



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, July 25, 2019*

9:30 a.m.

- 1. **Call to Order**..... Mr. Floyd Holt, Committee Chairperson
- 2. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
  - A. FY 2019 Internal Audit Plan Status Update
  - B. Status Update on Prior Audit Findings
  - C. [Automated Meter Reading Final Progress Report](#)
  - D. Permit Operations – Reimbursable Projects
  - E. [Purchasing Card Program](#)
  - F. Hotline Update
- 3. **Executive Session\*** ..... Mr. Floyd Holt, Committee Chairperson
- 4. **Adjournment**..... Mr. Floyd Holt, Committee 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



July 25, 2019

# Agenda

- FY 2019 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits:
  - Automated Meter Reading Final Progress Report
  - Permit Operations - Reimbursable Projects
  - Purchasing Card Program
- Hotline Update
- Executive Session
  - Cloud Security Rapid Assessment
  - Physical Security and Social Engineering
  - Severance Assessment

# AUDIT PLAN STATUS UPDATE – FY19

# Internal Audit Plan Status Update

Audit	Status
Permit Operations - Reimbursable Projects Status Update	<b>Report Complete</b>
Mail Room Procedures	Report Issued
Fleet Management	Report Issued
Legal Operations	Report Issued
Occupational Safety and Health	Report Issued
Automated Meter Reading Final Progress Report	<b>Report Complete</b>
Cloud Security Rapid Assessment	<b>Report Complete</b>
Active Directory Cloud Migration Security Review	Planning in Progress
Purchasing Card Internal Audit	<b>Report Complete</b>
Severance Assessment	<b>Report Complete</b>
Wifi Security Testing	Planning in Progress
CIS Application Security Segregation of Duties (SOD) Review	Fieldwork in Progress
Contractual Services	Planning in Progress
Asset Management	Planning in Progress
Physical Security and Social Engineering	<b>Report Complete</b>
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

# Internal Audit Plan FY 2019 Timeline

	Nov - 18	Dec - 18	Jan - 19	Feb - 19	Mar - 19	Apr - 19	May - 19	Jun - 19	Jul - 19	Aug - 19	Sep - 19	Oct - 19
▶ Permit Operations - Reimbursable Projects	[Timeline bar from Nov-18 to Jun-19]											
▶ Mail Room Operations		[Timeline bar from Dec-18 to Jan-19]										
▶ Fleet Management	[Timeline bar from Nov-18 to Mar-19]											
▶ Legal Operations			[Timeline bar from Jan-19 to Apr-19]									
▶ Occupational Safety and Health			[Timeline bar from Jan-19 to Apr-19]									
▶ Cloud Security Rapid Assessment				[Timeline bar from Feb-19 to May-19]								
▶ AMR Final Update					[Timeline bar from Mar-19 to Jun-19]							
▶ Physical Security and Social Engineering						[Timeline bar from Apr-19 to Jul-19]						
▶ PCard Cycle Audit						[Timeline bar from Apr-19 to Jul-19]						
▶ Severance Assessment						[Timeline bar from Apr-19 to Jul-19]						
▶ Contractual Services								[Timeline bar from Jun-19 to Sep-19]				
▶ CIS Application Security SOD Review								[Timeline bar from Jun-19 to Sep-19]				
▶ Wifi Security Testing									[Timeline bar from Jul-19 to Oct-19]			
▶ Asset Management									[Timeline bar from Jul-19 to Oct-19]			
▶ Active Directory Cloud Migration Security Review										[Timeline bar from Aug-19 to Sep-19]		
▶ Ongoing Follow-up Procedures	[Timeline bar from Nov-18 to Oct-19]											
▶ Ongoing Hotline Monitoring	[Timeline bar from Nov-18 to Oct-19]											

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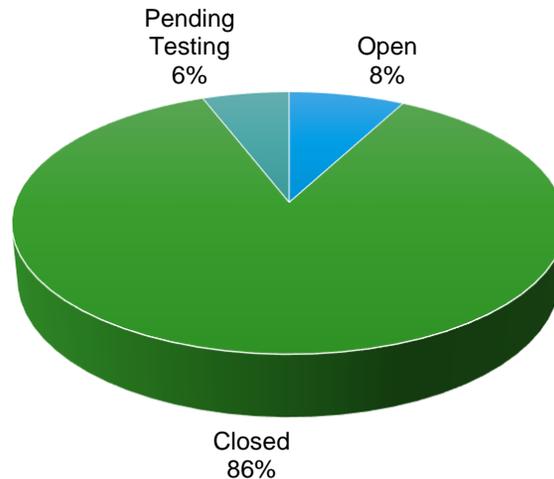
# PRIOR AUDIT FINDINGS – FOLLOW UP STATUS

# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2016 Audit Findings</b>					
Overtime Audit and Analysis	01/21/2016	3	0	3	0
Contract Compliance and Monitoring Part I	04/28/2016	4	0	4	0
Contract Compliance and Monitoring Part II	07/28/2016	11	0	11	0
ROCIP Savings Analysis	07/28/2016	4	0	4	0
Training, Licensing & Certification	07/28/2016	7	2	5	0
Blue Horizon 2020 Strategic Plan Monitoring	11/18/2016	3	0	2	1
Incident Management and Response Review	11/18/2016	3	0	1	2
Engineering – Contractor Management Phase II	2/14/2017	4	0	4	0
Billing & Collection	2/14/2017	1	0	1	0
Business Development Plan	2/14/2017	10	1	9	0
Annual Budgeting and Planning	4/27/2017	1	1	0	0
	<b>Total</b>	<b>51</b>	<b>4</b>	<b>44</b>	<b>3</b>

**Color Key**

At least 1 original remediation target date has been extended



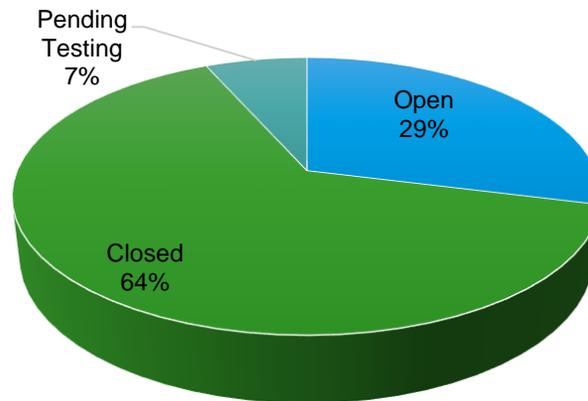
<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2017 Audit Findings</b>					
DMS Work Order Management (Blue Plains)	4/27/2017	4	1	1	2
HR/Employee Privacy Review	4/27/2017	7	3	4	0
Purchasing Card	4/27/2017	6	0	6	0
Contract Monitoring & Compliance Part 1	7/27/2017	5	0	5	0
Contract Monitoring & Compliance Part 2	7/27/2017	3	0	3	0
Entity Level Assessment	10/26/2017	7	4	3	0
Vulnerability Management and Platform Technical Audit (Windows/UNIX)	10/26/2017	2	2	0	0
Materials Management – Operations and Inventory	10/26/2017	4	1	2	1
Fleet – Accident and Incident Reporting	1/25/2018	4	2	2	0
Construction Plan Review and Permitting	1/25/2018	3	0	3	0
	<b>Total</b>	<b>45</b>	<b>13</b>	<b>29</b>	<b>3</b>

### Color Key

At least 1 original remediation target date has been extended

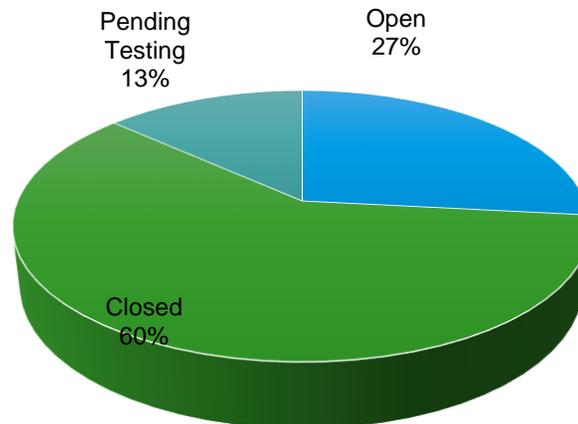


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# Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY 2018 Audit Findings</b>					
Recruiting, Selection and On-Boarding	4/26/2018	2	0	2	0
Automated Meter Replacement Update	4/26/2018	1	0	1	0
DB/OS Privileged User	4/26/2018	4	0	4	0
Network Penetration Testing	4/26/2018	13	0	13	0
Contract Monitoring & Compliance	7/26/2018	3	0	1	2
Crisis Management/Business Continuity	7/26/2018	3	3	0	0
Payroll & Timekeeping	10/25/2018	4	1	3	0
Accounts Payable	10/25/2018	5	0	3	2
Integrated Work Order Management	1/24/2019	10	8	0	2
<b>Total</b>		<b>45</b>	<b>12</b>	<b>27</b>	<b>6</b>

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



<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

# Action Deferred Update

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

## 1. Intellectual Property Personnel Policy

- Under review by management based on new strategic initiatives. The plan is for old program to sunset this fiscal year, and a new Innovation/IP program will be implemented in the next fiscal year. This is being monitored by the Governance Committee. The prior policy draft will not be finalized, and a whole new process and related policy / SOP will be considered.

# AUTOMATED METER READING

# Automated Meter Reading – Final Update

The Automated Meter Reading (AMR) Replacement project began in October 2016, with the goal of successfully replacing over 85,000 meters across the District. The key objectives of the project were:

- Address the end of useful life meters and MTUs
- Increase the percentage of transmitting meters
- Reduce the volume of estimates

Internal Audit has provided two other status updates, which included a review of the business processes and controls for inventory management, meter installation, meter disposal, and AMR related billing adjustments.

A final project status will be presented by April Bingham from the PMO Office.

# PERMIT OPERATIONS - REIMBURSABLE PROJECTS

# Permit Operations – Reimbursable Projects

As a result on an ongoing, aged liability on the Authority’s financial statements, management requested Internal Audit’s assistance with the documentation and understanding of multiple processes as it relates to developer deposits on account, often referred to as “reimbursable projects”.

The scope of the review of Reimbursable Projects review included the following:

- Review and assess the design of the Authority’s processes for collecting project fees and distributing reimbursement, if applicable, upon project completion;
- Review existing policies and procedures related to reimbursable projects;
- Identify process or control gaps; and,
- Recommend opportunities for improvement.

This review was conducted in complement to the Temporary Use Permits review that was performed during 2018 and issued to management. The overall Management Action Plan is in progress and relevant to both, as well as other processes under management’s review.

# Permit Operations – Reimbursable Projects

There were three observations noted during the review. Management is in the process of developing a comprehensive response and action plan.

Matt Brown, EVP Finance and Procurement, will discuss the progress of the plan development with the Committee.

Observations
Process Roles & Responsibilities
<p><b>Recommendation:</b> We recommend a defined process owner be established to oversee the administration and monitoring of projects with reimbursable fees/deposits to include developing and enforcing procedures around the following:</p> <ul style="list-style-type: none"> <li>• Project Account Creation (V1)</li> <li>• Activity and Labor Code Creation (Lawson &amp; DayForce)</li> <li>• Cash Handling and Collection of Refundable Deposits &amp; Fees and applying the credit to the Project Account in V1 (These duties should be segregated – i.e., not performed by the same person or group.)</li> <li>• Project Account (V1) Data Entry &amp; Monitoring:                         <ul style="list-style-type: none"> <li>○ Upload of periodic costs (equipment, labor, fringe benefits and overhead) into V1.</li> <li>○ Periodic reconciliation of project accounts with open credit or debit balances.</li> </ul> </li> <li>• Project cost reconciliation between the various systems (V1, Dayforce, Maximo, Lawson)</li> <li>• Tracking of incomplete As-Built drawings and Project Close Out / Refund of Payment</li> </ul> <p>A documented standard operating procedure should be created to establish guidelines for this process, including roles and responsibilities for Authorization, Recording, Reconciling, and Reporting reimbursable development project activities. These duties should be segregated wherever necessary and regular reviews should occur.</p>

# Permit Operations – Reimbursable Projects

## Observations

### Project Account Reconciliation & Monitoring

**Recommendation:** We recommend a monthly balance monitoring process be established to track all accounts, active (project is ongoing) or inactive (project is complete). As follow up to the periodic reconciliation, written communication should be provided to the account owner regarding the outstanding balance available as a refund if the project is complete, as well as the forfeiture clause information (see Observation #3).

The Authority should also consider defining a predefined threshold (amount or percentage of the total advance) that would require an additional advance, to ensure that accounts stay funded and costs can be reasonably recovered by the Authority. Work orders for projects that do not have sufficient balances should be put on temporary hold until the accounts are brought current.

Accounts with no activity within a prescribed period (three months, for example), should be ‘flagged’ for additional follow up with the developer, or a site visit to determine whether the project is completed. DC Water should consider an incentive to developers to provide the As-Built, such as including the cost of an An-Built drawing in the upfront fees collected. The account balance should never fall below the estimated cost of an As-Built drawing, to make sure that DC Water can have an As-Built done as needed if the developer will not provide one. This will further allow DC Water to capture the infrastructure changes in the GIS system as needed.

We recommend management also evaluate the extent to which each of the four systems (V1, Lawson, Dayforce and Maximo) is able to interface with one another, or at a minimum provide an electronically-generated batch report that can then be uploaded into the other systems, as needed, using a common identifier. If able, Management should provide a “line of communication” between the systems that house the labor (Dayforce/Maximo) and equipment (Maximo) costs to the financial system Lawson. The information within Lawson can be leveraged during the upload of data into project accounts in V1.

