



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Board of Directors

Audit and Risk Committee

*January 23, 2025
9:30 a.m.*

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1. **Call to Order**..... Floyd Holt, Chairperson
2. **Roll Call**.....Debra Mathis, Assistant Board Secretary
3. **DC Water’s FY24 Audited Financial Statement Performance**.....Genes Malasy
Vice President and Controller
4. **FY24 Financial Statement and Uniform Guidance Audit Results**..... KPMG
5. **Internal Audit Update**.....Cherry Bekaert Internal Audit and
Francis Cooper, Director EPMO
 - A. FY 2025 Internal Audit Plan Status Update
 - B. Status Update on Prior Audit Findings
 - C. Hotline Update
6. **Executive Session*** Floyd Holt, Chairperson
7. **Adjournment**..... Floyd Holt, Chairperson

This meeting is governed by the Open Meetings Act. Please address any questions or complaints arising under this meeting to the Office of Open Government at opengovoffice@dc.gov

1The 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 certain matters, including but not limited to: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); terms for negotiating a contract, including an employment contract, under D.C. Official Code § 2-575(b)(2); obtain legal advice and preserve attorney-client privilege or settlement terms under D.C. Official Code § 2-575(b)(4)(A); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security matters 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); third-party proprietary matters under D.C. Official Code § 2-575(b)(11); train and develop Board members and staff under D.C. Official Codes § 2-575(b)(12); adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters or violations of laws or regulations where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14); and other matters provided under the Act.



FY 2024 Financial Statements

Presentation to Audit Committee, January 23, 2024
Genes Malasy, Vice President and Controller

District of Columbia Water and Sewer Authority





Purpose

- Review DC Water's fiscal year 2024 audited financial statement performance



Highlights

- DC Water received an unmodified (“clean”) audit opinion from our external auditors, KPMG
 - This was the fourth audit completed in the Oracle financial system
- Received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the 27th consecutive year for the 2023 Annual Comprehensive Financial Report
- DC Water also received, for the second time, the Popular Annual Financial Reporting Award (PAFR) from GFOA for its Fiscal Year 2023 annual financial report
 - *Special thanks to Office of Marketing and Communications for their work on the PAFR*





Highlight – GASBS

- During FY24 DC Water Adopted the Following New Standards issued by Governmental Accounting Standard Board (GASB):
 - Statement No. 99, Extension of the use of LIBOR, accounting for SNAP distributions - Omnibus 2022
 - Statement No. 100 Accounting changes and corrections
- Implementation of GASB Statement Nos. 100 and 99 had no impact on the Authority's fiscal year 2024 financial statements





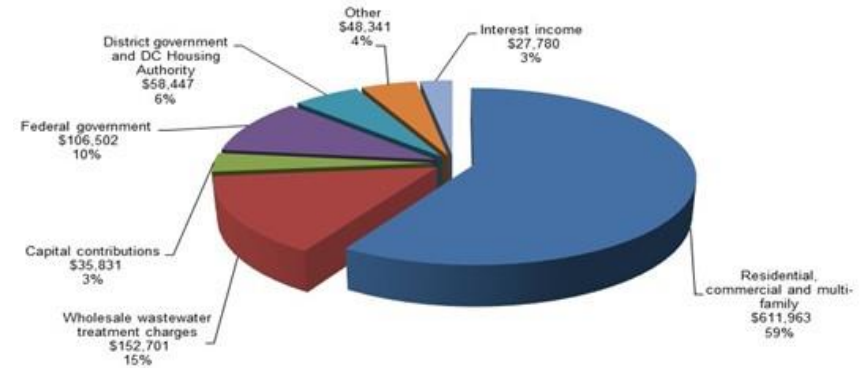
Financial Overview

- DC Water's financial position remains strong and continues to grow
 - The net position increased to \$3.5 billion – an increase of \$319.4 million, or 10.2%, over 2023
 - This is driven mainly by a \$252.8 million increase in net investments in capital assets and advances of \$35.5 million to the Washington Aqueduct for their capital program
 - Operating revenues increased to \$978.0 million – an increase of \$79.2 million, or 8.8%, over 2023
 - Operating expenses, including depreciation, increased to \$560.7 million – an increase of \$24.1 million, or 4.5%, over 2023
 - A \$79.2 million increase in operating revenues reflects non-cash components, including current unearned revenue, amortization of long-term unearned revenues, and Blue Drop revenue, based on the accrual basis of accounting



Operating Revenues

- The Authority's operating revenues increased by \$79.2 million (8.8%) to \$978.0 million, the largest increase was in the residential, commercial and multi-family category
 - This was a result of the rate increase and increased consumption



Revenues remain diversified

Residential, commercial and multi-family customers
 Federal government
 District government and D.C. Housing Authority (note 13)
 Charges for wholesale wastewater treatment
 Other

