



**DISTRICT OF COLUMBIA
WATER AND SEWER AUTHORITY**

Board of Directors

Audit Committee

Thursday, October 25, 2018

9:30 a.m.

- 1. **Call to Order**.....Anthony Giancola, Vice Chairperson

- 2. **Internal Audit Update**..... Dan Whelan, RSM
 - A. Internal Audit Plan Status Update
 - B. Status Update on Prior Audit Findings
 - C. **Payroll and Timekeeping**
 - D. **Accounts Payable**
 - E. Hotline Update
 - F. Proposed Internal Audit Plan FY2019

- 3. **Executive Session***Anthony Giancola, Vice Chairperson

- 4. **Adjournment**.....Anthony Giancola, Vice 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



October 25, 2018

Agenda

- FY 2018 Internal Audit Plan Status Update
 - FY 2018 Audit Plan Modifications
- Status Update on Prior Audit Findings
 - COR/COTR Training Update
- Report on Completed Audits:
 - Payroll and Timekeeping
 - Accounts Payable
- Hotline Update
- FY 2019 Proposed Internal Audit Plan (and Risk Assessment Process)
- Executive Session
 - CIS Post-Implementation Review
 - Risk Assessment Detail

FY 2018 Internal Audit Status Update

Audit	Status
FY 2018	
Recruiting, Selection and On-Boarding	Report Complete
Automated Meter Replacement Implementation Progress Update*	Progress Report Complete
Office of Emergency Management Review	Report Complete
DB/OS Privileged User	Report Complete (executive session)
Network Penetration Testing	Report Complete (executive session)
Affordability Programs	Report Complete
Contract Monitoring & Compliance	Report Complete
Crisis Management / Business Continuity	Report Complete (executive session)
Integrated Work Order Management	Reporting In Progress
CIS Post-Implementation Review	Report Complete (executive session)
Payroll & Timekeeping	Report Complete
IT Risk Management & Compliance	Postponed to FY19
Accounts Payable	Report Complete
FY 2019 Risk Assessment	Assessment Complete
Remediation Follow Up Procedures*	On-going
Hotline Management	On-going

FY 2018 Internal Audit Plan Modifications

Audit	Modification
IT Risk Management and Compliance	Postponed the IT Risk Management and Compliance project to FY19 due to the increase in scope for the CIS post-implementation project.
Integrated Work Order Management	Reporting in progress due to broader Authority-wide response.

Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
Prior to FY 2015 Audit Findings²					
Water Services - Distribution Maintenance Branch	10/28/2013	1	1	0	0
GIS Mapping	06/23/2014	2	0	1	1
	Total	3	1	1	1
FY 2015 Audit Findings					
SCADA / PCS Review	08/28/2015	20	0	20	0
IT Vendor Management	12/21/2015	6	0	5	1
	Total	26	0	25	1

Color Key

	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended

Status of open findings:

Water Services: Pending comprehensive update of SOPs, which are currently being developed in the scope of a contract owned by DETS. Anticipated completion by November 1, 2018.

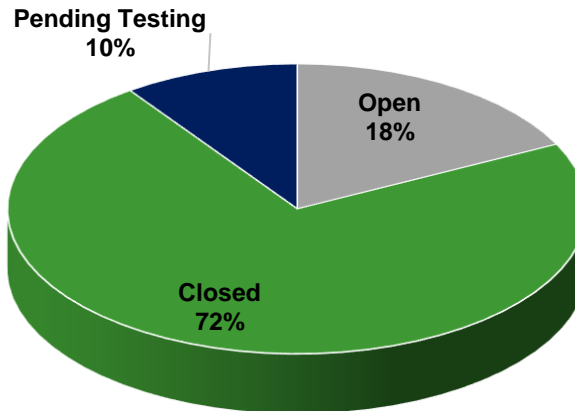
¹ "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

² The table above represents the findings that remain open, are currently pending testing or were closed since the last Audit Committee meeting. RSM originally inherited 82 prior audit findings in October 2014; there were 71 total audit findings in FY 2015.

Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
FY 2016 Audit Findings					
Overtime Audit and Analysis	01/21/2016	3	1	2	0
Contract Compliance and Monitoring Part I	04/28/2016	4	0	4	0
Contract Compliance and Monitoring Part II	07/28/2016	11	2	9	0
ROCIP Savings Analysis	07/28/2016	4	0	4	0
Training, Licensing & Certification	07/28/2016	7	1	4	2
Blue Horizon 2020 Strategic Plan Monitoring	11/18/2016	3	3	0	0
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	8	1
Annual Budgeting and Planning	4/27/2017	1	1	0	0
	Total	51	9	37	5

