies, procedures and day-to-day practices are in place to mitigate the inherent risks.

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