Total operating revenues

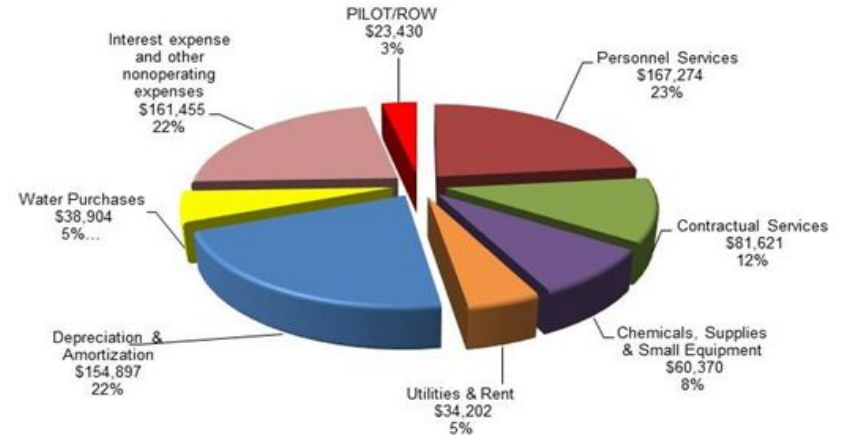
	2024	2023	Variance	
			\$	%
Residential, commercial and multi-family customers	\$ 611,963	\$ 562,351	\$ 49,612	8.82%
Federal government	106,502	85,716	20,786	24.25%
District government and D.C. Housing Authority (note 13)	58,447	53,737	4,710	8.76%
Charges for wholesale wastewater treatment	152,701	152,755	(54)	(0.04)%
Other	48,369	44,204	4,165	9.42%
Total operating revenues	\$ 977,982	898,763	\$ 79,219	8.81%



Operating Expenses

• The Authority's operating expenses increased by \$24.1 million (4.5%) to \$560.7 million

- Categories with the largest increases were personnel, chemicals, depreciation and amortization, and water purchases



	2024	2023	Variance	
			\$	%
Personnel services	167,274	156,336	10,938	7.00%
Contractual services	81,621	81,150	471	0.58%
Chemicals, supplies and small equipment	60,370	55,562	4,808	8.65%
Utilities and rent	34,202	37,365	(3,163)	(8.47)%
Depreciation and amortization	154,897	149,478	5,419	3.63%
Water purchases	38,904	33,609	5,295	15.75%
Payment in lieu of taxes and right of way fee	23,430	23,070	360	1.56%
Total operating expenses	560,698	536,570	24,128	4.50%



Net Position

- Net position is the difference between total assets plus deferred outflows of resources, and total liabilities plus deferred inflows of resources
- Net position is broken down into four categories
- Unrestricted cash and cash equivalent increased mainly as a result of balances in the concentration accounts and to the number of days of cash required to be held by DC Water

	2024	2023
Net investments in capital assets	2,875,021	2,622,251
Restricted for:		
Capital Projects	13,005	7,958
Debt Service	73,727	76,260
Unrestricted	490,168	426,035
Total net position	\$ 3,451,921	\$ 3,132,504



Change In Net Position

- The Authority's net position increased by \$319.4 million (or 10.2%) to \$3.5 billion
- Net position increased as a result of current year operations (revenues and expenditures) and capital contributions mostly Federal grants and appropriations, and contributions.

	2024	2023
Operating revenues	\$ 977,982	\$ 898,763
Operating expenses	560,698	536,570
Net non-operating revenues (expenses)	<u>(133,698)</u>	<u>(125,513)</u>
Change in net position before capital contributions	283,586	236,680
Capital contributions	<u>35,831</u>	<u>29,519</u>
Change in net position	319,417	266,199
Net position - beginning of year	3,132,504	2,866,305
Net position - end of year	<u>\$ 3,451,921</u>	<u>\$ 3,132,504</u>



Debt Administration

- At the end of fiscal year 2024, the Authority had approximately \$3.8 billion in long term debt outstanding, a decrease of \$118.6 million, or 3.0%, over the fiscal year 2023 as principle was paid off
- Over the next ten years, DC Water anticipates issuing \$4.2 billion in new debt to pay for the capital program

Description	Balance 9/30/2023	Increases	Decreases	Balance 9/30/2024
Outstanding bonds and notes	\$ 3,717,967	\$ 631,914	\$ (752,686)	\$ 3,597,195
Unamortized bond premiums	235,144	67,582	(65,551)	237,175
Unamortized bond discounts	(1,320)	-	129	(1,191)
Total bonds and notes	\$ 3,951,791	\$ 699,496	\$ (818,108)	\$ 3,833,179



Cash Overview

- Total restricted and unrestricted cash was \$593,233
 - Unrestricted cash and investments increased to \$388.9 million vs. \$345.9 million in FY 2023
 - Includes Board-required cash reserves and the Rate Stabilization Fund
 - Use is restricted by the Trust Indenture and Board policies
 - Restricted cash and investments decreased to \$374.5 million vs. \$549.3 million in FY 2023 because of bond issuances in FY 2024, bond principal repayments and bond drawdowns in FY2024
 - Mainly bond proceeds that will be drawn down to fund capital projects
 - Use is externally restricted by debt covenants, federal mandates, etc.





New Capital Assets

- Net capital assets, including construction in progress and less depreciation, increased by \$374.3 million, or 4.6%, to \$8.6 billion
 - Blue Plains, at \$3.5 billion, is the largest capital investment
 - There is \$2.6 billion worth of construction in progress, including Clean Rivers, Enhanced Clarification Facilities, Potomac Interceptor Projects - Rehab Phase 2, and Lead-Free DC Project.