Color Key	
	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended

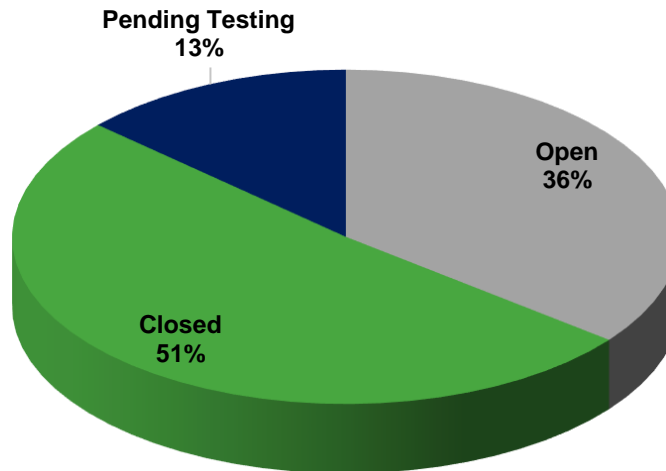


¹ "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

Status Update on Prior Audit Findings (continued)

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing ¹
FY 2017 Audit Findings					
DMS Work Order Management (Blue Plains)	4/27/2017	4	1	1	2
HR/Employee Privacy Review	4/27/2017	7	4	3	0
Purchasing Card	4/27/2017	6	0	4	2
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	5	2	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	2	1	1
Fleet – Accident and Incident Reporting	1/25/2018	4	2	2	0
Construction Plan Review and Permitting	1/25/2018	3	0	2	1
	Total	45	16	23	6

Color Key	
	Remediation is past due for at least 1 issue
	At least 1 original remediation target date has been extended



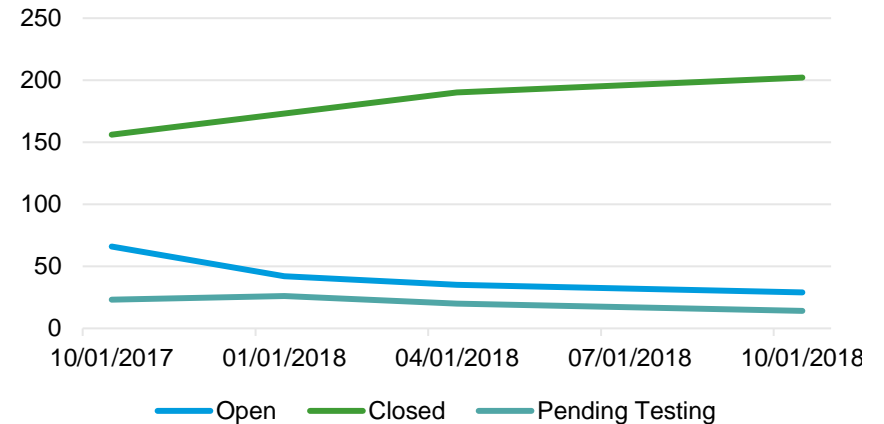
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Follow-up Annual Summary

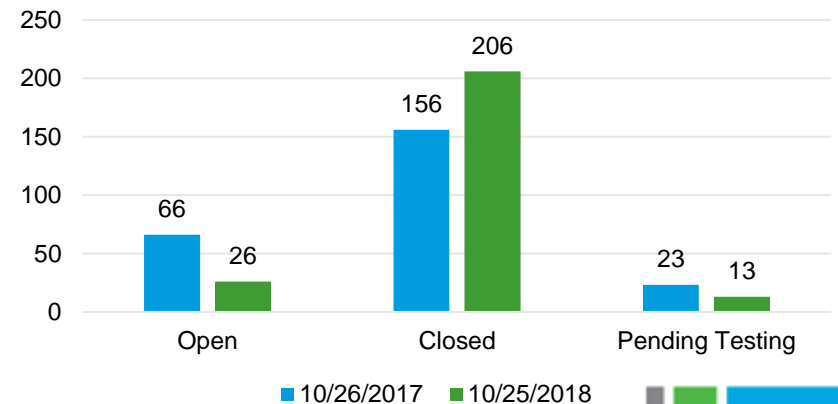
- For FY14 – FY17 prior audit findings:
 - At the start of FY18, there were:
 - 66 open audit items
 - 156 closed audit items
 - 23 pending testing
 - At the end of FY18, there are:
 - 26 open audit items
 - 206 closed audit items
 - 13 pending testing audit items
- In total, 85% of all prior audit findings from FY14 – FY17 are closed
 - 50 audit items were closed during FY 2018

Follow up on FY18 will begin in FY19.

Follow-Up Progress



Follow-Up Progress



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. Comprehensive Safety Policies and Procedures handbook
 - Online comment period closed and comments were addressed
 - New Director, Occ Safety and Health is providing insight into the policies
2. Employment Laws and Regulations Policies
 - Finalized – audit item closed
3. Drivers’ Qualification Policy
 - Finalized – audit item closed
4. Scrap Metal Policy
 - Review of policy by new Labor Relations Manager in process
5. Personally Identifiable Information (PII) Policy
 - Review of policy by new Labor Relations Manager in process
6. Intellectual Property Personnel Policy
 - Under review by management based on new strategic initiatives

COTR Training Update

- Internal Audit presented to the Audit Committee on July 28, 2016 the findings from the Contract Monitoring & Compliance Audit Part II.
- One of the high risk findings was a lack of COR/COTR training. The Audit Committee requested a periodic update on the status of management's action plan.