# Permit Operations – Reimbursable Projects

## Observations

### Forfeiture Clause

**Recommendation:** We recommend the Authority work with Legal Affairs to develop a forfeiture policy that specifies the period in which contractors have a right to request a refund related to refundable deposits/fees upon project closure. Upon research by Legal, if appropriate, this clause should include notice that once this period ends, DC Water has the right to retain any outstanding credits and close the project account. Appropriate legislation as well as historical collection rates of refundable deposits/fees should be utilized to determine and appropriate period for collection of refunds.

# PURCHASING CARD

# Purchasing Card

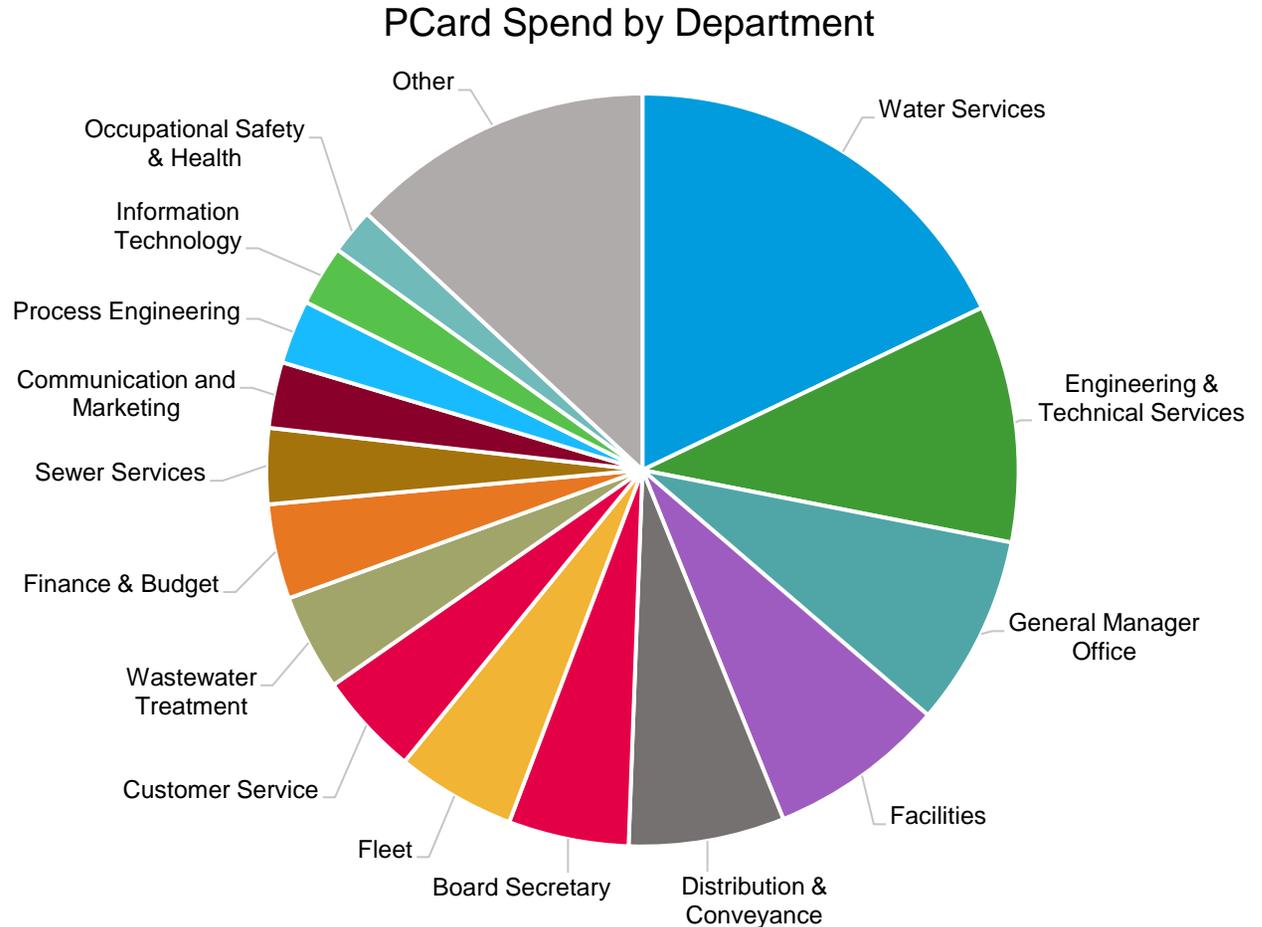
Purchasing Cards (PCard) are DC Water's preferred method for micro-purchases that do not have an existing purchase order. The PCard program is intended to simplify the buying process and improve cycle time from ordering to receipt. DC Water currently has a total of 63 PCards and 31 Travel Cards (TCards) issued through US Bank. The scope of the Internal Audit of the Purchasing Card program included the following:

- Review and assess the design of the Authority's policies and procedures to determine the adequacy of internal controls over PCards and TCards;
- Evaluate the adequacy of program administration and oversight, including internal controls to safeguard the Authority from fraud, waste and abuse;
- Evaluate the appropriateness of PCard and TCard purchases;
- Perform analytical procedures on the PCard spending to identify trends and high risk activity or transactions;
- Determine whether the PCard and TCard programs are adequate and appropriate for promoting and encouraging the achievement of management's objectives for an effective process; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall PCard and TCard programs.

# Purchasing Card - continued

Total spend for the PCard program from 10/1/17 through 3/31/19 was \$2,058,579.32. The chart on the right represents PCard spend by Department\* during the audit period from 10/1/17 through 3/31/19. Both Water Services and Engineering & Technical services use PCards to pay for DDOT permits and DC Government payments, which contributes to their large PCard spend.

\* The department codes are based upon the employee card used, not necessarily the end user department



# Purchasing Card - continued

The table below references Merchant Category Codes (MCCs), which are used to classify businesses by the types of goods and services they provide. It illustrates top MCCs used by DC Water PCards by dollars spent for the audit period of October 1, 2017 through March 31, 2019.

<b>Top 10 MCC by Dollars Spent</b>	
<b>MCC Description</b>	<b>Dollars Spent</b>
Wholesale Distributors and Manufacturers	\$410,432
Government Services	\$311,362
Miscellaneous Stores	\$239,403
Professional Services and Membership Org	\$195,668
Government Services – Other	\$127,773
Business Services	\$116,733
Retail Stores	\$98,373
Service Providers	\$38,040
Eating Places and Restaurants	\$37,725
Mail Order/Telephone Order Providers	\$28,385

# Purchasing Card - continued

Observations	Risk Rating
Non-Compliance with Documented Policies	High
<p><b>Management Action Plan:</b>                      Management agrees with the recommendations by Internal Audit and will take the following actions:</p> <ul style="list-style-type: none"> <li>• Hold P/T card training/refresher sessions and distribute guides.</li> <li>• Update IRC review and escalation process guidelines.</li> <li>• Create or update expense report forms.</li> <li>• Update meal expense report to include names and business reasons.</li> <li>• Create a Gift pre-authorization form.</li> <li>• Implement a new exception approval process:                             <ul style="list-style-type: none"> <li>• VP of Procurement and Compliance will be the Program Director for both P-card and T-card programs as well as monitoring and enforcing approved Food Policy and will approve all authorization forms and exceptions so the policies can be enforced uniformly across the Authority.</li> </ul> </li> </ul> <p>Additionally, DC Water has purchased new ERP solution which includes an expense management/reporting module. The expected implementation is in the 2nd half of 2020. This new solution is expected to eliminate many documentation issues and also automate approval and report process as well as audit process.</p> <p><b>Target Date:</b> December 31, 2019</p> <p><b>Responsible Manager:</b> VP Procurement and Compliance</p>	

*Two low risk issues are included in the full report.*

# HOTLINE UPDATE AND SEMI-ANNUAL ANALYSIS

# Hotline Update

Hotline Calls as of 7/10/19	
Calls Open as of 4/25/19	7
Calls Received	4
Fraud Claims – 1	
Other – 3	
Cases Closed	5
Cases Currently Open	6

## Total calls by Fiscal Year:

Year	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
# of calls	10	20	16	36	31	21	21
Action Taken	0	2	7	7	2	0	0

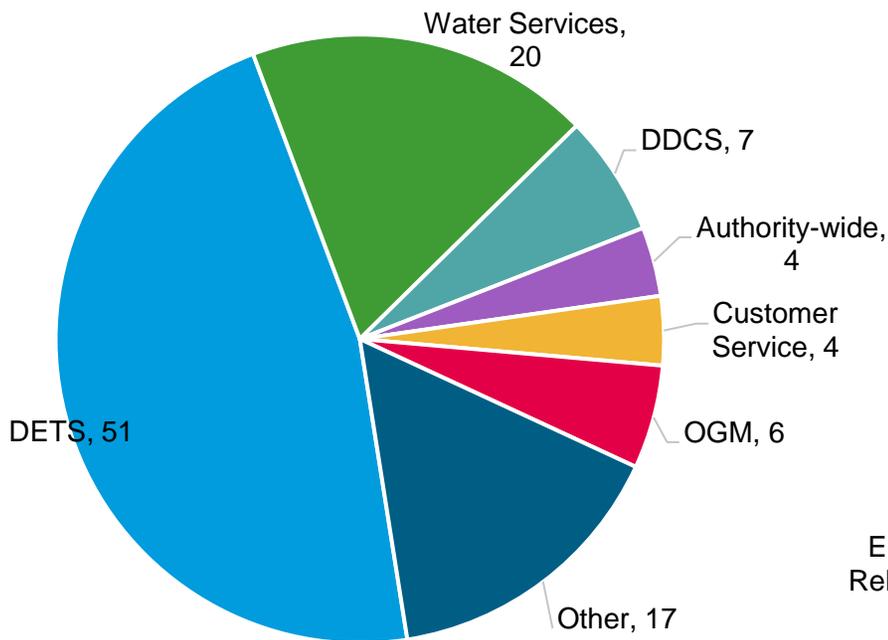
# Hotline Call Analysis – Brief Summary

- Number of call received over the past 4 fiscal years: 109
- Number of calls closed due to not having enough information to investigate: 9
- Number of calls actively administered by Internal Audit: 100
- Number of active calls closed: 94
- Number of calls resulting in Corrective Action: 9
- Number of Fraud-related calls: 20
- Number of Fraud-related calls resulting in Corrective Action: 1

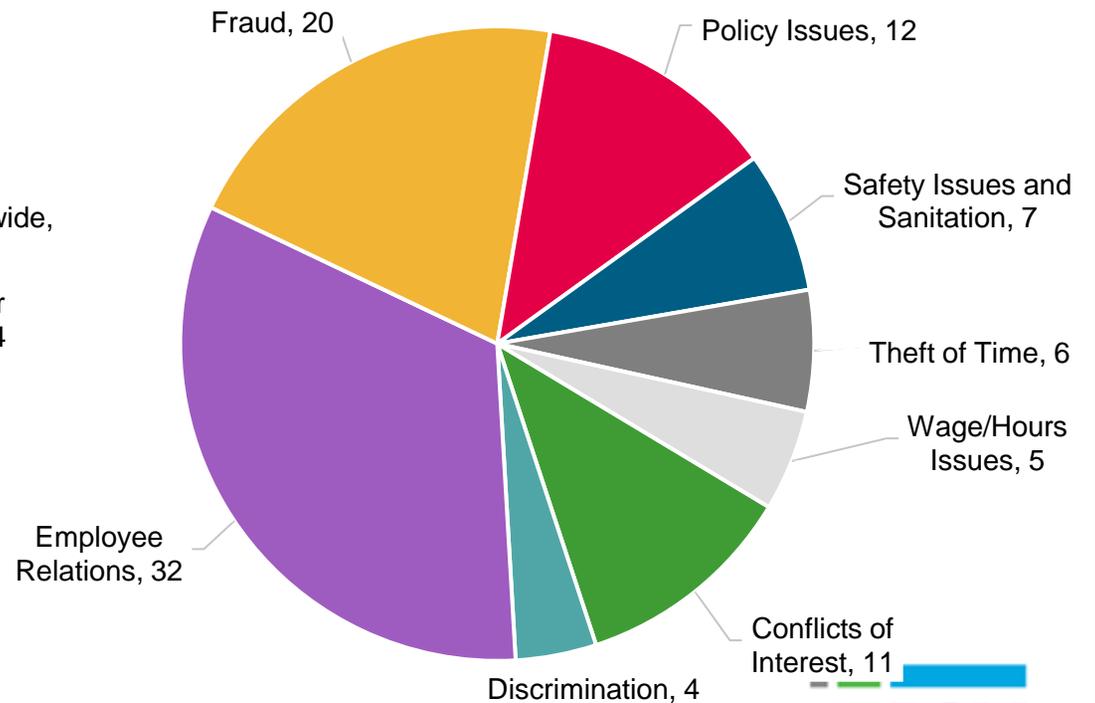
# Hotline Call Analysis

We conducted an analysis of the 109 hotline calls that have been received since FY 2016 to date, to determine if there are any trends, evaluate the quantity of calls (allegations) that were substantiated, and other matrices. The following charts represent the breakdown of calls by Department and case type.