	As of September 30,		
	2024	2023	2022
Wastewater treatment plant	\$ 3,458,793	\$ 3,425,716	\$ 3,334,860
Wastewater collection facilities	1,124,918	1,113,072	1,092,373
Water distribution system	1,571,735	1,326,108	1,231,610
Deep tunnel system	1,269,654	1,269,654	1,269,356
Purchased capacity	454,759	425,995	410,457
Buildings	84,926	84,903	84,903
Capital equipment	457,252	433,426	405,367
Right to use assets (SBITA)	60,949	52,892	51,206
Construction in progress	2,582,242	2,410,601	2,289,874
Less accumulated depreciation	(2,505,170)	(2,356,614)	(2,209,782)
Net capital assets	<u>8,560,058</u>	<u>8,185,753</u>	<u>7,960,224</u>



Conclusion

- 💧 DC Water received a clean audit opinion for the 27th year in a row
 - 💧 This was the fourth audit in the Oracle financial system
- 💧 Net position is increasing – DC Water continues to grow and invest in infrastructure





DC Water and Sewer Authority

Results of the financial statement and uniform guidance audits for the year ended September 30, 2024

January 23, 2025

Agenda

- 1. Financial statement audit results**
- 2. Significant accounting policies**
- 3. New accounting standards**
- 4. Audit misstatements**
- 5. Material weaknesses and significant deficiencies in internal control**
- 6. Required communications and other matters**
- 7. Uniform guidance compliance audit**
- 8. Appendix**



Financial statement audit results

Scope of Financial Statement Audit

- Perform an audit of the DC Water and Sewer Authority’s (the Authority’s) financial statements as of and for the years ended September 30, 2024 and 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- Form and express an opinion about whether the financial statements that have been prepared by the Authority’s management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP

Opinion on the Basic Financial Statements

- Unmodified opinion issued on January 9, 2025

Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

- No material weaknesses or significant deficiencies reported
- No instances of non-compliance reported



Significant accounting policies

Significant accounting policies and practices

- Described in Note 2 to the financial statements
- Refer to the next slide for other new GASB standards effective in fiscal year 2024

Significant accounting estimates and significant financial statement disclosures

- The preparation of the financial statements requires management of the Authority to make a number of estimates and assumptions relating to the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities.
- No significant accounting estimates or financial statement disclosures were identified in our audit

New accounting standards

GASB Standards Implemented in FY 2024

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
99	Extension of the use of LIBOR, accounting for SNAP distributions - Omnibus 2022	June 15, 2024	2024
100	Accounting changes and corrections	June 15, 2024	2024

GASB Standards to be Implemented in FY 2025

No.	Title	Required implementation date (Period beginning after)	Authority fiscal year
101	Compensated Absences	December 15, 2023	2025
102	Certain Risk Disclosures	June 15, 2024	2025

Uncorrected audit misstatements

\$(Thousands)			
Description of misstatement	Financial Statement Effect		
	Assets	Liabilities	Change in Net Position
EXP.AM.02 – To correct understatement of SBITA assets and liabilities for a SBITA that was modified in FY24.			
SBITA assets	\$ 5,113		
SBITA payable - short term		\$ 154	
SBITA payable - long term		(5,300)	
SBITA amortization expense			\$ 856
Accumulated depreciation and amortization	(856)		
SBITA interest expense			154
Accrued interest		(142)	
EXP.AM.01 –To correct under-accrual of capital accounts payable based on actual invoices received subsequent to recording the accrual and projected invoices to be received in the future.			
Construction in Progress	7,039		0
Accounts Payable		(7,039)	
Total	\$ 12,326	\$ (11,317)	\$ 1,010
Percentage	0.1%	1.6%	0.3%



Corrected audit misstatements

\$(Thousands)		
Description of misstatement	Debit	Credit
<p>TRE.AM.01 – To reclassify certain restricted cash and cash equivalents from current to noncurrent.</p> <p>Cash and Cash Equivalents – Noncurrent</p> <p style="padding-left: 40px;">Cash and Cash Equivalents – Current</p>	\$ 4,034	\$ (4,034)

Material weaknesses and significant deficiencies in internal control

Scope of Internal Control Testing

- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Report significant deficiencies and material weaknesses in internal control in the Report on Internal Control Over Financial Reporting and on Compliance with Laws, Regulations, Contracts and Grants in Accordance with *Government Auditing Standards*

Material Weaknesses and Significant Deficiencies in Internal Control

- No material weaknesses or significant deficiencies reported

All other deficiencies in ICFR noted during the audit that are of a lesser magnitude than a material weakness or significant deficiency have been communicated to management in writing (i.e., Management Letter).

Required communications and other matters

Communication topic	Response
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy.
Related parties	No significant findings or issues arose during the audit in connection with the Authority's related parties (Note 13 to the basic financial statements).
Other information in documents containing audited financial statements	<ul style="list-style-type: none"> • Certain other information (introductory and statistical information) is included in the Authority's Annual Consolidated Financial Report (ACFR), which also contains the Authority's audited financial statements. • Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. • However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. • Our report on the ACFR will include our consideration of the other information, including whether material inconsistencies or material misstatements of facts were identified related to other information.
Noncompliance with laws and regulations, including illegal acts or fraud	No identified or suspected instances of non-compliance with laws and regulations, including illegal acts or fraud, have come to our attention.
Significant Unusual Transactions	No significant unusual transactions were noted.
Going concern	No matters to report.

Required communications and other matters

(continued)

Communication topic	Response
Financial statement presentation and disclosure omissions	No matters to report.
Non-GAAP accounting policies and practices	No matters to report.
Subsequent events	No matters to report.
Other significant matters	No other significant findings or issues arising from the audit that are significant and relevant to those charged with governance were identified.
Significant difficulties encountered during the audit	We encountered no significant difficulties in dealing with management in performing our audit.
Disagreements with management	There were no disagreements with management on financial accounting and reporting matters that individually or in the aggregate could be significant to the financial statements, or our report.
Management's consultation with other accountants	To the best of our knowledge, management has not consulted with other accountants.
Material written communications	Engagement letter, management representation letter, auditors' communication letter (AU-C 260 Letter), and the management letter were distributed under a separate cover.
Consultations	There were no difficult or contentious matters for which we consulted outside the engagement team that are relevant to the audit committee's oversight of the financial reporting process
Confirmation of independence	In our professional judgment, we are independent with respect to the Authority, as that term is defined by the professional standards.