Authority-Wide Observations	Risk Rating
1. COR/COTR Training	High
<p>Management Action Plan: Department of Procurement will implement several steps to COR/COTR training and compliance monitoring:</p> <p><u>Phase I:</u> Procurement jointly with each COR/COTR for all active contracts will review and develop a contract compliance monitoring checklist for each of 160 active Goods and Services contracts. The items in the checklist will consist of key deliverables, milestones, key vendor performance, and key contractual obligations that should be actively monitored. Then COR/COTR will be responsible for monitoring the items in the checklist and submit a report to Procurement at the beginning of each quarter.</p> <p><u>Phase II:</u> Procurement along with the Office of Chief Operating Officer (OCCO), Learning and Development (L&D), and Information Technologies (IT) will implement Vendor Performance Management Training programs for COR/COTR.</p> <p><u>Phase III:</u> Procurement will source and implement a Vendor Performance Management application (an added module to the eSourcing application that Procurement will source and implement in early FY2017) to automate the contract compliance and vendor performance monitoring and reporting.</p>	

COTR Training Plan

<p>Phase I – Complete</p>	<p>COTR Update for all active contracts. Implement initial COTR Vendor Report.</p>	<ul style="list-style-type: none"> Completed the updating COTR list and issued new COTR Designation Letters for all 160 active contracts. 100% complete on 1st COTR Vendor Report. Vendor Reports will be automated with the new application (reference phase III).
<p>Phase II – Complete</p>	<p>Provide COTR Training.</p>	<ul style="list-style-type: none"> COTR training was held on 07/11/17, 07/18/17, 08/08/17, 08/17/17 and 9/11/17. All original COTRs completed the training (100%) as well as 37 non-COTRs were trained as potential future COTRs. COTR video training is complete and will be available in the Learning and Training system (Cornerstone) for the annual refresher and also for new COTRs.
<p>Phase III – In Process</p>	<p>Implement automated Vendor Performance Management and Reporting application.</p>	<ul style="list-style-type: none"> Selected a vendor performance management application on 3/31/17. Implementation is complete and the new application went live on 3/23/2018. Training of procurement personnel is complete. Training of COTRs is complete, and scorecards have been established for COTR use within the application.

This issue is now reflected as Closed.

Payroll and Timekeeping

During March 2018, DC Water completed the implementation of the Ceridian DayForce suite, which includes benefits, human resources, and payroll modules. As a result of the DayForce update, internal controls and procedures at both the department level and centrally within Payroll, have changed. The capabilities of the new system streamlined and automated payroll processes that were previously manual.

Our scope included validating that controls over timekeeping include procedures and documents that indicates the data used to generate payroll disbursements are adequate. This would include controls over pre- or post- time authorization where applicable, exception reporting, the use of special time codes, and other items. This also includes segregation of duties and access, proper calculation, and compliance with standard operating procedures.

*There were no High Risk issues to report related to this audit.
There is 1 Moderate Risk and 3 Low Risk observations reported
with appropriate actions planned, two of which are already
complete.*

Accounts Payable

The accounts payable (AP) process is a centralized function at DC Water, within the Finance and Budget (FAB) department, which processes vendor payments, customer refunds, construction payments, chemical payments, payments in lieu of taxes, utility costs, employee benefits, union dues, and other expenditures. From October 1, 2016 to June 30, 2018, DC water's accounts payable team processed more than 37,000 transactions totaling approximately \$1.15 billion.