**Calls by Department**

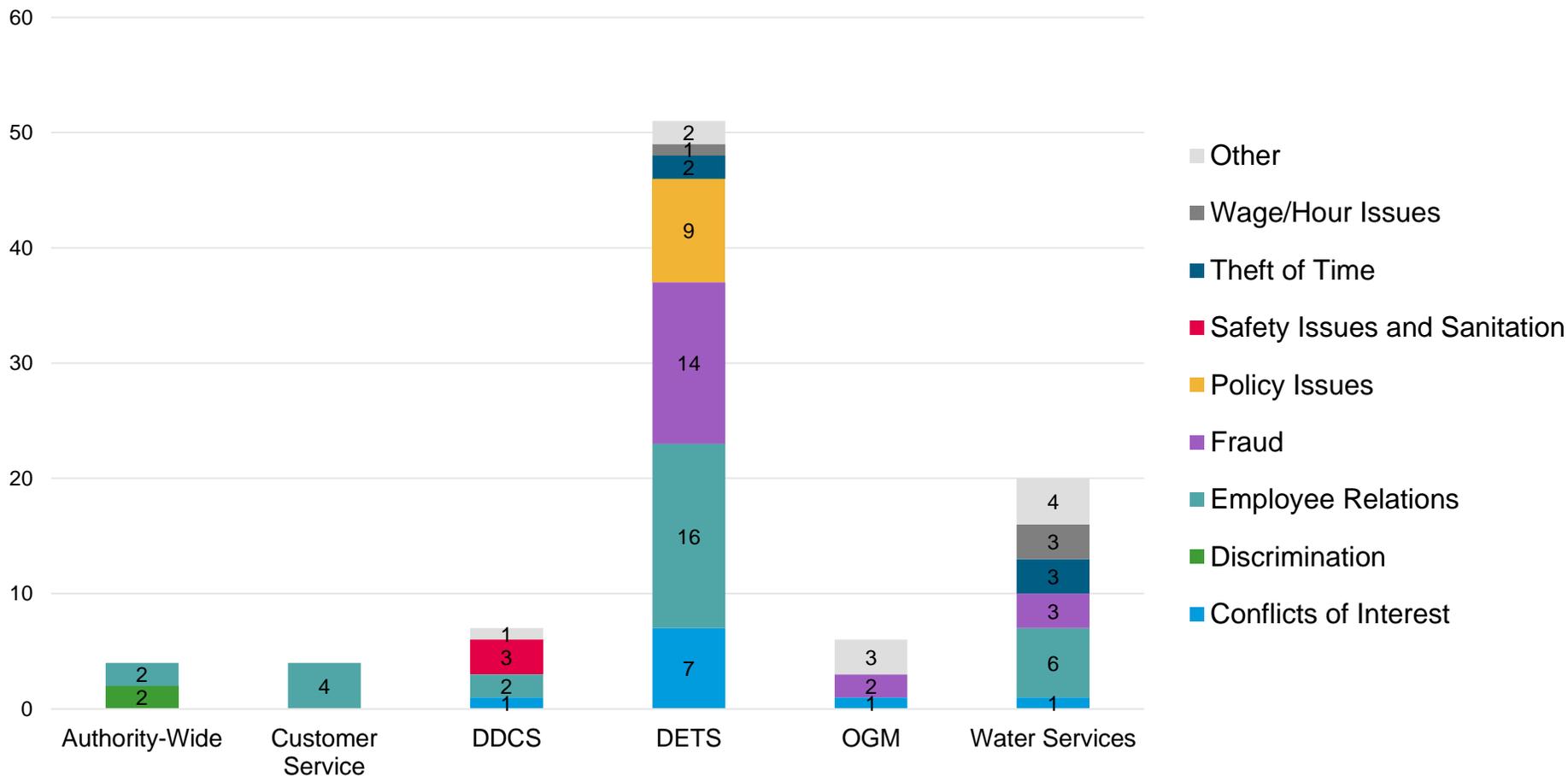


**Calls by Case Type**



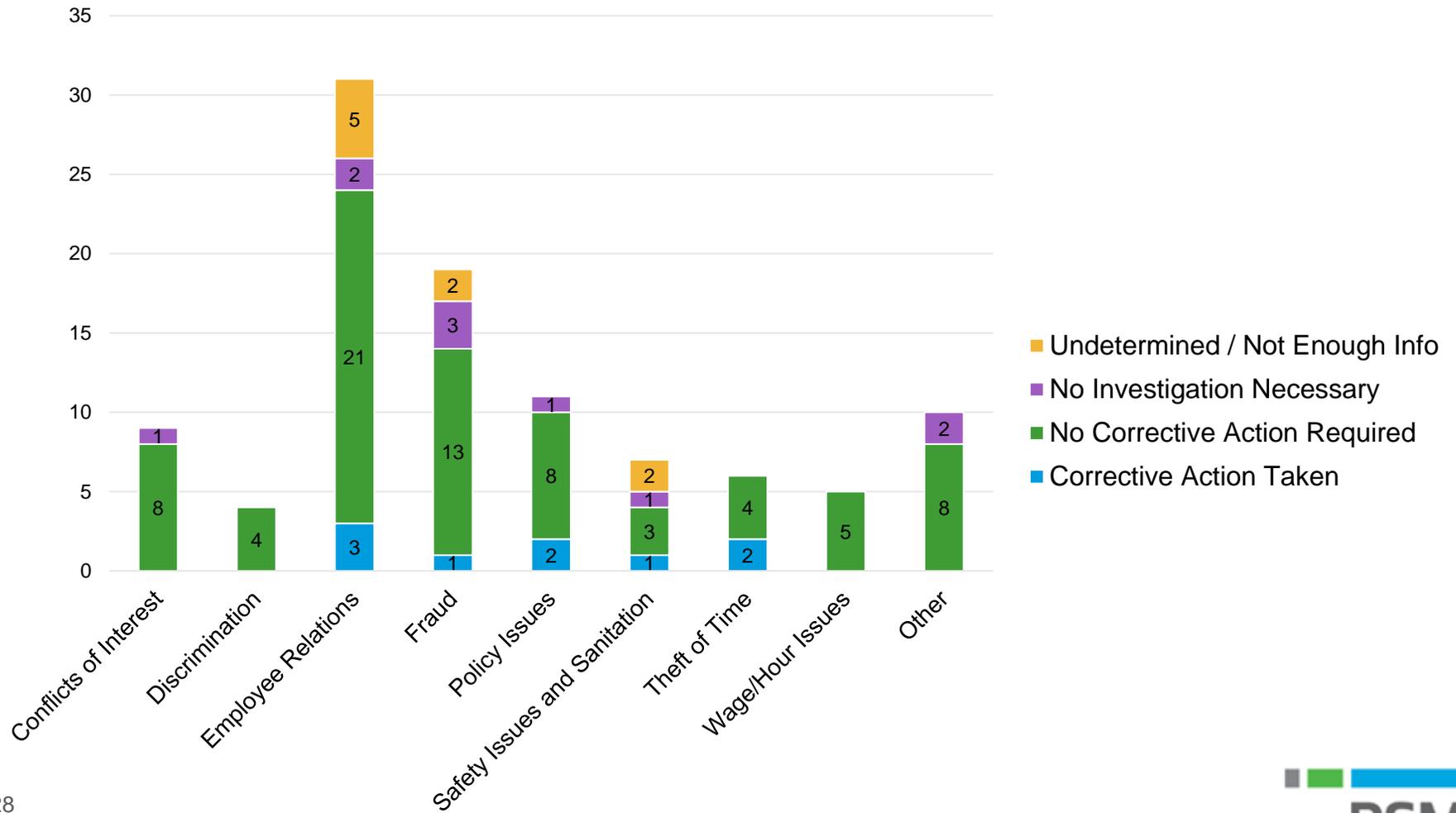
# Hotline Call Analysis (continued)

**Calls by Type and Department**



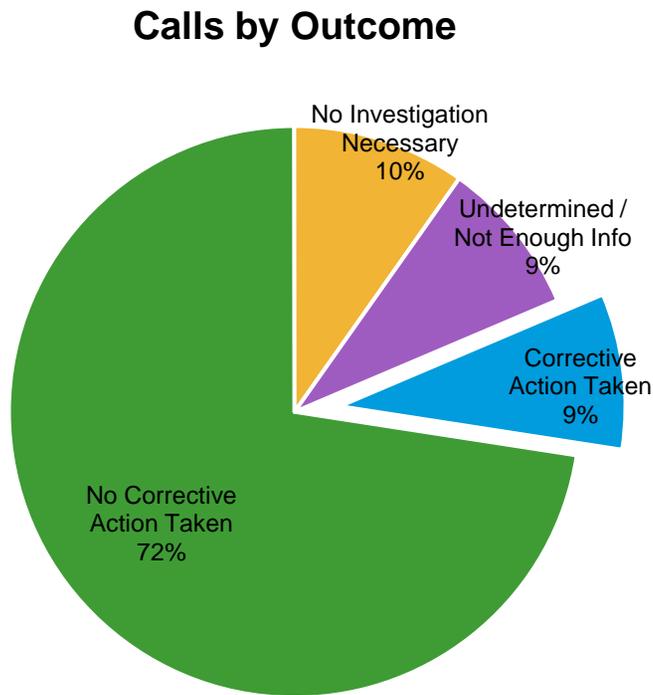
# Hotline Call Analysis (continued)

**Calls by Type and Outcome**



# Hotline Call Analysis (continued)

The following tables represent the breakdown of hotline calls that were substantiated and required corrective action. Of the 103 cases closed, 8% or 9 calls resulted in corrective action.



Case Type	# of Calls
Employee Relations	3
Fraud	1
Policy Issues	2
Safety Issues and Sanitation	1
Theft of Time	2
<b>Total</b>	<b>9</b>

Department	# of Calls
DDCS	2
DETS	4
Maintenance Services	1
OSH	1
Water Services	1
<b>Total</b>	<b>9</b>

# QUESTIONS AND ANSWERS?



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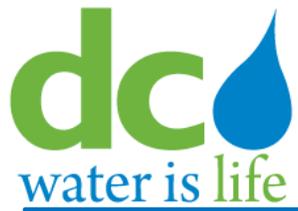
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# Automated Metering Infrastructure

## “It’s More Than a Reading”



July 2019



## AMI Program Update **AGENDA**

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- **Project Charter**
- **AMI @ DC Water**
- **Project Accomplishments**
- **High Usage Alerts**
- **Lessons Learned**
- **Project Cost**
- **Next Steps**

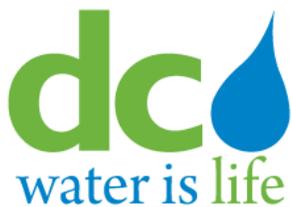


AMI Program Update  
**AMI – Project Charter**

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**Goal:** To successfully replace 85,000 meters and associated transmitting units while managing reputational risk.

- Timeline from: June 2016-October 2018
- Address the end of useful life meters and MTU's
- Increase the % of meters transmitting
- Reduce the volume of estimates



# AMI Program Update AMI @ DC Water

AcLara STAR AM System 7

DCU - DCU Views  
User: DCWAS\Fleming  
Database: Bpm-amibb 1433 (StarCubed)

System DCU Views    Individual DCU Views    Date Range

Search By:    Call Name    Display    Call    Status    Date    Action

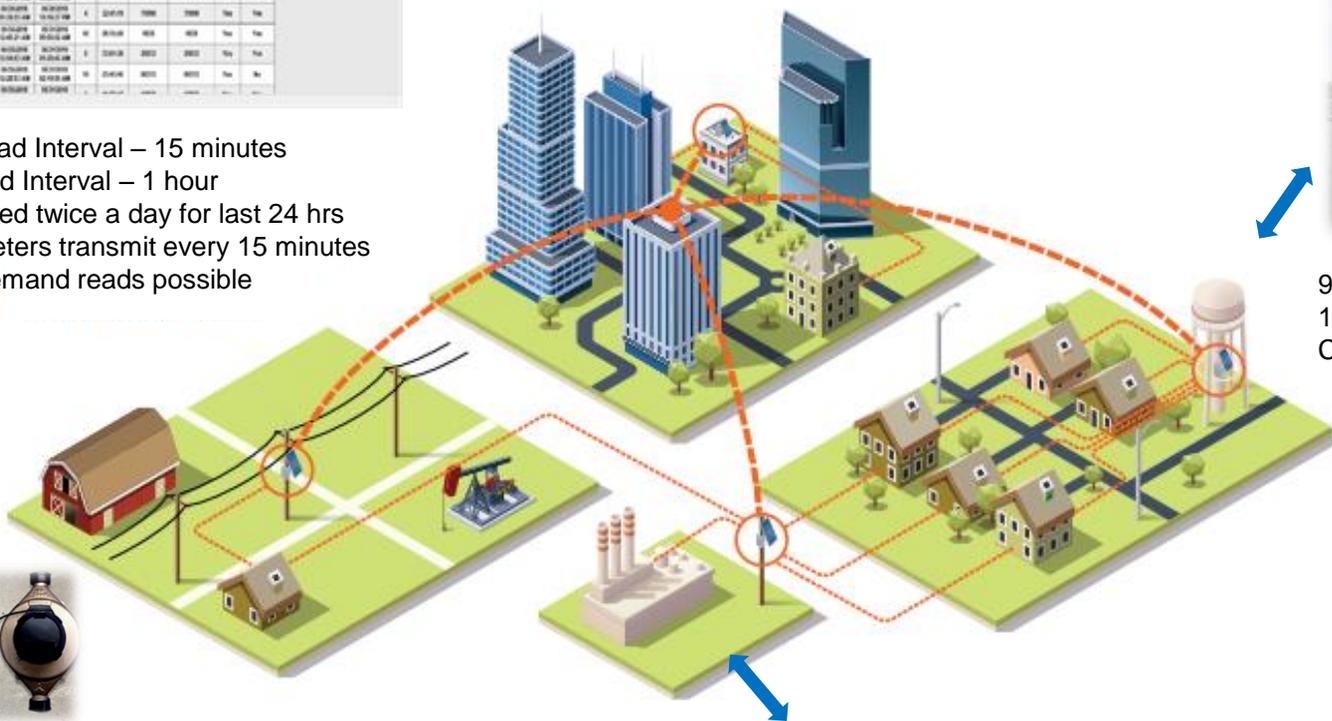
10/1/2010    10/1/2010    10/1/2010

Search For:

DCU	Location	Time Call	Last Call	Time Call	Time Call	Records							
201	201	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010
202	202	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010
203	203	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010
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206	206	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010
207	207	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010
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210	210	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010	10/1/2010

STAR – Meter Data Management  
DC Water – data analytics

Large Meter Read Interval – 15 minutes  
Residential Read Interval – 1 hour  
Reads transmitted twice a day for last 24 hrs  
Select larger meters transmit every 15 minutes  
Real-time on-demand reads possible



90 Data Collection Units  
100 MHz radio uplink  
Cellular backhaul



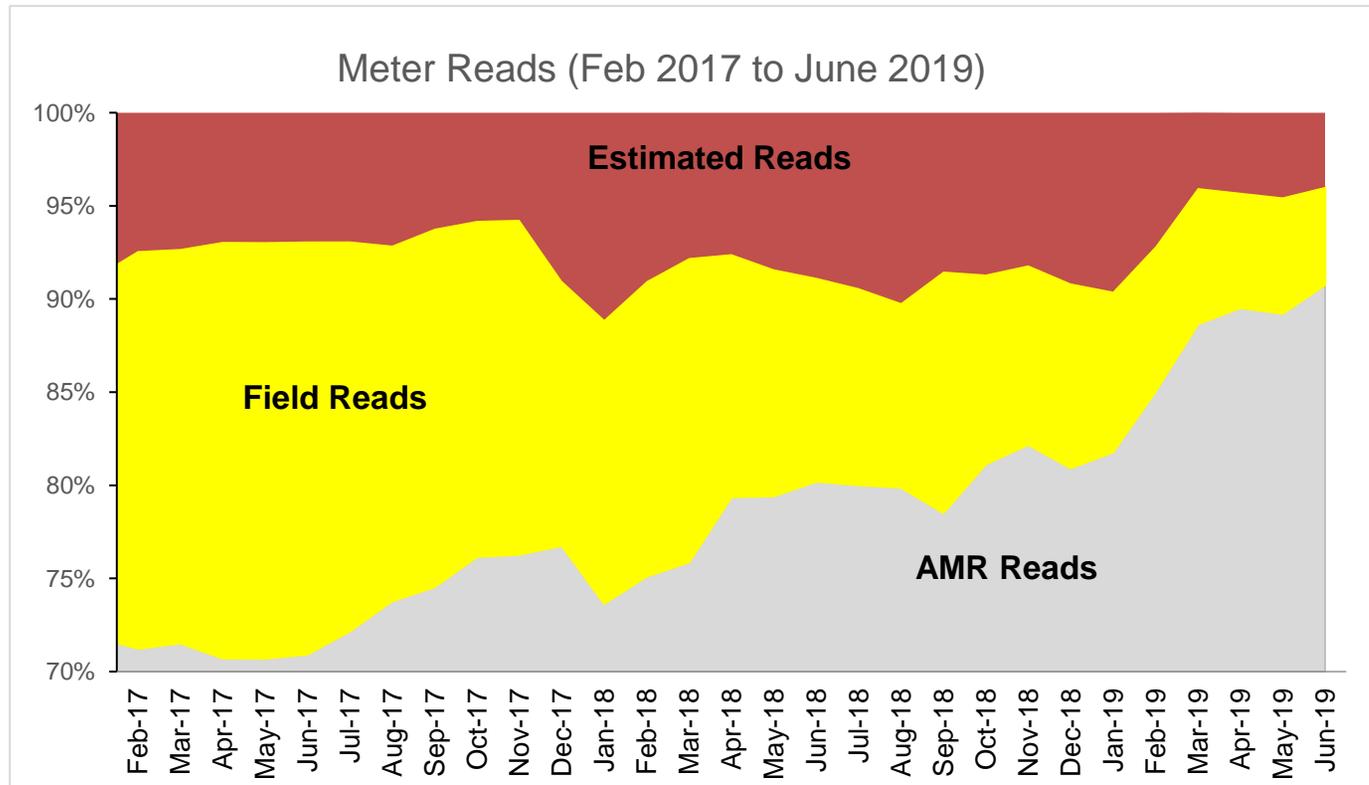
128,000 Meter Transmission Units  
92,000 two way communications



## AMI Program Update Project Accomplishments

### Installed 84,534 Meters and Meter Transmitting Units

- Increased the overall AMI transmission rate from 70% to 92.4%
- Reduced estimated bills from project start date
- Improved transmission & redundancy efforts through 90 upgraded Data Collection Units





## AMI Program Update Project Accomplishments

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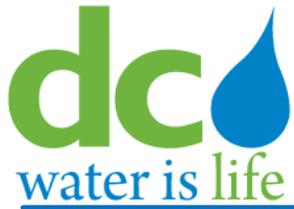
### Minimal customer inquiries

- Approximately 1% of the replacements
- Secondary adjustments less than \$417K over the life of the program

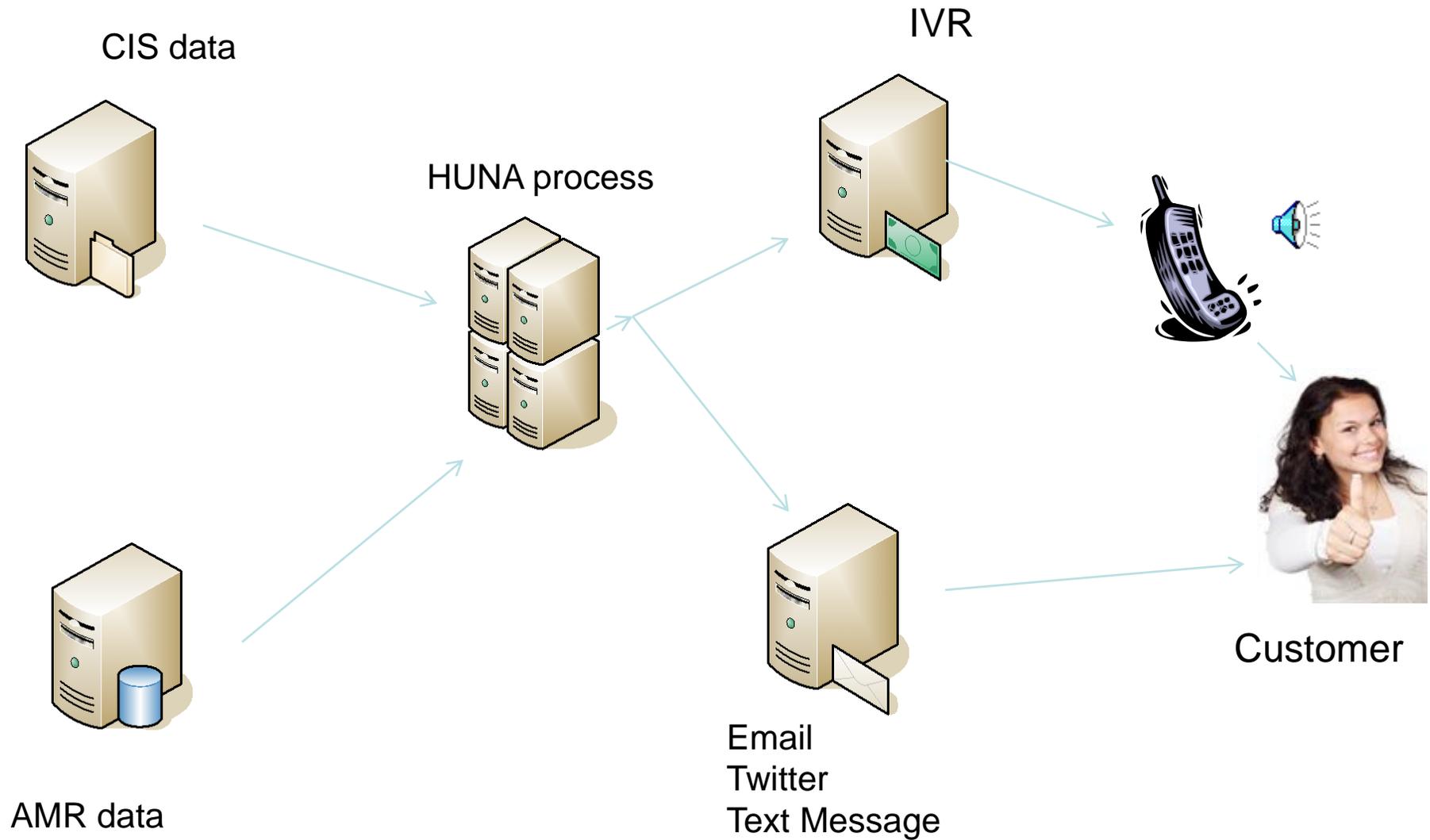
Low number of potential risk management claims (25 total or 0.03% of WOs)

### Expanded insight into customer usage

- More frequent reads
- Improved communication on leak issues
- Enhanced & customized alerts to customers



# Leading Edge... High Use Notification Application





## High Usage Notification Alert

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DC Water's High Usage Notification Application (HUNA) leverages AMI data to enhance the customer experience. Usage can be viewed hourly, daily or monthly and download detailed read data for offline analysis.

- Customer can customize their own notification level about 1 year ago

### **Features coming within the next 60 days**

- Customers can compare their usage against their neighbors (on the block, zip code or ward) or the entire rate class.
- A feature that notifies customers of continuous usage in the event of a broken pipe or a significant leak. Customers will set the number of hours (6, 12 or 24) to monitor the usage and if we detect usage greater than that amount in each hour we will send an alert.

HUNA also analyzes new reads as they are collected against individual customer historical usage patterns and if it detects high usage conditions it will call, text and/or email customers an alert. Customers can set their own usage thresholds and can set up to 4 text, phone and/or email addresses to be notified when usage anomalies are detected. This is especially useful for rental properties when an owner, tenant and/or management company needs to be contacted.



AMI Program Update  
**AMI - Lessons Learned**

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**What worked well?**

**Proper Advanced Planning**

- Startup Workshops
- Ramp Period
- Separate Inventory Tracking

**Blended Program Management**

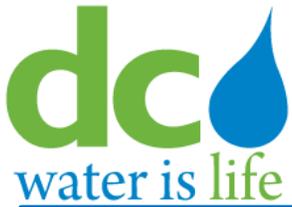
- Dedicated staffing
- Cost effective resourcing
- Reduced response time
- Field oversight (mitigating issues)

**Executive Oversight Committee**

- Monthly reporting
- Cross functional insight

**Customer Outreach Efforts**

- Minimal complaints
- Reduced long standing estimates



AMI Program Update  
**AMI - Lessons Learned**

**What Opportunities Were Revealed?**

- Unplanned Escalations

Type	#	Description
Vacant, Razed or Construction	588	Building observed to be vacant, demolished or under construction / redevelopment.
Access Obstructed*	1,292	No access for various reasons (tree roots, buried pit, collapsed pit, etc.)
Inoperable Valve*	894	Shut off valve broke or not operable. Resolution varies based on RES vs. NON-RES
Mismatches	892	Size or serial number changes performed by DCW prior to project
Previously Replaced	671	New meter / MTU observed
Others	791	Confined space permit and miscellaneous other reasons. Resolution varies

- Alignment with DDOT re: Public Space Tripping Hazards (18,274 Locations)
  - Loose cover, gap observed and pit/frame/cover is not broken
  - ¼ “ above grade or ½ “ below grade in sidewalk, road or driveway
  - 2” tree space or yard



## AMI Program Update **AMI - Lessons Learned**

- **Single Contractor Responsibility**
  - Single contractor (purchase & install) be used for future projects.
  - Goods & Services contract is not recommended for construction work.
- **Data / Workflow Processes**
  - Base scope vs. non-base scope
  - Exception Processing Remodeling
- **Inside Meters / Unresponsive Customers Process Design**
- **Annual Replacement Program (Long Term)**

### **10 Year Plan - \$28.68M**

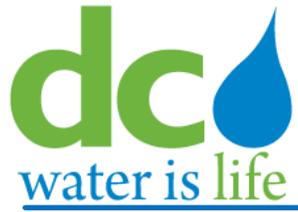
FY2019-20	\$2,618K
FY2021-28	\$2,930K



## AMI Program Update **AMI - Next Steps**

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- We are in close out with the selected vendor
- Resolve 1,500 certified/paid locations not transmitting
- Develop a process to address the hard to resolve accounts through use of an AMI consultant & new installation vendor
  - Seasoned in AMI project close outs
  - Ability to complete complex and unresolved work orders and replacement of legacy equipment
  - Contract will follow a performance base pay module
- Continue the ongoing replacement of remainder of small meters & large meters not transmitting



# APPENDIX

## Appendix 1 - High Usage Alert Sample Email



## High Usage Alert Email

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**From:** Customer Service  
**Sent:** Sunday, December 24, 2017 12:15 PM  
**To:** [dcarrillo@vidarealestateproperties.com](mailto:dcarrillo@vidarealestateproperties.com)  
**Subject:** High Usage Detected at your Address - 3415 13th St NW

Dear Valued Customer:

The District of Columbia Water and Sewer Authority (DC Water) implemented an automated meter reading (AMR) system to improve its service delivery to you. DC Water collects daily AMR readings, which helps us monitor and track usage across the entire distribution system. One extended feature of AMR is our ability to trend your usage to help detect potential problems. Few, if any water utilities are doing this today so we are treading new ground in providing value added services to our customers. Between 12/19/2017 and 12/22/2017, we have observed a significant increase in your daily usage that may be indicative of a problem with your internal plumbing or higher weekend usage. We strongly urge you to check your internal fixtures such as a toilet, sink, or water heater to ensure there are no leaks. You should also check your outside hose bib for leaks. This email message is not meant to alarm you; however, leaking fixtures left undetected can cost consumers hundreds of dollars over the course of a month. If you have any questions please contact our customer service professionals at (202) 354-3600, Monday through Friday from 8:00 AM - 5:00 PM, and they will gladly assist you. Please reference premise number "3029899" (or address - 3415 13th St NW) when calling.