Uniform Guidance Compliance Audit

Scope of compliance audit

- Forming and expressing an opinion on compliance for each of the Authority’s major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement

Major programs tested

- ALN 66.468, Safe Drinking Water Act Program
- ALN 21.027, Coronavirus State and Local Fiscal Recovery Funds

Compliance audit results

- As the audit is currently in progress; we will provide a verbal update
- Uniform Guidance (UG) management representation letter will be provided at the completion of the UG audit
- Separate letter related to the UG audit with required communications will be addressed to the Board of Directors and Management



Appendix

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Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the management representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICFR	<ul style="list-style-type: none"> — Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ol style="list-style-type: none"> 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the Authority from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the Authority complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ol style="list-style-type: none"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's financial reporting; and 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Management responsibilities – Compliance Audit	<ul style="list-style-type: none"> — Identifying the Authority's government programs and understanding and complying with the compliance requirements — Establishing and maintaining effective controls that provide reasonable assurance that the Authority administers government programs in compliance with the compliance requirements — Evaluating and monitoring the Authority's compliance with the compliance requirements — Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit — Preparation of the SEFA in accordance with the applicable criteria

The audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities *(continued)*

Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the Authority’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Authority’s financial statements
KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — The auditor’s responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors’ report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures
KPMG responsibilities – Compliance Audit	<ul style="list-style-type: none"> — Forming and expressing an opinion on compliance for each Authority’s major federal programs based on our audit of the types of compliance requirements described in the OMB Compliance Supplement — Performing our audit of compliance in accordance with auditing standards generally accepted in the United States of America; <i>Government Auditing Standards</i> and the Uniform Guidance — Considering internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance



Responsibilities *(continued)*

<p>KPMG responsibilities – Communications</p>	<ul style="list-style-type: none"> — Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee — Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential — Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management’s attention. The objective of our audit of the financial statements is not to report on the Authority’s internal control — Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy — Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors’ report — Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal — Communicating to the Audit Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement — When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the Authority, or by additional requirements applicable to the engagement — Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors’ professional judgment, relevant to the responsibilities of the Audit Committee — Communicating significant findings and issues arising during the audit in connection with the Authority’s related parties — Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an Authority’s ability to continue as a going concern for a reasonable period of time — Communicating significant matters related to the audit of compliance that are, in our professional judgment, relevant to the responsibilities of the audit committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you
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Internal control related matters

KPMG responsibilities

- The purpose of our audit was to express an opinion on the financial statements
- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control
- We are not expressing an opinion on the effectiveness of internal control
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probably. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance



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Strategy & Performance

Enterprise Risk Management Briefing to Audit & Risk Committee

January 23, 2025

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

Francis Cooper, Director EPMO

Agenda

1

Bottom-up risk assessment approach

- Development of the high-level process

Where We Are Today



1. Established **ERM Function** with a clear governance structure



2. Advanced a **top-down enterprise risk assessment (ERA)**, DC Water leadership came to consensus on the Authority's top risks.



3. **Performed deep dives** into two Enterprise Risks to better understand the Authority's top risks, their underlying root causes and drivers to enable more effective risk-informed decisions.



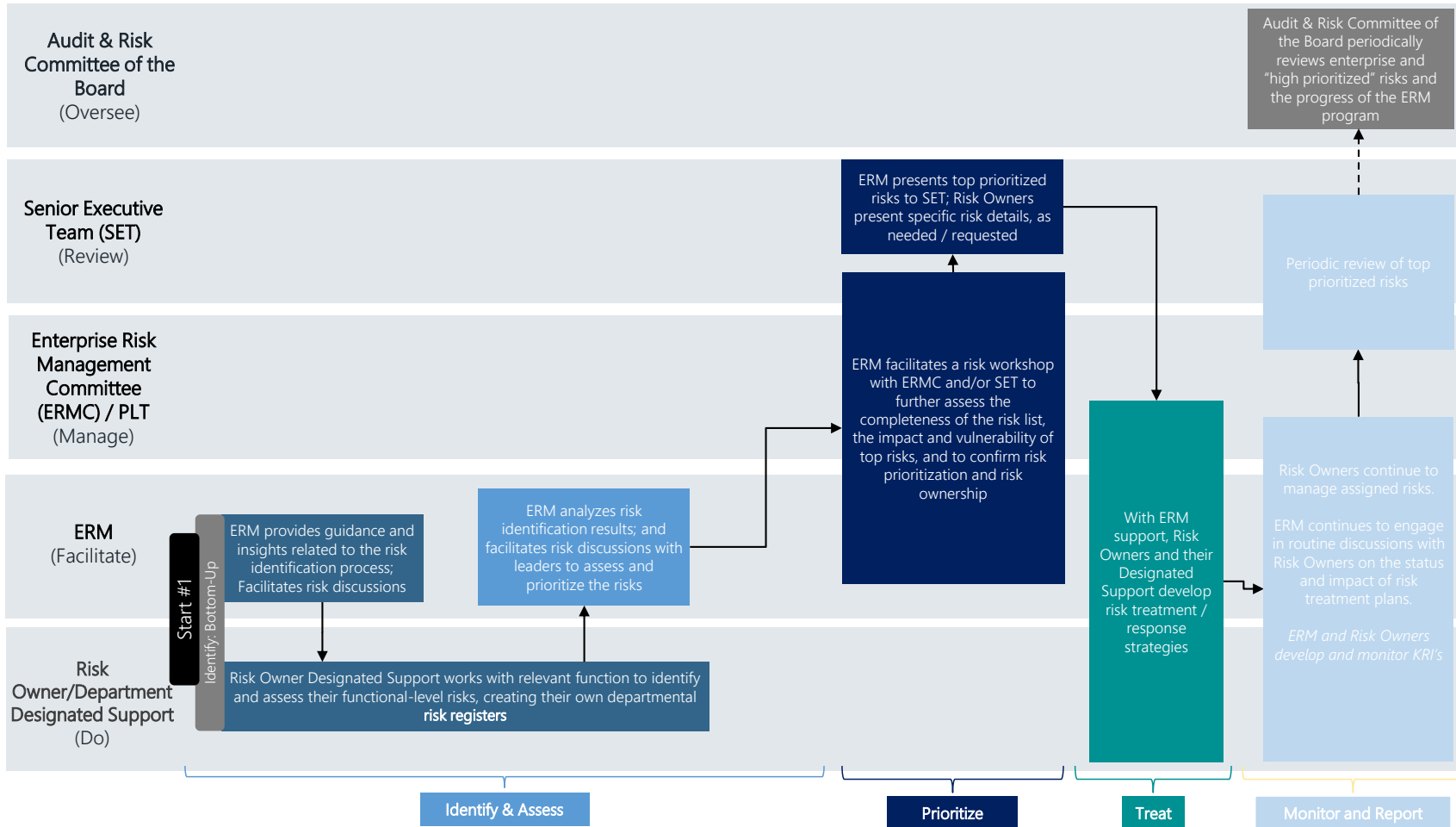
4. Implemented a **Risk module** to provide timely identification of risks and visibility into risk responses activities. Additionally, configured the **Policy module** to manage policy revisions and reviews and serve as a repository for Board Resolutions.