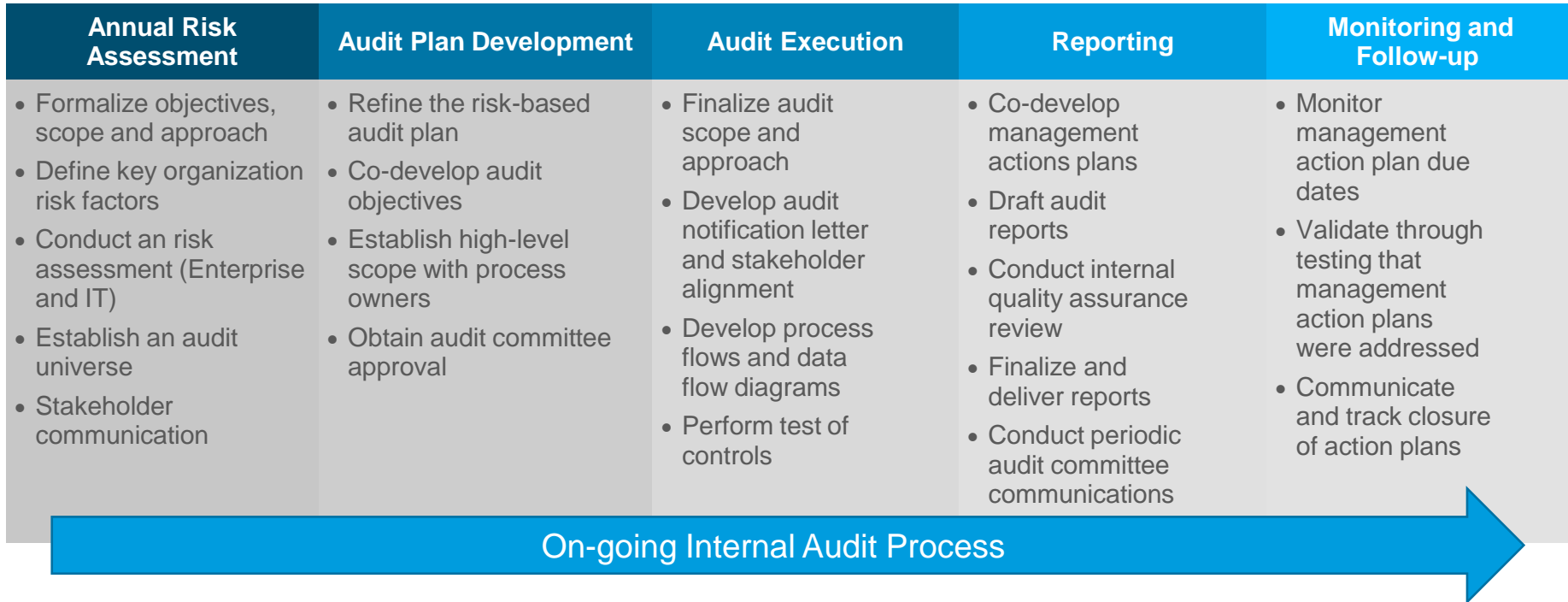
The audit scope included evaluating the adequacy of existing accounts payable policies and if invoices were processed and paid in accordance with the policies, including employee advance and reimbursement and travel policies. This includes proper requisition and approval, timeliness of payment, appropriate vendor maintenance and adequate segregation of duties and system access.

*There were no High Risk issues to report related to this audit.
There is 2 Moderate Risk and 3 Low Risk observations reported
with appropriate actions planned, two of which are already
complete.*

Hotline Update

Hotline Calls as of 10/17/18	
Calls Open as of 7/26/18	6
Calls Received	3
Fraud Claims – 0	
Other – 3	
Cases Closed	8
Cases Currently Open	1

Internal Audit Process



FY 2019 Proposed Internal Audit Plan

Ongoing Follow-Up Audits

Hotline Case Management

Open Action Items – Remediation & Follow Up

Authority-Wide Audits

Asset Management and the Use of Maximo

Functional Audits

Support Services

Fleet Management

Occupational Safety and Health

Facilities Maintenance

Information Technology

Records Management

Wi-fi Security Review

Mobile Platform Assessment

IT Risk Management & Compliance

Engineering and Technical Services

DETS Procurement Pre-Award Selection

Permit Operations – Reimbursable Projects

Procurement

Contractual Services (Authority-wide)



QUESTIONS AND ANSWERS?

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Internal Audit Report Payroll and Timekeeping Process

October 2018



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TRANSMITTAL LETTER

October 2018

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

Pursuant to the approved Fiscal Year 2018 internal audit plan for the District of Columbia Water and Sewer Authority (“DC Water” or the “Authority”), we hereby present our assessment of the Payroll and Timekeeping processes. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on October 25, 2018. Our report is organized in the following sections:

Executive Summary	A summary of the observations and related to the Payroll and Timekeeping processes.
Background	An overview of the Payroll and Timekeeping processes.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Detailed Observations	A description of the observations noted during our work and recommended actions as well as management’s response, responsible party, and estimated completion date.

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

Respectfully Submitted,

Internal Auditors



EXECUTIVE SUMMARY

Background

DC Water has over 1,000 employees, including exempt (salaried), non-exempt (hourly), full and part-time employees, as well as Union and non-Union classifications. Employees are located at five main facilities throughout the District of Columbia; however, a large percentage of employees are mobile and service the 1,300 miles of water pipes and 1,900 miles of sanitary and combined sewers. Approximately 60% of DC Water's workforce is governed by one of five Union agreements. The Federal government and the District of Columbia have many laws and statutes that the Authority must comply with regarding payroll, timekeeping, overtime and labor related issues. In addition to these, the Authority has adopted policies regarding leave, scheduled during hours and compensation time.

DC Water implemented Ceridian DayForce Time and Attendance in 2015 as a replacement to Ceridian Time and Attendance. During March 2018, DC Water completed the implementation of the Ceridian DayForce suite, which includes benefits, human resources, and payroll modules. As a result of the DayForce updated implementation, internal controls and procedures, at both the department level and centrally within Payroll, have changed. The capabilities of the new system streamlined and automated payroll processes that were previously manual. An example includes automated leave accrual calculations and distribution of signing bonuses. Additionally, the system has greatly improved the separation / termination process.