Thank you,  
DC Water Customer Service

To stop notifications like this or to change your preferred method of notification, please go to <https://www.dewater.com/> and login to your account. Click on 'Water Usage History' and then 'AMR Usage History'. You may choose not to receive notifications or choose to be called instead.



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# Internal Audit Report Purchasing Card (PCard) Program

July 2019



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## TRANSMITTAL LETTER

July 2019

The Audit Committee of DC Water  
1385 Canal St, SE  
Washington, DC 20003

Pursuant to the approved 2019 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of DC Water’s Purchasing Card (PCard) Program. We will be presenting this report to the Audit Committee of DC Water at the next scheduled audit committee meeting on July 2019. Our report is organized in the following sections:

<b>Executive Summary</b>	This provides a summary of the observations and related to our internal audit of the PCard Program.
<b>Background</b>	This provides an overview of the PCard Program.
<b>Objectives and Approach</b>	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Detailed Observations</b>	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

Purchasing Cards (PCard) are DC Water’s preferred method for micro-purchases that do not have an existing purchase order. The PCard program is intended to simplify the buying process and improve cycle time from ordering to receipt.

DC Water currently has a total of 63 PCards issued through US Bank. PCards are used for items such as books, subscriptions, indirect materials and tools, office supplies, and more. There is a cardholder training, procedures manual, and a policy in place to provide guidance to employees for the use of PCards. The PCard program is monitored by the PCard Administrators.

DC Water currently has 31 Travel Cards (TCards) that are used for authorized business-related travel expenses such as traveling to conferences, lodging, etc. Currently, there is an outdated policy for travel expenses including a small section for the TCard process.

DC Water uses the GSA contract method to manage its credit card services. In November 2018, US Bank was awarded the new GSA contract for the PCard program. US Bank’s program administration is different than the prior credit service provider, Citibank, and therefore DC Water management subsequently spent time refining processes around PCard payments and reconciliations.

### Overall Summary / Highlights

The observations identified during our assessment are summarized on the next few pages. We have assigned relative risk or value factors to each observation. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow-up of internal audit observations.

### Objective and Scope

The purpose of this review was to obtain an understanding of how the Authority monitors the PCard programs. Our testing period covered October 1, 2017 through March 31, 2019. The audit scope was based on the following objectives:

- Review and assess the design of the Authority’s policies and procedures to determine the adequacy of internal controls over PCards and TCards;
- Evaluate the adequacy of program administration and oversight, including internal controls to safeguard the Authority from fraud, waste and abuse;
- Evaluate the appropriateness of PCard and TCard purchases;
- Perform analytical procedures on the PCard spending to identify trends and high risk activity or transactions;
- Determine whether the PCard and TCard programs are adequate and appropriate for promoting and encouraging the achievement of management’s objectives for an effective process; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall PCard and TCard programs.

Fieldwork was performed April 2019 through July 2019

### Summary of Observation Ratings *(See Appendix A for definitions)*

	Number of Observations by Risk Rating		
	High	Moderate	Low
<b>PCard Program</b>	<b>1</b>	<b>0</b>	<b>2</b>

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



## EXECUTIVE SUMMARY (CONTINUED)

### Ratings and conclusions

Following is a summary of all observations noted in the areas reviewed (see “Detailed Observations” section for additional information). Definitions of the rating scales are included in the Appendix.

Summary of Observations	
Observations	Rating
<p><b>1. NON-COMPLIANCE WITH DOCUMENTED POLICIES</b></p> <p>A selection of TCard and PCard transactions judgmentally tested by Internal Audit were noted as exceptions to the PCard and Travel Policies. The PCard and TCard Administrator, supported by the IRC, reviews all transactions and determines reasonableness of any potential instances of non-compliance. The Administrator escalates any transactions that may be material, inappropriate use of the card. Per discussion with the new Administrator, because the transactions noted as exceptions during this audit were low dollar value and are not construed as waste, fraud, or abuse, no corrective action was taken. However, without actionable corrective action practices, repeat offenders may not be held accountable for lack of compliance even for low dollar amounts.</p>	<b>High</b>
<p><b>2. OUTDATED TRAVEL POLICY</b></p> <p>The Travel Policy has not been updated since 2005, and does not provide enough guidance for inappropriate travel expenses, and the list of non-reimbursable travel expenses only includes five items. In August 2018, management drafted an updated Travel Policy that includes detailed acceptable travel, local travel, air travel, lodging, meals and entertainment, incidentals, and a comprehensive list of non-reimbursable expenses. The policy is in the review and approval stage and will be implemented in the near future. A TCard Manual was issued October 2018, but has not yet been distributed to cardholders, due to the change in TCard administrator. The TCard is not widely used at the Authority; there are 31 users of TCards, with \$409,559 spend from October 1, 2017 through March 31, 2019.</p>	<b>Low</b>
<p><b>3. LATE SUBMISSIONS</b></p> <p>A number of PCard and TCard monthly reconciliations were submitted late to Accounts Payable, in accordance with policy. Late reconciliation reports are escalated to management each month. The Authority began paying statements prior to completing reconciliations which prevents cards from being rejected and allows the program to continue running smoothly. However, if DC Water pays the statement and then reconciliations are not submitted timely, the Authority runs the risk of paying for invalid charges and delaying the identification of such activity for corrective action.</p>	<b>Low</b>

Process Improvement Opportunities have also been provided to Management for consideration.



## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### Overview

Purchasing Cards (PCards) are the preferred method for micro-purchases that do not have an existing purchase order. PCards are not considered a primary method of payment at DC Water. The purpose of the PCard program is to simplify DC Water’s buying process and improve cycle time from ordering to receipt. In order to accomplish this goal, DC Water enforces a PCard Procedures Manual outlining the policies, procedures, roles, and responsibilities for card usage and administration. When PCard administrators (procurement department) issues a PCard to an employee, the employee is assigned a single purchase limit and a monthly spending limit. The single purchase credit limit sets a dollar restriction for each purchase. The monthly spending limit gives the cardholder monthly dollar restrictions for total charges during each billing cycle. Cardholders are responsible for maintaining monthly bank statements and supporting documentation detailing the purchases charged such as itemized receipts, amounts, item descriptions, etc. The table below illustrates credit limits for the 63 active PCards at the Authority.

PCard Spending Limits		
Single Transaction Limit	Monthly Cycle Limit	Number of Issued Cards
\$1,000	\$2,000	1
\$2,000	\$5,000	51
\$2,000	\$15,000	1
\$2,500	\$5,000	1
\$2,500	\$10,000	1
\$2,500	\$15,000	1
\$3,000	\$35,000	1
\$3,500	\$10,000	1
\$3,900	\$21,000	1
\$4,800	\$5,000	1
\$4,800	\$30,000	1
\$5,000	\$10,000	1
\$5,000	\$15,000	1
<b>Total</b>		<b>63</b>

Source: Internal Audit Analysis of US Bank Cardholder Export on 4/8/2019

In addition to the 63 active PCards, DC Water currently has 31 Travel Cards (TCards) that are used for authorized business-related travel expenses such as traveling to conferences, lodging, etc. Currently, there is an outdated policy for travel expenses including a small section for the TCard process.



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### ***PCard Administrators***

PCard Administrators are DC Water Procurement employees responsible for overseeing the Program, serving as liaisons between DC Water and the issuing bank. The PCard Administrator main responsibilities are to ensure Cardholders and Authorizing Officials are properly trained prior to establishment of an account, issue PCards upon successful completion of training, establish criteria and guidelines for transactions and dollar limits for PCards, ensure there is a segregation of duties between the Cardholder and Department Heads, and process card related penalties.

#### ***PCard Reconciliation and Review***

PCardholders are given access to their US Bank PCard online account for viewing transactions and downloading their monthly statements before reconciling those monthly charges to invoices/receipts in the PCard Transactions Log and Verification Form. Department heads are responsible for approving the monthly PCard reconciliations and submitting them within two weeks of the bank statement date to Accounts Payable (AP). AP performs a separate review and reconciliation, and contacts Cardholder to resolve any potential issues. The reconciliation and record retention processes are done manually, without any additional applications outside of US Bank's online access.

#### ***Transitions in the PCard Program***

DC Water uses the GSA contract method to manage its credit card services. In November 2018, US Bank was awarded the new GSA contract for the PCard program. US Bank's program administration is different than the prior credit service provider, Citibank, and therefore DC Water management spent time refining processes around PCard payments and reconciliations.

US Bank's loan agreement is structured as an allowance, as opposed to a rolling credit limit. Under this new credit structure, DC Water's available credit is the variance between the global purchases yet unpaid balance and its global credit ceiling. Additionally, the time between mailing check payments and US Bank's process for posting payments takes an average of 10 business days. As a result, the Authority began paying statements prior to completing reconciliations due to multiple instances of card rejections when the global credit limit threshold was exceeded. Bi-weekly wire payments are now executed to pay the balance of DC Water's account, guaranteeing ample available credit to keep the program running smoothly. This also allows the Authority to take advantage of rebates offered by US Bank for the timely payments.

The PCard team meets monthly as the Internal Review Committee (IRC). Although established to review cardholder transactions, the IRC was leveraged to discuss and manage process changes around the PCard program during the bank provider transition.



## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### PCard Usage

The table below references Merchant Category Codes (MCCs), which are used to classify businesses by the types of goods and services they provide. It illustrates top MCCs used by DC Water PCards by dollars spent and by volume of transactions for the audit period of October 1, 2017 through March 31, 2019.

Top 10 MCC by Dollars Spent		Top 10 MCC by Number of Transactions	
MCC Name	Dollars Spent	MCC Name	Number of Transactions
Wholesale Distributors and Manufacturers	\$410,432	Government Services	1,103
Government Services	\$311,362	Government Services – Other	1,101
Miscellaneous Stores	\$239,403	Miscellaneous Stores	1,096
Professional Services and Membership Org	\$195,668	Wholesale Distributors and Manufacturers	1,065
Government Services – Other	\$127,773	Professional Services and Membership Org	486
Business Services	\$116,733	Retail Stores	461
Retail Stores	\$98,373	Business Services	248
Service Providers	\$38,040	Book Stores	188
Eating Places and Restaurants	\$37,725	Mail Order/Telephone Order Providers	119
Mail Order/Telephone Order Providers	\$28,385	Service Providers	98

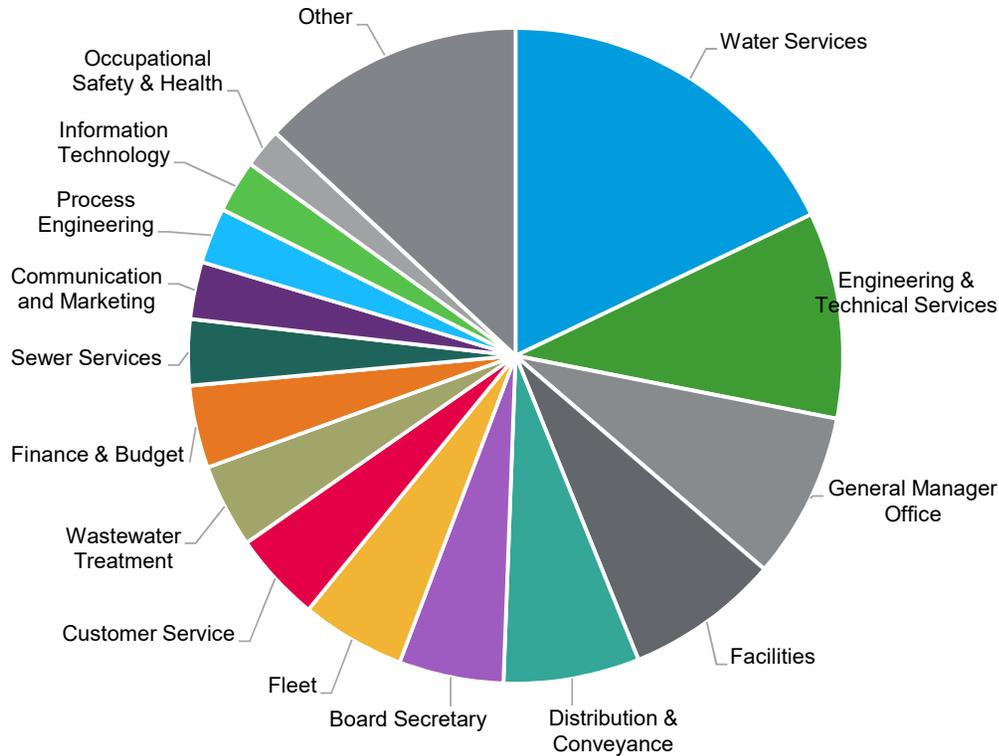


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

Total spend for the PCard program from 10/1/17 through 3/31/19 was \$2,058,579.32. The chart on the left represents PCard spend by Department during the audit period from 10/1/17 through 3/31/19. On the next page, dollar spend for each of the top ten departments is highlighted. The table on the right represents the top ten vendors by PCard spend for the same audit period. Of particular note, both Water Services and Engineering & Technical services use PCards to pay for DDOT permits and DC Government payments, which contributes to their large PCard spend.