5. Developing the foundational elements of the **Bottom-up risk assessment** approach - *Where we are today*

Enterprise Risk Management Approach | Bottom-Up high-level Process Flow

This approach refers to starting risk management activities at the functional, operational and/or department level. Advancing this method of risk Management will support the Authority in gaining a more detailed and nuanced understanding of the specific/functional risks, allowing for targeted and effective risk management strategies



Enterprise Risk Management Process | Bottom-Up Approach

In a bottom-up approach, risks are **identified** at a **functional/department level**, and the ERM function aggregates and prioritizes risks and supports risk mitigation efforts.

PREPARATION: Before beginning an assessment for the first time, revisit department-level strategic roadmap to direct focus on risks specific to the department, update the tools for each function, including criteria for rating risks and risk registers. If a risk assessment has already been conducted, revisit tools at the start of the process cycle to determine relevance.

Steps	Tools & Techniques	ERM Function Role
<p>1. IDENTIFY & ASSESS: Using a combination of identification methods: surveys, interviews, and internal and external research, identify risks to DC Water. The output at the end of the identification process is a risk register that lists all risks that have been identified through this process.</p>	<ul style="list-style-type: none"> Utilize a survey tool Origami risk assessment Existing DC Water Documentation External Research Stakeholder Interviews 	<ul style="list-style-type: none"> Develop survey Identify stakeholders to include in the process Administer survey Consolidate and analyze survey results Organize data and conduct interviews
<p>a. Develop and administer survey and open-ended questions (Bottom-up)</p> <p>b. Interviews (Bottom-up)</p>	<ul style="list-style-type: none"> Develop and administer the survey. Update the survey with the latest list of top risks Include open-ended questions to help identify emerging risks and perspectives on risk management capabilities Consolidate survey results and provide the following information: new/emerging risks, impact, vulnerability, themes Conduct interviews with selected stakeholders to discuss and expand upon survey responses 	
<p>2. PRIORITIZE:</p>	<ul style="list-style-type: none"> Organize and evaluate the departmental risk register to establish a preliminary list of priorities. Prioritize them based on their potential impact and vulnerability. This helps focus resources on addressing the most significant risks that pose the greatest threat to objectives. 	<ul style="list-style-type: none"> Reference enterprise risk register to identify owners of similar risks; aligning responses Facilitate prioritization workshop and train teams on facilitation techniques Dialogue between ERM function and departments to identify risks needing enterprise attention
<p>3. TREAT:</p>	<ul style="list-style-type: none"> Strategy to manage or mitigate identified risks. Risk treatment options may include avoiding, transferring, mitigating, or accepting risk. Determine which risks merit a full treatment plan, departments still should monitor their less critical risks. Risk treatment teams then create response plans with strategies to address the risk's root causes and business cases for additional resources. The output from this activity is risk treatment plans with action owners. 	<ul style="list-style-type: none"> Reference risk treatment types (exploit, accept/monitor, share/transfer, avoid, mitigate) The ERM Function lead should be responsible for challenging the assumptions used in determining the drivers and engaging risk owners and subject matter experts (SMEs) in collaborative discussions
<p>4. MONITOR & REPORT</p>	<ul style="list-style-type: none"> Tracking and assessing the effectiveness of risk mitigation measures, reassessing risks, and adjusting risk management strategies as necessary. Engage in routine discussions with leadership on the status and impact of risk treatment plans. 	<ul style="list-style-type: none"> Reference status reporting template Aggregate risk treatment performance information and dashboards from various departments



1

- Continue to refine the bottom-up risk assessment approach through input from stakeholders and participants.