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

Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated June 4, 2018 and were limited to those procedures described therein. Our scope included the following:

- Validate that controls over timekeeping include procedures and documents that indicates the data used to generate payroll disbursements are adequate. This would include controls over pre- or post- time authorization where applicable, exception reporting, the use of special time codes, and other items.
- Determine whether the records and documentation for timekeeping and overtime related items are sufficient to establish an audit trail for all transactions involving employees' time.
- Determine whether access to timekeeping data is properly restricted in order to maintain integrity and confidentiality of the data, where applicable.
- Evaluate segregation of duties both within the timekeeping system and over manual procedures, to ensure that conflicting tasks are appropriately restricted.
- Evaluate controls to validate whether pay is accurately calculated, overpayment situations are identified and payroll data is accurately and completely presented in the general ledger.
- Evaluate compliance with DC Water policies and procedures over timekeeping and payroll processing.

Performance Period

Fieldwork was performed October 2016 through June 2018

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

	Number of Observations by Risk Rating		
	High	Moderate	Low
Payroll and Timekeeping Internal Audit	0	1	3

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



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

The 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
We noted 2 of 25 employment separations tested had a Separation Personnel Action Report (SPAR) that was submitted late by the department to HCM. While there is no correlation between the system update and the processing of the SPAR forms in a timely manner, we noted that after implementation of the DayForce suite in April 2018, there was a significant improvement in the control effectiveness test results, with no additional exceptions noted.	Moderate
During our walkthrough with the Payroll Manager and review of the Payroll Standard Operation Procedure (SOP) and Payroll Manual, it was noted that the documents are outdated and do not match current practice and are in the process of being updated.	Low
User system access to Ceridian DayForce Time & Attendance is reviewed annually and periodically on an ad hoc basis in order to validate that proper employees may perform appropriate functions in DayForce. Currently, the annual review is not documented, nor is it reviewed or approved by a separate individual.	Low
For one (1) of 6 biweekly payroll checklists tested, evidence of the Payroll Manager's initials, signature or date was not documented. Though payroll was processed and the Payroll Manager had made notes on the checklists, there was a lack of evidence of final review.	Low



BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

DC Water has over 1,000 employees, including exempt (salaried), non-exempt (hourly), full and part-time employees, as well as Union- and non-Union classifications. Employees are located at five main facilities throughout the District of Columbia; however, a large percentage of employees are mobile and service the 1,300 miles of water pipes and 1,900 miles of sanitary and combined sewers. Approximately 60% of DC Water's workforce is governed by one of five Union agreements. The Federal government and the District of Columbia have many laws and statues that the Authority must comply with regarding payroll, timekeeping, overtime and labor related issues. They include, but are not limited to, the Fair Labor Standards Act (FLSA), the Federal and Medical Leave Act of 1993, Final Rule, 29 CFR Part 825 and applicable provisions of the District of Columbia Family and Medical Leave Act of 1990. In addition to these, the Authority has adopted policies regarding leave, scheduled during hours and compensation time. The policies and procedures include, but are not limited to:

- Hours of Work
- Annual Leave
- Attendance and Punctuality
- Unpaid Leave
- Compensation and Job Evaluation
- Compensation Incentive Pay
- Compensatory Time for Exempt Employees
- Employee Separation Procedures

In addition to the above, the Authority is currently involved with 5 collective bargaining agreements for Union employees. They are as follows:

- American Federation of Government Employees, Local 2553
- American Federation of Government Employees, Local 631
- American Federation of Government Employees, Local 872
- American Federation of State, County, and Municipal Employees Local 2091
- National Association of Government Employees, R3-06

The working condition agreements address working hours, shift pay policies and overtime distribution. DC Water also has a Master Agreement on Compensation between all 5 unions. This agreement encompasses annual wage adjustments, performance bonuses, incentive pay, healthcare plans, and various other compensation related matters. The latest agreement is effective from October 1, 2015 through September 30, 2019.

Timekeeping Process

DC Water has an automated timekeeping system, Ceridian DayForce Time and Attendance ("Ceridian" or "DayForce"). As part of the current process, all non-exempt employees enter their own time through a timeclock device. Time for exempt employees is entered by the Department's assigned Timekeeper, often the administrative assistant, into an electronic timecard. Timekeepers are also responsible for making any adjustments to non-exempt employee timecards, in the event that the employee forgot to clock in or clock out, an error needs to be corrected prior to pay period close, or to document exceptions to schedules. Exceptions are those hours that differ from the employee's normal work schedule. All employees must have timecards.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background, continued

Timekeeping Process (continued)

The employee's Supervisor or Manager is responsible for review and approval of the electronic timecard within Ceridian, via individualized username and password. Once the payroll period has been locked, changes can only be made by the Payroll department. The Authority's Payroll Department is responsible for validating that time was approved and then processing payroll.