PCard Spend by Department



Top 15 Vendors	
Vendor	PCard Spend
DC GOV'T PAYMENT	\$ 275,742.95
DCGOV DDOT PERMITS	\$ 150,238.00
U.S. OFFICE SOLUTIONS	\$ 97,115.36
Amazon	\$ 90,557.61
Home Depot	\$ 52,216.69
CATHERINES KITCHEN	\$ 45,547.72
STANDARD OFFICE SUPPLY	\$ 35,375.41
Staples	\$ 30,186.03
AOP BUSINESS SERVICES	\$ 33,034.47
NEAL R. GROSS & CO., I	\$ 30,348.40
NBA OFFICE PRODUCTS	\$ 27,605.82
SEVERN GRAPHICS	\$ 24,590.00
INT IN COS GRU INC.	\$ 18,700.00
THEUNIONSHOP.ORG	\$ 18,539.50
CATERING AUBONPAIN 970	\$ 18,380.36

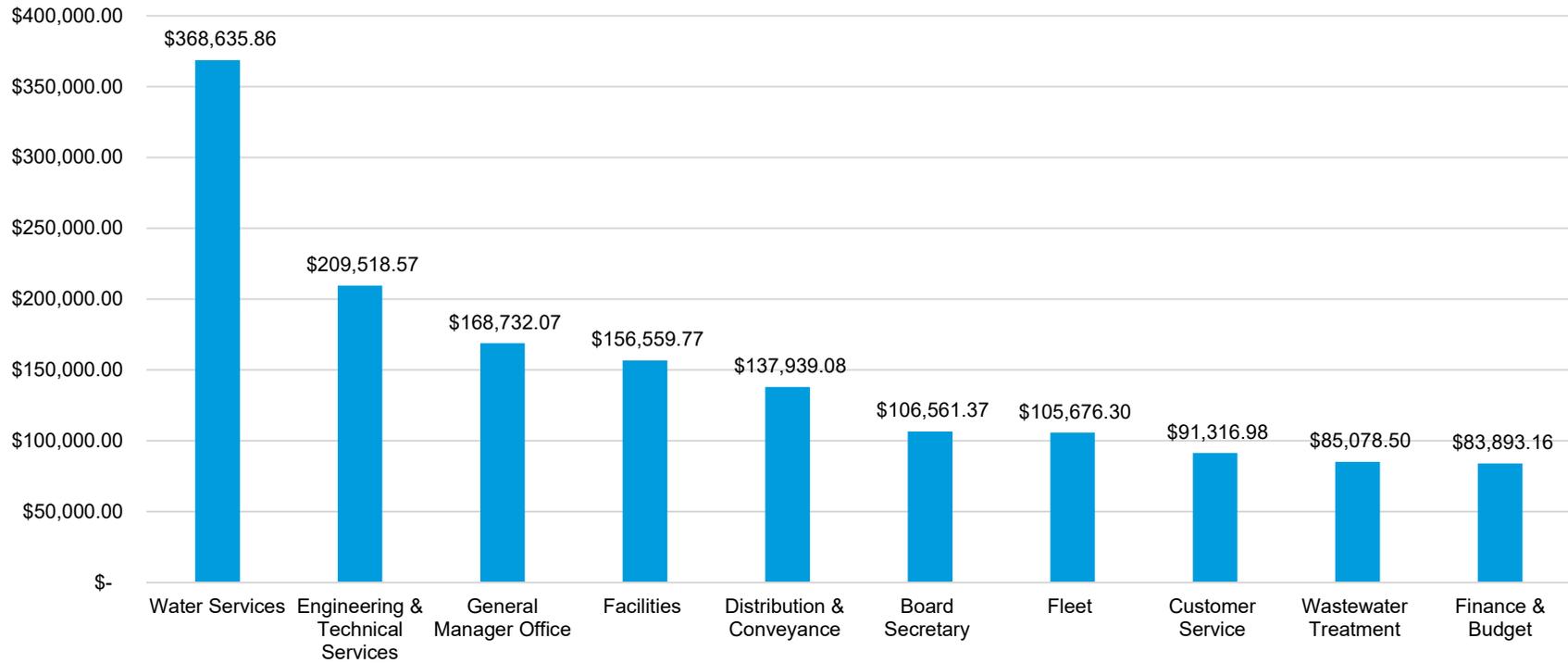


## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

The graph below represents the total PCard dollar spend for the top ten departments during the audit period from 10/1/2017 through 3/31/2019.

Top 10 Department PCard Spend



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

The purpose of this review was to obtain an understanding of how the Authority monitors the PCard and TCard programs. The audit scope was based on the following objectives:

- Reviewed the applicable Authority policies related to this internal audit;
- Conducted walkthroughs with responsible personnel within the Departments to obtain an understanding of the unique aspects of each;
- Updated existing flowcharts of the process(es) for changes in existing PCard policies and controls since the FY17 PCard internal audit;
- Performed testing of a sample of PCard transactions for proper justification, approval, and documentation of receipt by the responsible persons;
- Reviewed forms utilized for new PCards or changes made;
- Evaluated spending trends for unusual activity;
- Reviewed segregation of duties over the PCard process;
- Performed analytics on the entire population of PCard transactions;
- Performed follow-up testing on pending testing prior audit findings from the FY17 Purchasing Card Program Internal Audit; and
- Performed testing of a sample of TCard transactions for proper justification, approval, and documentation of receipt by the responsible persons

#### **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 PCard Program and how it is currently administered and the spending monitored. This phase included a process walkthrough with the PCard Administrators, the Accounts Payable PCard Team, and the Authority's Controller. Existing documentation of the process and all applicable forms were requested as well as exports of all data for PCard purchases from 10/1/2017 – 3/31/2019. We used this data to perform analytics on the entire population of PCard transactions, including but not limited to:

- Card Holder activity;
- Duplicate or split transactions
- Round numbers
- Transactions made on holidays or outside of normal business hours
- Restricted purchase by use of keywords



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## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

#### Detailed Testing

The purpose of this phase was to test the documentation of completed cardholder requests and monthly reconciliation packets to verify compliance with DC Water PCard procedures. A sample of 5 cardholders was selected to test issuance. A sample of 65 transactions during the period October 2017 to March 2019 were selected for authorization, reconciliation, review and approval testing. Specific procedures performed included verification of the following:

- Appropriateness of transactions based on the employee, Department, credit limit, and prohibited items listed within the applicable policy
- Timeliness and approval of the Employee Reconciliation Reports
- Department follow-up and resolution for transaction purchases violating the PCard Manual
- Other specific requirements, as per walkthroughs

We also performed a walkthrough of the TCard process and obtained support for 25 transactions. Specific procedures included verification of the following:

- Appropriateness of transactions based on the employee, Department, credit limit, and prohibited items listed within the applicable policy
- Timeliness and approval of itemized receipts, travel advances, and Travel Authorization Form
- Department follow-up and resolution for transactions violating the Travel Policy

#### Reporting

At the conclusion of this audit, we summarized our observations related to the PCard and TCard Programs. We have reviewed the results of our testing with management.



## DETAILED OBSERVATIONS

PCard Internal Audit			
1.	<u>Non-Compliance with Documented Policies</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<u>Observation Risk: High</u>		
	<p><i>TCard</i> Internal Audit judgmentally selected 25 TCard transactions to review based on transaction description, amount, department, cardholder, and vendor. Internal audit noted the following exceptions to policy for TCard transactions based on testing results:</p> <ul style="list-style-type: none"> <li>For 3 out of 25 samples, cardholders did not submit record of who attended a local meal purchased with the TCard (i.e., a receipt was submitted for a business meeting). Authority policy allows for local meal purchases only when a non-DC Water employee is in attendance. Because record of attendees was not maintained, Internal Audit was unable to determine whether the purchase was allowable per policy.</li> <li>For 3 out of 25 samples, cardholders paid for early bird priority boarding (all \$50 or below on Southwest) when booking travel arrangements. While this is not specifically prohibited in the Travel Policy, it is specifically prohibited in the draft TCard Manual. Management believes these transactions are a reasonable expense, acknowledging the inconsistent documented policies and procedures.</li> </ul> <p><i>PCard</i> Internal Audit judgmentally selected 65 PCard transactions to review based on transaction description, amount, department, cardholder, and vendor. Internal audit noted the following exceptions to policy for PCard transactions based on testing results:</p>	<p>Internal Audit recommends the following:</p> <ol style="list-style-type: none"> <li>IRC consider the appropriateness of all allowable business expenses or current practices that are not currently captured in the PCard Policy and update the policy to reflect appropriate go forward protocol. Reference the recommendation for Observation #2 for a Travel Policy recommendation.</li> <li>Consider a refresher course or re-certification of acknowledgement of the prohibited items for PCards and TCards periodically for all cardholders and statement approvers.</li> <li>The IRC determine appropriate, enforceable corrective action for inappropriate use of PCards and TCards, and document the detailed transaction reviews if items are determined to be reasonable.</li> <li>Complete the review of the online reporting and reconciliation capabilities included with a new PCard bank provider.</li> </ol>	<p><b>Management Response:</b> Management agrees with the recommendations by Internal Audit and will take the following actions:</p> <ul style="list-style-type: none"> <li>Hold P/T card training/refresher sessions and distribute guides.</li> <li>Update IRC review and escalation process guidelines.</li> <li>Create or update expense report forms.</li> <li>Update meal expense report to include names and business reasons.</li> <li>Create a Gift pre-authorization form.</li> <li>Implement a new exception approval process:                         <ul style="list-style-type: none"> <li>VP of Procurement and Compliance will be the Program Director for both P-card and T-card programs as well as monitoring and enforcing approved Food Policy and will approve all authorization forms and exceptions so the policies can be enforced uniformly across the Authority.</li> </ul> </li> </ul>



## DETAILED OBSERVATIONS (CONTINUED)

PCard Internal Audit			
1.	<u>Non-Compliance with Documented Policies - Continued</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<ul style="list-style-type: none"> <li>For 2 out of 65 samples, travel-related expenses were purchased on a PCard that should have been purchased on a TCard for one local parking and one Uber ride.</li> <li>For 4 out of 65 samples, gift purchases were made without prior written approval as required per PCard Policy. Management noted that the purchases were made by departments that do not require pre-approval; however, the policy does not note any allowable exceptions. Two of the gifts were flowers for bereavement. Two other gift purchases were for the annual employee appreciations.</li> <li>For 2 out of 65 samples, individual credit limits were exceeded for a PCard purchase and the credit limit increase approval documents were not located. Management believes this was a result of the move to the new headquarters.</li> <li>For 5 out of 65 samples, Accounts Payable was unable to locate the supporting documentation for the transactions selected, and therefore Internal Audit was unable to determine whether the transactions were appropriate. Management believes this was a result of the move to the new headquarters.</li> </ul> <p>During our testing period, DC Water transitioned from Citibank to US Bank as the program provider, the PCard program administrator changed ownership, and Accounts Payable and the PCard support was moved to the new Headquarters. Management has procured an expense management module that will be implemented with the new ERP system to track expenses electronically, which will automate and improve PCard document retention practices.</p>		<p>Additionally, DC Water has purchased new ERP solution which includes an expense management/reporting module. The expected implementation is in the 2<sup>nd</sup> half of 2020. This new solution is expected to eliminate many documentation issues and also automate approval and report process as well as audit process.</p> <p><b>Target Date:</b> December 31, 2019</p> <p><b>Responsible Manager:</b> VP Procurement and Compliance</p>



## DETAILED OBSERVATIONS (CONTINUED)

PCard Internal Audit			
1.	<u>Non-Compliance with Documented Policies - Continued</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<p>The PCard and TCard Administrator supported by the IRC reviews all transactions and escalates any that they note may be egregious misuse of the card. Per discussion with the new Administrator, because these transactions were low dollar value and are not construed as waste, fraud, or abuse, corrective action was not taken. However, without actionable corrective action practices, repeat offenders may not be held accountable for lack of compliance even for low dollar amounts.</p> <p>It should also be noted that PCard and TCard programs are commonly subject to periodic cycle audit, and that instances of non-compliance such as those noted above are not unusual. Due to the number of instances noted in our limited sample testing and the need for clarity / consistency in the documented policies, the severity of risk is noted as high, though the transaction values are generally low.</p>		