2

- Craft a communication strategy to socialize the bottom-up risk assessment process.
- Educate departments throughout the Authority through roadshows to implement a bottoms-up approach.



DC WATER
Audit & Risk Committee Meeting

January 23, 2025

Agenda

- FY 2025 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Hotline Update



AUDIT PLAN STATUS UPDATE

Internal Audit Plan FY 2025 Timeline

	Oct - 24	Nov - 24	Dec - 24	Jan - 25	Feb - 25	Mar - 25	Apr -25	May-25	Jun -25	Jul -25	Aug -25	Sept - 25	Oct -25	Status
•Work Order Management Audit - Facilities														In - Progress
•AI Policy Governance Assessment														In - Progress
•Safety Audit														In - Progress
•Strategic Plan Monitoring Audit														Not Started
•SCADA Penetration Testing (in-person)														Not Started
•Data Governance and Reporting Assessment														Not Started
•Budget Monitoring Audit														Not Started
•Contract Compliance Audit														Not Started
•Third-party Vendor Management Audit														Not Started
•Cloud Security Audit														Not Started
•FY 2026 Risk Assessment														Not Started
•Ongoing Follow-up Procedures														Ongoing
•Ongoing Hotline Monitoring														Ongoing



Work Order Management – Facilities Audit



SUBMITTED / AWAITING
(12/4) INITIAL
INFORMATION REQUEST
VIA SURALINK
6 OF 24 REQUESTS
FULFILLED



CONDUCTED ALL
WALKTHROUGH WITH
PROCESS OWNERS AS
OF 1/8



SUBMITTING FIELDWORK
INFORMATION
REQUESTS AFTER
RECEIVING INITIAL
REQUESTED
INFORMATION



TESTING TO BEGIN
AFTER ALL
INFORMATION
REQUESTS ARE
RECEIVED AND
SAMPLES SELECTED



AI Policy Governance Assessment



SCHEDULING KICKOFF
MEETING VIA MS TEAMS
TBD



SUBMITTED / AWAITING
INITIAL INFORMATION
REQUEST VIA SURALINK
ON 11/27/24



SUBMITTED SELF-
ASSESSMENT ON 12/13/24



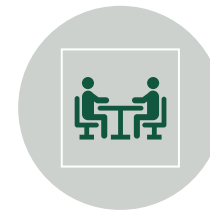
Safety Audit



SUBMITTED INITIAL
INFORMATION REQUEST
VIA SURALINK ON 12/11/24



AWAITING INITIAL
DOCUMENTATION TO
REVIEW PRIOR TO
WALKTHROUGHS



SCHEDULE
WALKTHROUGHS



PRIOR AUDIT FINDINGS- FOLLOW UP STATUS

Open High Risk Prior Audit Findings

	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date	# Extensions
1	2023	10/26/2023	Fleet Management Audit	Lack of current policies and procedures	9/1/2024	9/30/2025	1
				<i>Fleet has drafted a RACI and 15 Authority wide Fleet policies. Legal provided commentary on the Fleet policies submitted and as a result the department has requested an extension to allow time to implement edits identified during Legal's review. The extension will allow time for these changes to be made in collaboration with the Union and for Legal to conduct a final review of the updated policies and standard operating procedures.</i>			
2	2024	7/18/2024	Internal and External Penetration Testing	Finding Issued in Executive Session <i>Two findings remain open.</i>	1/31/2025	N/A	0

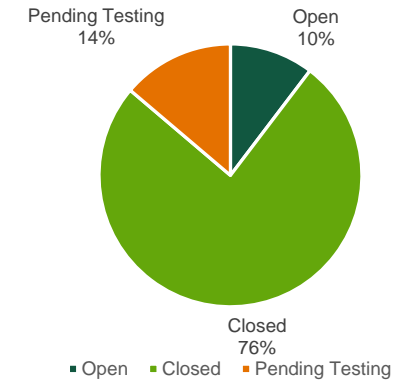
Legend	
	Extended at least once
	Original target date has not yet come due



Status Update on FY17-FY23 Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing
Prior to FY 2023 Audit Findings					
Entity Level Review	10/26/2017	7	0	6	1
Occupational Safety and Health	4/25/2019	4	0	3	1
Strategic Plan Monitoring Audit	7/28/2022	2	0	2	0
Payroll & Timekeeping Audit	7/23/2023	7	0	6	1
Work Order Management Audit-DWO	7/23/2023	3	1	2	0
Fleet Management Audit	10/27/2023	6	2	3	1
Total		29	3	22	4