Payroll Process

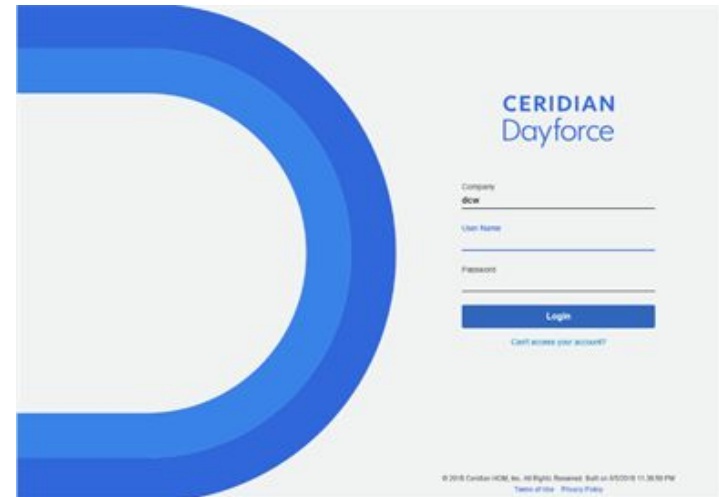
On a bi-weekly basis, Payroll confirms that all time has been approved and runs an unapproved time report. Once all time or adjustments have been made, the period is locked and various reports are run from Ceridian, including the Pay Detail Report, New Hire Report, Terminated Employees, Unauthorized Records Report, No Pay Report, and others. These reports are divided among members of the Payroll Department to verify that hours, wages and labor distribution codes are accurate. Evidence of review and approval of reports is documented on the Payroll Processing Checklist. After any adjustments have been made, a Payroll Register Report is printed and reviewed for accuracy. When correct, the Payroll Manager commits payroll in DayForce and signs off on the Payroll Processing Checklist. The Payroll Accountant exports the general ledger payroll details from Ceridian via excel file, then reviews and uploads to Lawson.

Reference Appendix B for a flowcharts of the timekeeping and payroll process.

Management Accomplishments - Implementation of Ceridian DayForce

DC Water implemented Ceridian DayForce Time and Attendance in 2015 as a replacement to Ceridian Time and Attendance. In March 2018, DC Water completed the implementation of the Ceridian DayForce suite, which includes benefits, human resources, and payroll modules.

As a result of the DayForce updated implementation, internal controls and procedures, at both the department level and centrally within Payroll, have changed. The capabilities of the new system streamlined and automated payroll processes that were previously manual. An example includes automated leave accrual calculations and distribution of signing bonuses. Additionally, the system has greatly improved the separation / termination process. Once an employee is terminated on the human resources module, the individual is 'locked' in the payroll system, thereby reducing the risk that terminated employees are paid beyond the termination date. The Payroll Department is in the process of updating the standard operating procedures to reflect the new and updated processes.





BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background, continued

Statistics and Financial Information

The following is a summary table of DC Water employees by functional category (as of 08/03/2018):

Functional Category	Number
Exempt (salary)	409
Non-Exempt (hourly)	<u>834</u>
Total Number of Employees	1243
Part-Time / Temporary	83
Full-Time	<u>1160</u>
Total Number of Employees	1243
Union Employees	730
Non-Union Employees	<u>513</u>
Total Number of Employees	1243
Total Number of Approvers*	276
Total Number of Timekeepers	39

*276 Managers/Supervisors are authorized to approve time but not all of them are required to approve time

The fiscal year 2018 budgeted and fiscal year 2014 – 2017 actual personnel services expenditures are as follows, as well the number of full-time employees for each period:

Fiscal Year	Personnel Services - Operating Expenses*	% Change	Full-Time Employees**	% Change
2018 (Budgeted)	\$149,193,000**		1,260**	
2017	\$132,124,000	6.35%	1,134	1.16%
2016	\$124,239,000	7.82%	1,121	-0.53%
2015	\$115,233,000	6.24%	1,127	4.45%
2014	\$108,467,000		1,079	