## DETAILED OBSERVATIONS (CONTINUED)

PCard Internal Audit			
2.	<u>Outdated Travel Policy</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<u>Observation Risk: Low</u>		
	<p>There is a Travel Policy at the Authority, but it has not been updated since 2005. The policy does not provide enough guidance for inappropriate / prohibited travel expenses, and the list of non-reimbursable travel expenses only includes five items. Further, the Travel Policy includes only one paragraph regarding TCards. Management has drafted an updated Travel Policy that includes detailed acceptable travel, local travel, air travel, lodging, meals and entertainment, incidentals, and a comprehensive list of non-reimbursable expenses. The updated Travel Policy was drafted in August 2018 and the new Travel Policy administrator was named in March 2019. The policy is in the review and approval stage and will be implemented in the near future. A TCard Manual was issued October 2018, but has not yet been distributed to cardholders, due to the change in TCard administrator.</p> <p>The TCard is not widely used at the Authority; there are 31 users of TCards, with \$409,559 spend from October 1, 2017, through March 31, 2019.</p> <p>In addition to the outdated policy, the Authority's current policy requires a Travel Authorization Form to be completed and accepted prior to business travel. However, Internal Audit could not reconcile TCard expenditures to Travel Authorization Form, as the travel pre-approval and TCard reconciliations operate as separate processes independent of one another.</p>	<p>Management should consider how existing travel requirements, such as Travel Authorization Forms, can be leveraged during the TCard reconciliation and approval process. We recommend that management formalize and issue the draft Travel Policy, including TCard requirements as outlined in the manual. We recommend that the new policy be distributed to all TCard holders.</p>	<p><b>Management Response:</b> 1. Combine the updated Policy and new Manual documents into a single documents to eliminate any discrepancy and issue the combined document. 2. Update the procedure to require the travel authorization form to be submitted with the final expense report.</p> <p><b>Target Date:</b> December 31, 2019</p> <p><b>Responsible Manager:</b> VP Procurement and Compliance</p>



## DETAILED OBSERVATIONS (CONTINUED)

PCard Internal Audit			
2.	<u>Outdated Travel Policy - Continued</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<p>Currently, employees are not required to submit a copy of Travel Authorization Forms with the TCard statements that would support the appropriateness of TCard transactions. As Travel Authorization Forms are stored separately from TCard documentation, and not all TCard transactions are related to non-local trips approved through Travel Authorization Forms, it is difficult for AP to determine the corresponding forms to every TCard transaction. Therefore, TCard transactions are not getting reconciled to preapproved travel expenditures.</p>		



## DETAILED OBSERVATIONS (CONTINUED)

PCard Internal Audit			
3.	<u>Late Submissions</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	<u>Observation Rating: Low</u>		
	<p><i>PCard:</i> The PCard Policy states the following requirement for Department Heads: "All reviews must be completed within ten (10) business days of the billing date." We noted reconciliations were submitted late (after ten business days) for 43 of 65 samples.</p> <p><i>TCard:</i> The Travel Policy states "If no travel advance was obtained, travel expenses must be submitted to Accounts Payable within 30 days of completion of travel". We noted reconciliations were submitted late (after 30 days) for 6 of 25 samples.</p> <p>Accounts Payable escalates untimely submissions of PCard and TCard reconciliations to the VP, Procurement &amp; Compliance every month. With the transition from Citibank to US Bank, DC Water's global credit limit threshold decreased. The Authority began paying statements prior to completing reconciliations due to multiple instances of card rejections when the global credit limit threshold was exceeded. Making a payment prior to reconciliation completion prevents cards from being rejected and allows the program to continue running smoothly. However, if DC Water pays the statement and reconciliations are not submitted timely, the Authority runs the risk of paying for invalid charges and delaying the identification of such activity.</p>	<p>We recommend that Accounts Payable determine a formal escalation protocol for late submissions. This should define the number of business days after which Accounts Payable must escalate late submissions to the VP, Procurement &amp; Compliance. Additionally, we recommend that the IRC consistently enforce corrective action for repeated instances of non-conformance. Without actionable corrective action practices, repeat offenders are not held accountable for lack of compliance.</p>	<p><b>Management Response:</b> 1. Update the manual to include a formal escalation procedure.</p> <p><b>Target Date:</b> December 31, 2019</p> <p><b>Responsible Manager:</b> VP Procurement and Compliance</p>



## PROCESS IMPROVEMENT OPPORTUNITIES

### PCard Program Internal Audit – Process Improvement Opportunity

#### Policy Override

Per the 2005 Travel Policy, “the General Manager must approve any exception to this policy in writing”. This gives the CEO/GM the ability to override the Travel Policy. We recommend that in any instance in which a policy override occurs for any OGM expenses, or when a policy override occurs for any expense over a certain dollar threshold, there should be additional review by the Travel Policy Administrator required in addition to CEO/GM sign off.

#### MCC Restrictions

Currently, DC Water blocks a number of Merchant Category Codes (MCCs) related to prohibited expense categories. We recommend that the IRC consider expanding the blocked MCCs to include all prohibited transactions. Once an MCC is blocked, the cardholder is not authorized to purchase from merchants within the blocked category code. If the cardholder needs to make a prohibited item transaction, they should then follow the policy to obtain a one-time or blanket exception, which should be properly documented.

#### ERP Expense Module

DC Water has purchased new ERP solution which includes an expense management/reporting module. The expected implementation is in the 2<sup>nd</sup> half of 2020. This new solution is expected to eliminate many documentation issues and also automate approval and report process as well as audit process.

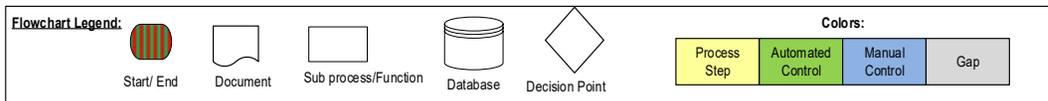
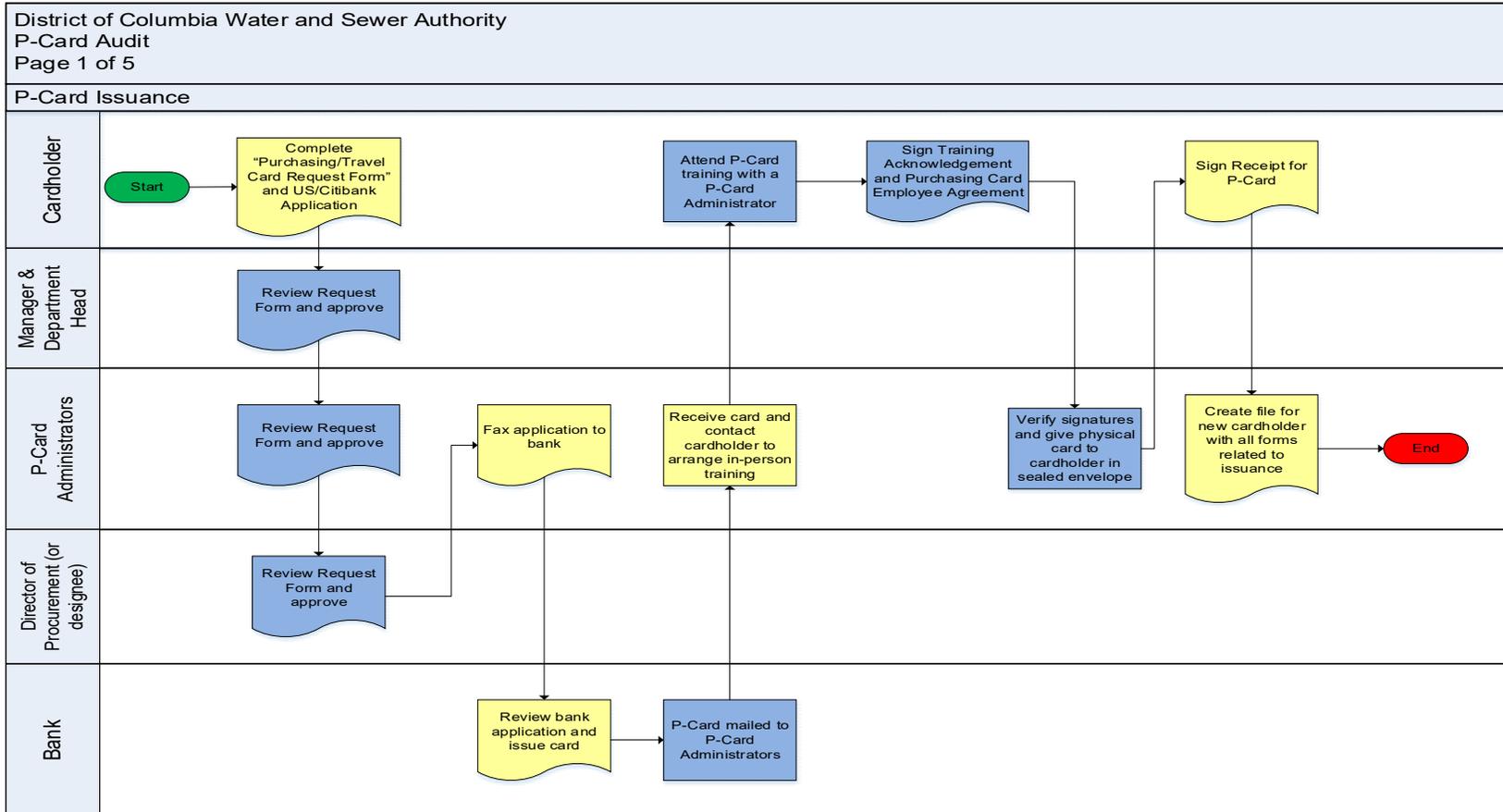


## APPENDIX A – RATING DEFINITIONS

Observation Risk Rating Definitions	
Rating	Definition
<b>Low</b>	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).
<b>Moderate</b>	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).
<b>High</b>	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).

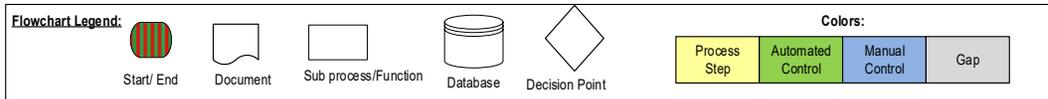
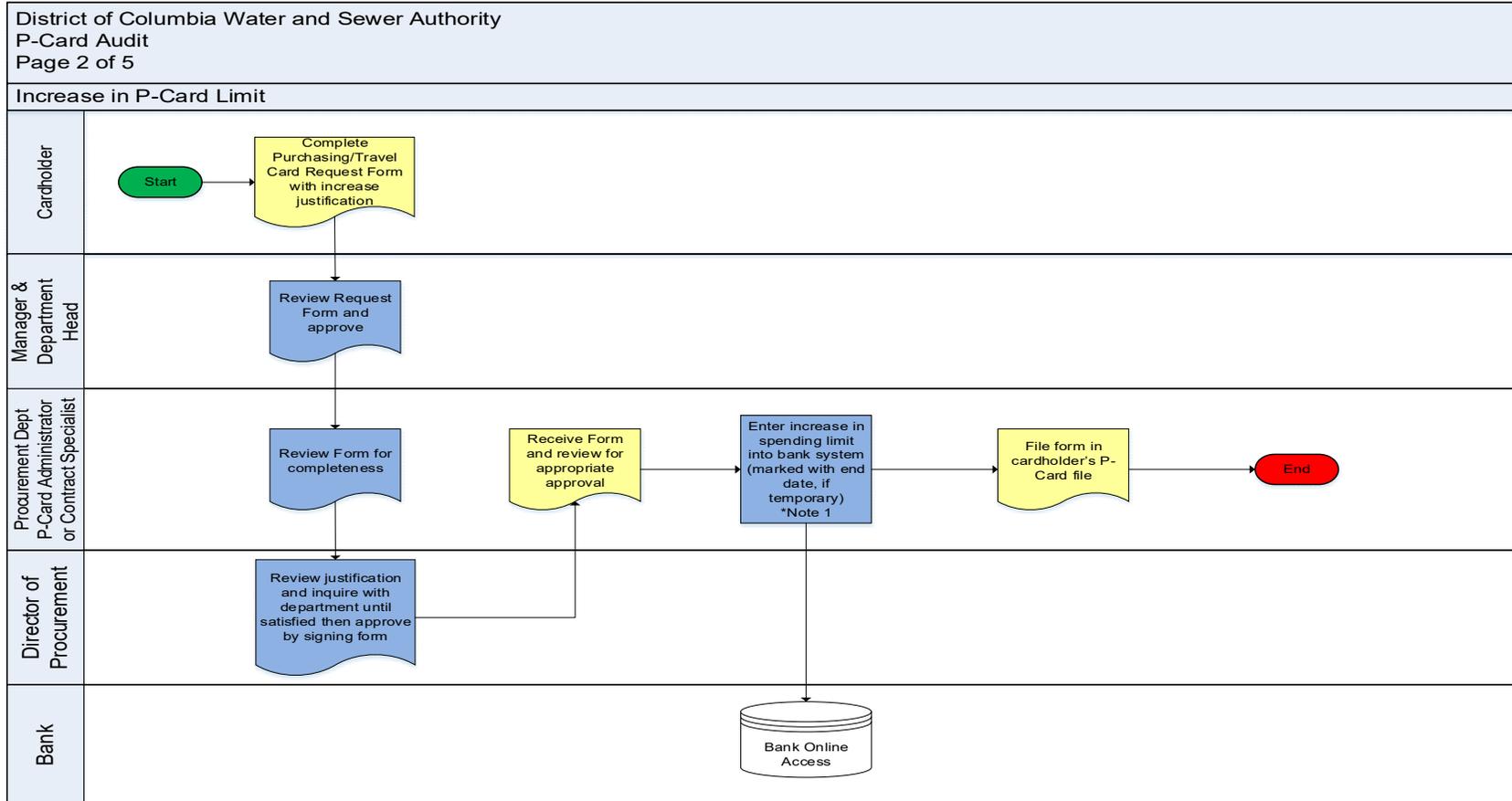