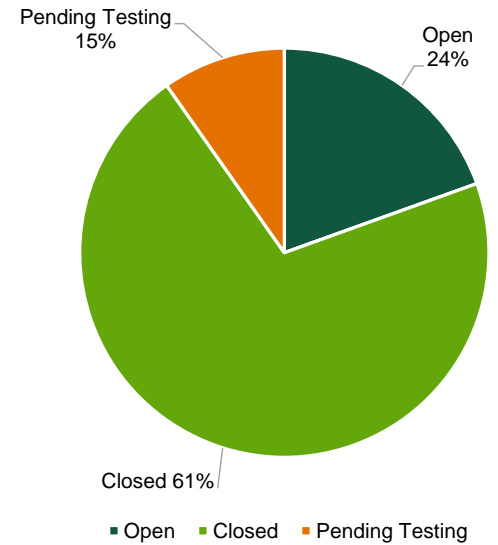
FY17-FY23 Prior Audit Findings Status



Status Update on FY24 Prior Audit Findings

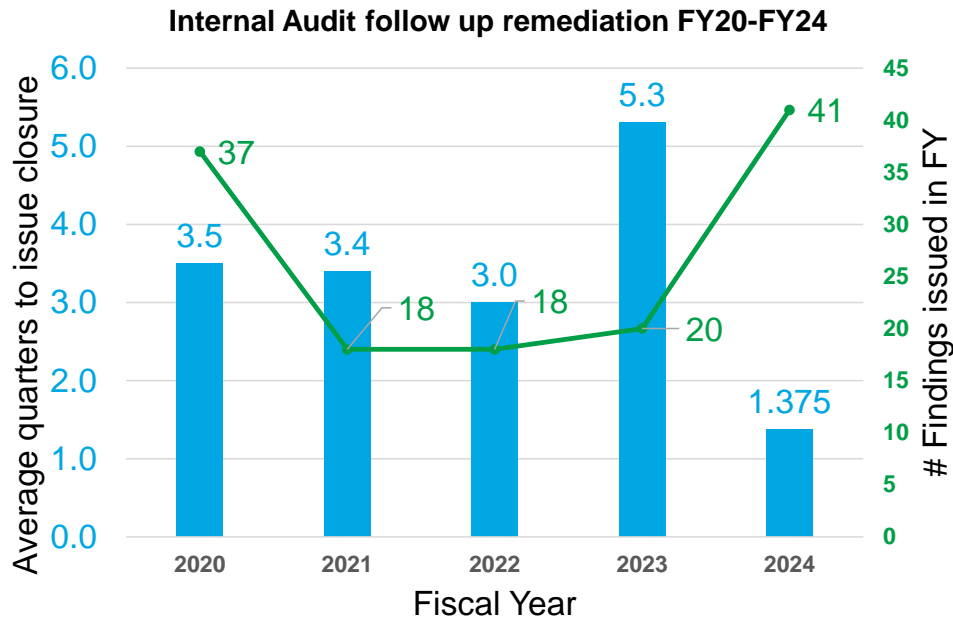
Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing
FY 2024 Prior Audit Findings					
DPSO Work Order Management Audit	4/1/2024	3	0	1	2
External and Internal Penetration Testing	7/18/2024	19	4	14	1
Genesys IT General Controls Testing	7/18/2024	3	1	2	0
Mobile Application Penetration Testing	4/22/2024	6	0	5	1
P-Card Audit	1/1/2024	3	1	2	0
Training and Recruiting Audit	9/1/2024	2	2	0	0
Total		36	8	24	4

FY24 Prior Audit Findings Status



Time to closure by fiscal year

The below graphs illustrate the average number of quarters from audit finding issuance to audit finding closure year-over-year as of January 2025. Management has made significant improvements to achieve timelier audit finding closure as illustrated by the decline from FY23 to FY24.



**Data before FY2023 was provided by RSM.
 Data for FY2023 is based on open and closed pending-validation findings as of 10/01/24.



Hotline Update

Hotline Update

There is one open case. Below is a summary of the cases received in FY25 as of January 16, 2025.

FY 25 Hotline Call Summary	
FY 25 Calls Received	4
FY 25 Cases Closed	3
FY 25 Calls Open	1
FY 25 Open Call Breakdown	
Planning next steps with the necessary DCW staff.	
FY 25 Calls Received by Quarter	
Q1 2025	4
Q2 2025	0
Q3 2025	0
Q4 2025	0

FY 25 Closed Call Breakdown	
Fraud, Waste, and Abuse Related:	
Theft of Time	0
Theft or Misuse of Company Assets	1
Non-Fraud, Waste, and Abuse Related	
Policy Issues	0
Employee Relations	1
Sexual Harassment	1
Substance Abuse	0
Wage/Hour Issues	0
Workplace Violence/Threats	1

Total Cases by Fiscal Year:

Year	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
# of Calls	10	20	16	36	31	21	28	10	7	18	15	25	4
Action Taken	0	2	7	7	2	0	1	0	0	2	2	1	2

Calls that do not pertain to fraud, waste, or abuse are automatically referred to the appropriate department head and closed by Internal Audit. These calls will not ever result in corrective action by Internal Audit.



