

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
	Review of Internal Audit and Plan Development	Joseph Freiburger
3.	Adjournment	Bradford Seamon



Internal Audit and the Audit Committee

February 2014



What's Internal Auditing?

Internal auditing is an <u>independent</u>, <u>objective</u> assurance and <u>consulting</u> activity designed to <u>add</u> value and improve an organization's operations. It helps an organization accomplish its "objectives by bringing a <u>systematic</u>, <u>disciplined approach</u> to evaluate and improve the effectiveness of <u>risk</u> 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

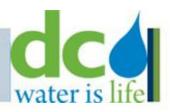
Financial Statement Audit

- 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...

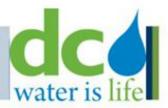
- To help keep bad things from happening
- To help assure good things can happen
- To help management understand
 - Where their risks are
 - Whether the risks are under control
 - Whether the risks are worth taking



Finding Risk is Not Enough

- Internal auditors evaluate the <u>controls</u> 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 <u>controls</u> are adequate
- Suggest improvements to increase <u>efficiency and</u> <u>effectiveness</u> or to lower operating costs
- Determine whether <u>policies and procedures</u> are followed
- Determine whether <u>laws and regulations</u> are being obeyed
- Detect <u>fraud</u> or manipulation of records



Effective Governance

Board of Directors



Management



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

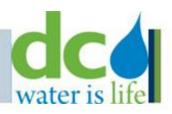
Tertiary Stakeholders

- 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



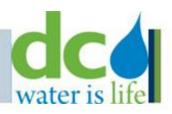
Audit Committee

- 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

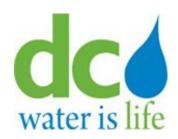
- Ensure management is appropriately addressing reported audit findings
- Ensure sufficient resources are allotted to the internal audit effort
- Establish a direct reporting relationship with the external audit team
- Report back to the Full Board



Contact Information

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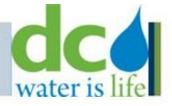


Proposed FY 2014 Internal Audit Plan



FY 2014 Internal Audit Plan

	OVERALL	OVERALL		Est. Hrs	Date Last
ACTIVITY	LIKELIHOOD	IMPACT	COMMENTS	FY2014	Audited
Maintenance Services	Migh	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 mamagement's action plans to ensure appropriate and effective resolution of findings	600	
Update Risk Assessment and Develop Plan			Review the existing Audit Universe and riks identified to determine whether any organizational changes impact the processes identified or risk ratings.	150	
Operation of DC Water Fraud, Waste & Abuse Hotline				400	
TOTAL				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
Disposal of Assets	325	Sewer Services - Distribution	275	OSHA	100		
Clean Rivers Project Management	325	Outside Contractor Management Business Continuity	125 300	IT-Asset Management GIS System	300	Warehousing & Inventory IT- Lawson Integration	350 250
OSHA	100	Duaniesa Communy	300	Outside Contractor Management	125		200
Follow-Up Activity		Follow-Up Activity	150	Follow-Up Activity	150	Follow-Up Activity Update Risk Assessment &	150
Board Meetings, Management Team	100	Board Meetings, Management Team	100	Board Meetings, Management Team	100	FY2012 Internal Audit Plan Board Meetings, Management	150
Meetings & Status Reporting Total IA Hours	5515251	Meetings & Status Reporting Total IA Hours	1275	Meetings & Status Reporting	1350	Team Meetings & Status Reporting	1300
Total IA Hours	1213	Plus: Management Requests & Spe		jects	1330		400
		Operation of DC Water Fraud, Wast	e & Abı	se Hotline			400
		Total FY2014					6000



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
T - External Network Intrusion	High	High	FY2010; FY2013
T Operating & Business Applications (Lawson, Maximo, AMR, Ceridian)	High	High	FY2011
Varehouse & Inventory	High	Moderate	FY2012
□ Governance	High	Moderate	FY2012
T Asset Management	High	Moderate	
Disposal of Assets	High	Moderate	
Employee Benefit Plans	-		
Engineering Project Planning & Design; Procurement	Moderate	High	FY2010; FY2013
ngineering Contractor Management and Project Management	Moderate	High	FY2012
Clean Rivers - Engineering Project Planning; Design and Management	Moderate	High	O PARALOSSIC
Process Control System (PCS)	Moderate	High	FY2013
Vater Leakage Monitoring	Moderate	High	FY2011
automated Meter Reading & Customer Billing	Moderate	High	FY2011
leet Management	Moderate	High	FY2011; FY2013
roce management		High	FY2012
	Moderate	1000000	
Accounts Payable	Moderate Moderate	High	1 12750235
Accounts Payable General Ledger		-	FY2013
Accounts Payable General Ledger nvestments	Moderate	High	FY2013
Accounts Payable General Ledger nvestments Debt Management Chemical Purchasing	Moderate Moderate	High High	FY2013 FY2013



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	
Ultilty 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
T Access Provisioning	Low	Moderate	
community Outreach and Education	Moderate	Low	ß
acility Operations, Maintenance & Costs	Moderate	Low	100
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

communications to customers, both internal and external, to the

Policies, procedures and day-to-day practices are in place to

mitigate the inherent risks within the operation

COMMUNICATION

RISK

CONTROL

ENVIRONMENT

organization

	LIKELIHOOD		IMPACT
STRATEGIC RISK	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	REPUTATION IMPACT	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.
LEGAL & REGULATORY RISK	Noncompliance with legal or regulatory requirements can result in fines, penalties or other adverse impact to the organization. A condition or vulnerability that has an adverse effect on the	BUSINESS OPERATIONS IMPACT	A condition or issue that prevents the operations from functioning effectively, efficiently or from meeting internal/external goals and objectives;
HEALTH & SAFETY RISK	environment or negatively impacts the health and/or safety to employees and/or local citizens		A vulnerability due to volume, complexity of transactions or activities
INFORMATION TECHNOLOGY RISK	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	FINANCIAL IMPACT	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.
USTOMER SERVICE / DELIVERY RISK	Failure to provide service to customers (internal or external); Failure to respond to customers (internal or external) in a timely or effective fashion		
FRAUD RISK	Susceptibility to theft, waste, and abuse of DC Water resources; Assets and information that is vulnerable to theft or manipulation.		
PERSONNEL / HR RISK	Lack of proper skill set, resources, training or succession planning		
INFORMATION &	Inaccurate, inconsistent or untimely information or		



Likelihood & Impact Definitions

	LIKELIHOOD
High	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.
Moderate	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.
Low	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
High	If an event occurs, the financial ramifications would be severe and/or operations would suffer long-standing consequences.
Moderate	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.
Low	Indicates that the event occurring would have little or no impact financially or operationally.

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



Contact Information

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