## APPENDIX B – FLOW CHARTS





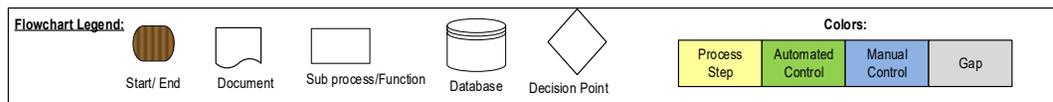
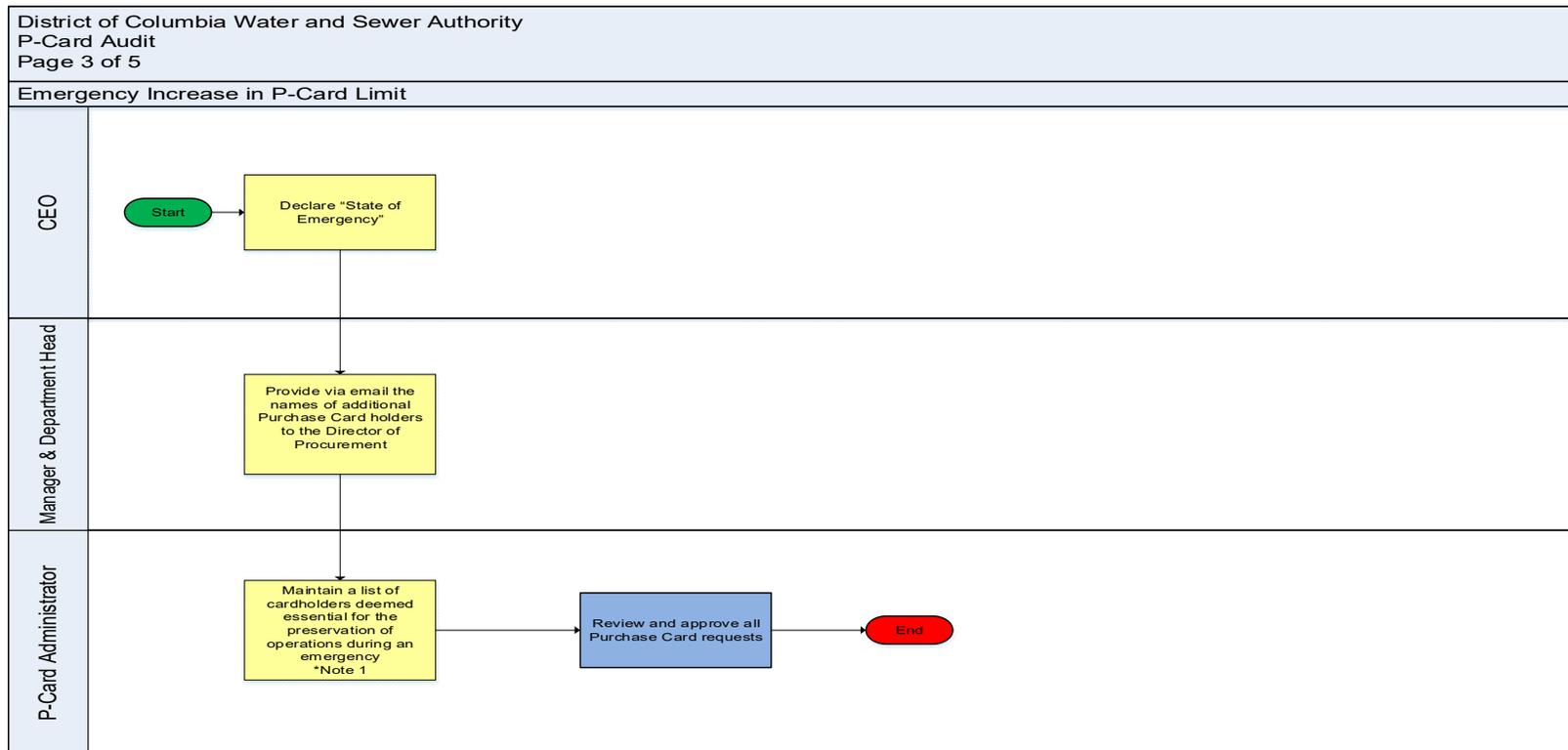
## APPENDIX B – FLOW CHARTS (CONTINUED)



Note 1: If single transaction limit is raised above \$5,000, then PCard Administrator calls the bank. If it is for the Permit card, then approval is additionally requested from the Controller.



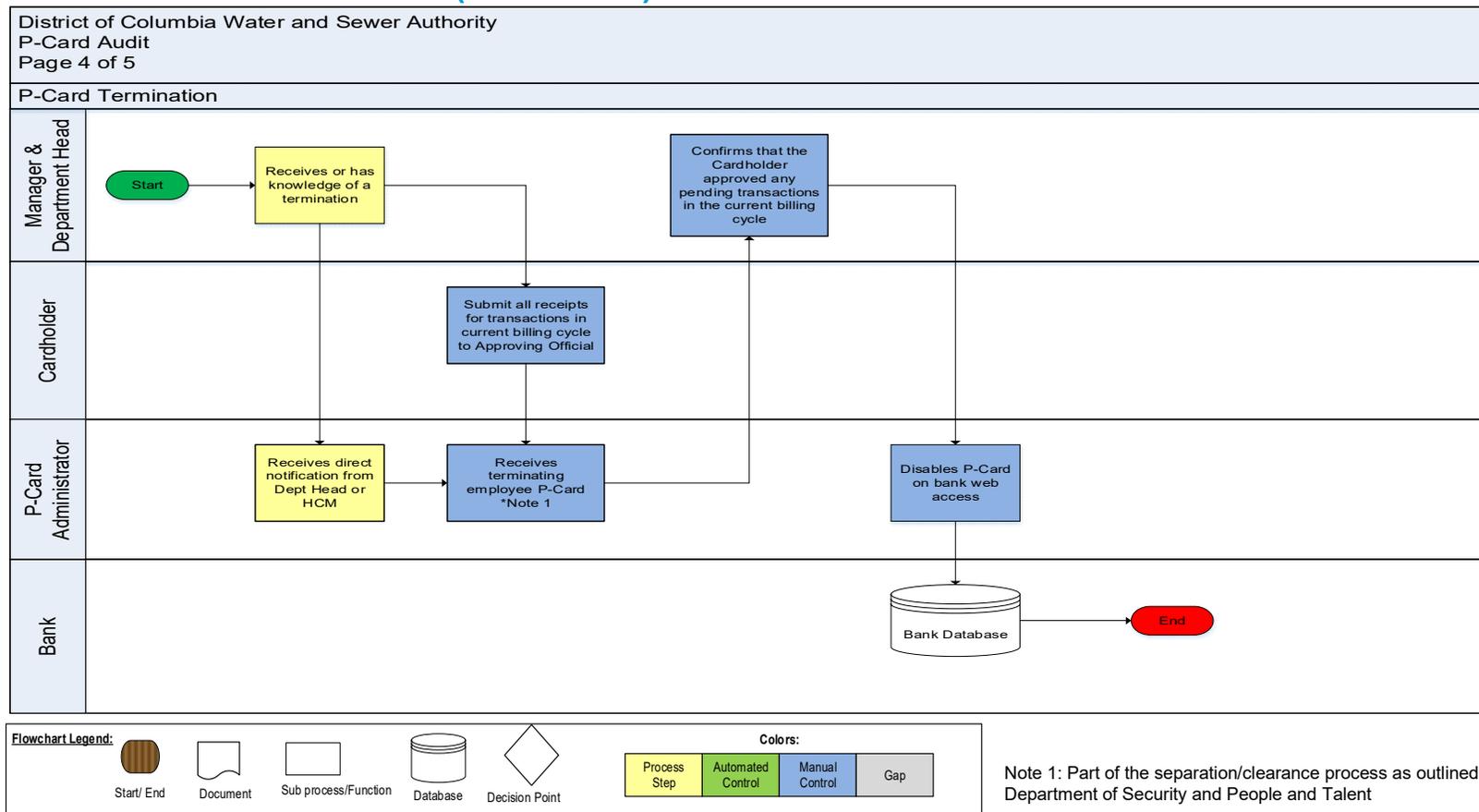
## APPENDIX B – FLOW CHARTS (CONTINUED)



Note 1: Cardholders will consist of Department Heads or higher, and will have increased single purchase limits to \$5,000 and cycle limits to \$10,000

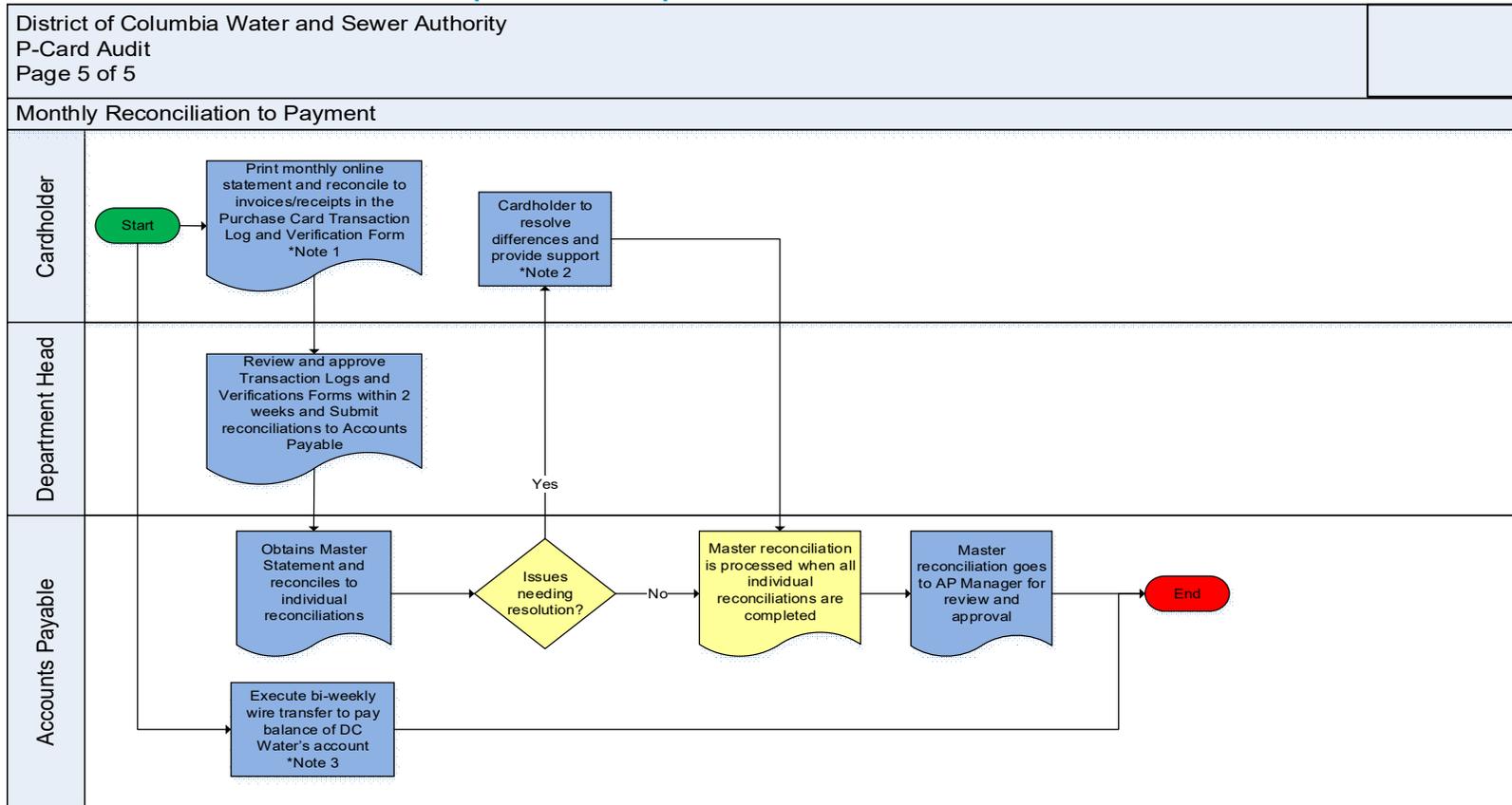


## APPENDIX B – FLOW CHARTS (CONTINUED)

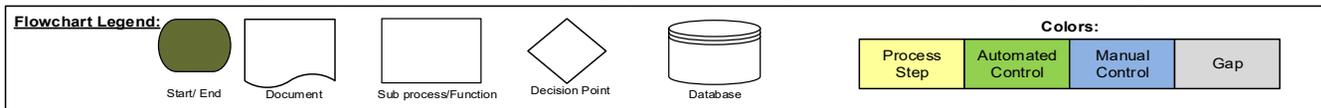




## APPENDIX B – FLOW CHARTS (CONTINUED)



**Note 1:** Packet must be sent to the Department Point of Contact (DPOC) within 2 business days of receipt of the purchase card statement  
**Note 2:** Notify issuing bank and Purchase Card Administrator of any billing discrepancies on the purchase card statement within 5 business days, or notify within 1 business day of a misplaced, lost, or stolen card.  
**Note 3:** US Bank's loan agreement is structured as an allowance, as opposed to a rolling credit limit. Under this new credit structure, DC Water's available credit is the variance between the global purchases yet unpaid balance and its global credit ceiling. Additionally, the time between mailing check payments and US Bank's process for posting payments takes an average of 10 business days. As a result, the Authority began paying statements prior to completing reconciliations due to multiple instances of card rejections when the global credit limit threshold was exceeded. Bi-weekly wire payments are now executed to pay the balance of DC Water's account, guaranteeing ample available credit to keep the program running smoothly. This also allows the Authority to take advantage of rebates offered by US Bank for the timely payments.





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