*Source: FY 2017 Comprehensive Annual Financial Report

**Source: FY 2015 – FY 2019 Approved Operating and Capital Budgets



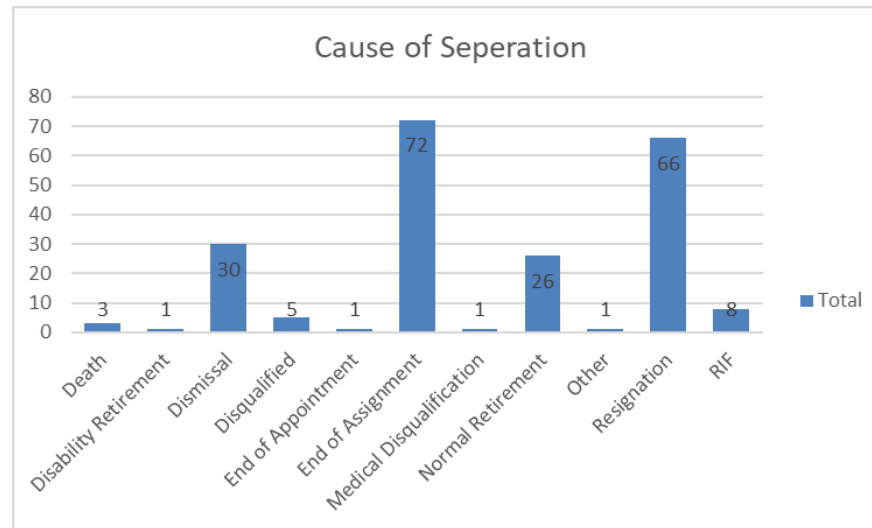
BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background, continued

Statistics and Financial Information (continued)

Personnel services expenses have increased year-to-year primarily due to an increase in wages and benefits. Part of this increase is due to the Board-ratified union labor contract, which requires a 3% increase in base salary each year through 2019. Personnel Services also includes overtime, which may be planned or unplanned, and varies depending on multiple factors. Personnel Services expenses are budgeted annually by Department and take into consideration vacancy rates, budgeted positions, Departmental re-organizations, salary adjustments and overtime costs to support on-going operational and capital projects.

In addition to reviewing the payroll and timekeeping processes, our scope included a review of how personnel related changes, including terminations or separations are identified and approved by Human Capital Management and communicated to Payroll for final payout. Between October 1, 2016 and May 31, 2018, there were 214 separations from the Authority. The table below classifies the type of separation during this time:



The largest cause of separation was “End of Assignment,” which is the classification used for interns once their internship is complete.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The objectives of the internal audit of payroll and timekeeping were to:

- Validate that controls over timekeeping include procedures and documents that indicates the data used to generate payroll disbursements are adequate. This would include controls over pre- or post- time authorization where applicable, exception reporting, the use of special time codes, and other items.
- Determine whether the records and documentation for timekeeping and overtime related items are sufficient to establish an audit trail for all transactions involving employees' time.
- Determine whether access to timekeeping data is properly restricted in order to maintain integrity and confidentiality of the data, where applicable.
- Evaluate segregation of duties both within the timekeeping system and over manual procedures, to ensure that conflicting tasks are appropriately restricted.
- Evaluate controls to validate whether pay is accurately calculated, overpayment situations are identified and payroll data is accurately and completely presented in the general ledger.
- Evaluate compliance with DC Water policies and procedures over timekeeping and payroll processing.

Approach

Our audit approach consisted of the following phases:

Understand and Document the Process

During the first phase of our approach, we conducted interviews to validate the process and controls with key personnel within the payroll department and HCM, as well as individuals from various departments, who have responsibilities related to timekeeping. We obtained and reviewed existing policy and procedure documentation, standard forms and union agreements. We understood that not all existing policies and procedures had been updated as a result of recent changes in the processes, and as a result we coordinated management to understand the control changes, where applicable, as we prepared our testing workplan. Additionally, we reviewed applicable laws, regulations and collective bargaining agreements. We developed a flowchart based on our understanding of the process and validated the flowcharts with the appropriate process owners, and have been provided to Management.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach, continued

Detailed Testing

Using both random and judgmental sampling techniques, we tested detailed time records from various departments, including union and non-union employees. The period we reviewed was Fiscal Year 2017 and Fiscal Year 2018 to-date: October 1, 2016 through May 31, 2018.

We conducted the following testing:

- Reviewed DC Water's policies and procedures to verify timekeeping, overtime, and payroll are complete and reflect current practice;
- Reviewed employee time tracking methods, practices, documents and procedures to verify controls over recording, authorization, processing and reporting of time and related payroll expenditures are designed and operating effectively;
- Verified timesheets were properly approved, including special and overtime pay approval;
- Verified leave requests were approved by the appropriate personnel and supporting documentation, if required, was maintained for jury duty leave or sick leave;
- Verified payroll pre- and post-reconciliation and monitoring is accurate and performed by the appropriate individuals and evidence of completion was maintained via the payroll checklist;
- Reviewed payroll third party payments to unions occurred during the pay period;
- Verified Separation Personnel Action Request (SPAR) forms were properly submitted to Payroll; final payment was performed timely; and documentation was maintained in the employee file;
- Reviewed system access and duty assignments, to verify they were appropriate and there were consistent duties around the following functions: time entry, time approval, manual change entry and approval.

Please note that benefits offerings, calculations and withholdings are outside the scope of this engagement.

Reporting

At the conclusion of this audit, we summarized our observations related to payroll and timekeeping at DC Water. We have reviewed the results of our testing with management, and management's action plans are included herein.