Appendix



Illustrative 5 Year Audit Plan

Year 1	Year 2	Year 3	Year 4	Year 5	Frequency	Legend:
Administration						Business Cycle Process Audit
	Physical Security- Blue Plains Physical Security- Bryant Street		Physical Security-Location TBD Physical Security-Location TBD		Every 2 years (rotating locations) Every 2 years (rotating locations)	IT Cycle Audit
Work Order Management- Facilities				Billing and Collections	Every 1 year (rotating depts-other depts in Engineering & Ops)	Business Process Ad Hoc Audit
Strategic Plan Monitoring	Billing and Collections				Every 3 years	IT Ad Hoc Audit
Safety		Business Continuity Assessment (DEM)	ESG Management Assessment Customer Complaints Assessment	Fleet Management Audit	Every 3 years Ad Hoc Ad Hoc	Ongoing IA Activity
Finance, Procurement & Compliance						
	Payroll & Timekeeping Accounts Payable			Payroll & Timekeeping Accounts Payable	Every 3 years Every 3 years Every 3 years	
Contract Compliance	Contract Compliance	Purchasing Card Contract Compliance	Contract Compliance	Contract Compliance	Every 1 year Every 2 years (FY25 scope to evaluate broader vendor risk based on risk assessment themes)	
Third-Party Vendor Risk Management		Procurement		Procurement		
Budget Monitoring	Materials Management		Grant Administration	Annual Budget Process Audit	Ad Hoc	
People & Talent						
		Training and Recruiting		Succession Planning	Every 3 years Ad Hoc	
Information Technology						
Data Governance & Reporting Assessment	Applications Inventory and Mapping Assessment	IT Contract Management & Service Provider Assessment	Oracle ITGC and SOD Audit	Data Governance and Strategy	Ad Hoc	
AI Policy Governance Assessment		Records Management Audit			Ad Hoc	
Cloud Security Audit					Ad Hoc	
SCADA Penetration Testing	Internal and External Network Pen Testing	PCS Penetration Testing	Internal and External Network Pen Testing	External Wi-Fi Penetration Testing	Every 2 years (In/Ext pen testing in off years, rotating systems)	
Operations & Engineering						
	Work Order Management- DMS	Work Order Management- DSO	Work Order Management-DWO Construction Design and Asset Management	Work Order Management- DPSO	Every 2 year (rotating departments) Ad Hoc Ad Hoc	
			Business Development Plan Subcontractor Assessment			
Government & Legal Affairs						
	Compliance Monitoring Assessment	Legal Operations Case Management Audit			Ad Hoc	
Ongoing Internal Audit Activity						
Remediation of Open Findings	Remediation of Open Findings	Remediation of Open Findings	Remediation of Open Findings	Remediation of Open Findings	Ongoing	
Hotline Monitoring	Hotline Monitoring	Hotline Monitoring	Hotline Monitoring	Hotline Monitoring	Ongoing	
Risk Assessment	Risk Assessment	Risk Assessment	Risk Assessment	Risk Assessment	Every 1 year	



Prior Audits Performed by RSM

FY 2015
Intellectual Property
SCADA/PCS Review
Procurement Pre-Award Selection Process
Retail Rates Pre-Implementation Monitoring
Engineering - Vendor/Contractor Monitoring & Project Administration - Phase 1
Timekeeping
IT Vendor Risk Management/Compliance and Monitoring
Information Security Policy Review
Network Penetration Testing (Corp/SCADA/Wi-Fi)
FY 2016
Blue Horizons - Strategic Monitoring
Contract Monitoring & Compliance Review
Business Development Plan
Customer Billing & Collections
Retail Rates Post-Implementation Monitoring
Training, Certification and Licensing
Engineering - Construction Management Phase 2
Overtime
Annual Budgeting & Planning
Rolling Owner Controlled Insurance Program (ROCIP)
IT Incident Management & Response Review
Enterprise Project Governance Maturity Assessment

FY 2017
Contract Monitoring & Compliance Review
Entity-Level Assessment
Work Order Management (Maintenance Services)
Materials Management Operations and Inventory
Purchasing Cards (Pcard Program)
Automated Meter Reading (AMR) Implementation
MTU Implementation Review
Fleet - Accident and Incident Reporting
Engineering - Construction Management Phase 3
Intermunicipal Agreement
IT Human Resource/Employee Data Privacy Review
Vulnerability Management Review and Platform Technical Audit (Windows/UNIX)
FY 2018
Recruiting, Selection, and On-Boarding
Automated Meter Replacement (AMR) Implementation
Progress Update
Office of Emergency Management Review
DB/OS Privileged User
Network Penetration Testing
Affordability Programs
Contract Monitoring & Compliance Review
Crisis Management/Business Continuity
Integrated Work Order Management (DWS, DSS, DDCS)
CIS Post-Implementation Review
Payroll & Timekeeping
Accounts Payable

FY 2019
Permit Operations - Reimbursable Projects
Mail Room Procedures
Fleet Management
Legal Operations
Occupational Safety and Health
Automated Meter Reading Implementation
Progress Update
Cloud Security Rapid Assessment
Active Directory Cloud Migration Security Review
Purchasing Card Internal Audit
Severance Assessment
Wi-Fi Security Testing
CIS Application Security Segregation of Duties (SOD) Review
Contractual Services
Asset Management Assessment
Physical Security and Social Engineering
FY 2020
Work Order Planning Assessment
Phase 2: Physical Security Penetration Testing
Facilities Management Audit
Benefits and Compensation Audit
Engineering Change Order Assessment
Industrial Control System (ICS) Review
Customer Billing and Collections Audit
Oracle Embedded Risk Assurance Phase 1



Prior Audits Performed by RSM (Continued)

FY 2021
Department of Maintenance Services (DMS) Work Order Management
Remote Workforce Assessment
Succession Planning
Procurement PreAward Selection
Contract Compliance
Materials Management
PCS Review
FY 2022
Contract Compliance
Accounts Payable
Expenditure Analytics Assessment
Work Order Management - DSO
Supply Chain Assessment
Employee Retention Assessment
Strategic Plan Monitoring
Physical Security Audits
Incident Response Tabletop
CTI Program Development

FY 2023
Fleet Management
Business Continuity Assessment (OEM)
Payroll & Timekeeping
Work Order Management - DWO
Contract Compliance - CIP Scope
Procurement - CIP Scope
Metering, Billing, and Collections
Oracle ITGC Assessment (CM & CO)
Oracle Identity & Access Management Review
Penetration Testing- Wi-Fi
FY 2024
Physical Security - Fleet Facility
Physical Security - HQO
Purchasing Card
Contract Compliance
Training and Recruiting
Genesys ITGC Review
Penetration Testing - Internal and External Network
Penetration Testing - Mobile Applications
Work Order Management - DPSO
Permit Operations



Questions and Answers



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