DETAILED OBSERVATIONS

Payroll and Timekeeping Internal Audit			
1.	<u>Separation from Service Documentation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>We evaluated and tested the employment separation procedures and the process to validate a Separation Personnel Action Report (SPAR) was submitted by the Department, approved by HCM and provided to Payroll in a timely manner. We also tested to validate if final payout was made by the next pay date or for terminated employees the final payout was made by the next business day. Our sample included a combination of retirements, dismissals, end of assignment, reduction-in-force (RIF), resignations and deaths.</p> <p>We noted that for 2 of 25 separations tested, the Department did not complete and submit a SPAR to HCM in a timely manner, which impacted the timeliness of the final payment to the employee. If the Department does not submit a SPAR timely or contact Payroll, the final paycheck cannot be submitted in a timely manner, nor termination procedures properly completed. In accordance with D.C. Code 32-1303, a dismissed (fired) employee must obtain final payment within one business day following termination. Non-compliance could lead to liquidated damages. Our testing did not identify any instances of non-compliance with D.C. code, however we did identify delays for other classifications of separation.</p> <p>While there is no correlation between the system update and the processing of the SPAR forms in a timely manner, we noted that after implementation of the DayForce suite in April 2018, there was a significant improvement in the control effectiveness test results noted during our testing.</p>	<p>Departments should be reminded of the timing requirements for processing SPAR (and PAR, as needed) to ensure that all changes are processed within requirements.</p> <p>Additional DayForce training should be administered as needed, as well.</p>	<p>Response: As a result of updated changes made with the implementation of the new DayForce automated process, this issue has been resolved.</p> <p>Responsible Party: HCM and Payroll</p> <p>Target Date: Complete.</p>



DETAILED OBSERVATIONS (CONTINUED)

Payroll and Timekeeping Internal Audit			
2.	<u>Documented Procedures for HCM, Payroll & Timekeeping</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>During our walkthrough with the Payroll Manager and review of the Payroll Standard Operation Procedure (SOP) and Payroll Manual, it was noted that the documents are outdated and do not match current practice and are in the process of being updated.</p> <p>It is documented on the SOP that it has not been updated since 2013, though we are aware it was updated in March 2016. The Payroll Manual, which is chapter 7 of Accounting Policy and Procedures manual, has not been updated since 2010.</p> <p>We utilized the manual to perform testing but modified our procedures based on our understanding of control changes to the process. The SOP has not yet been updated due to implementation of Ceridian DayForce but is expected to be updated in the near term.</p>	<p>As a result of the implementation of Ceridian Dayforce, new procedures should be documented and distributed agency-wide. The updated manual should consider including the following:</p> <ol style="list-style-type: none"> 1. Clearly identify the documentation requirements for the Payroll and HR Departments as well the Timekeepers and Supervisors for leave requests, exception reporting, and overtime distribution. 2. Capture HR, Timekeeper, and Payroll Department roles and responsibilities, in addition to the desktop procedures. 3. Capture any monitoring and reporting procedures and differentiate between desktop procedures (system capabilities) and required reporting procedures. <p>Additionally, any revisions to the SOP or Manual should be noted on the document with a date and signature for approval.</p>	<p>Response: Management agrees with the recommendation. Implementation of Dayforce HCM/Payroll system was completed in Fiscal year 2018. Payroll manual and procedures are being updated in FY2019.</p> <p>Responsible Party: HCM and Payroll areas as applicable.</p> <p>Target Date: March 31, 2019</p>



DETAILED OBSERVATIONS (CONTINUED)

Payroll and Timekeeping Internal Audit			
3.	<u>DayForce User Access</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>User system access to Ceridian DayForce Time & Attendance is reviewed annually and periodically on an ad hoc basis in order to validate that proper employees may perform appropriate functions in DayForce. Currently, the annual review is not documented, nor is it reviewed or approved by a separate individual.</p> <p>Per our walkthrough with the Payroll Manager and the Controller, user access (limited to roles and responsibilities) to Ceridian Dayforce is assigned when an employee is hired, and all access terminates when employment ends. Supervisory roles/access are updated based on personnel action forms (PAR), such as promotions or reassignment of employees. This access should be reviewed at least annually and documented to evidence that the review occurred.</p>	<p>We recommend the Payroll Manager work with HRIS to obtain a system-generated access listing and perform an annual review of system access to Ceridian DayForce Time & Attendance, and approve the access levels.</p> <p>The annual review should be properly documented and the Controller, or Finance designee outside of Payroll, should verify the annual review is complete and accurate; and secondary approval should be documented via signature.</p>	<p>Response: Management agrees with the recommendation. The Controller will review a listing of Payroll and HCM staff assigned informational change responsibilities as it relates to Personnel Action Report (PAR) quarterly or with change or rotation of HCM or Payroll staff.</p> <p>Responsible Party: Controller</p> <p>Target Date: March 31, 2019</p>




DETAILED OBSERVATIONS (CONTINUED)

Payroll and Timekeeping Internal Audit			
4.	<u>Review of Payroll Analytics / Exception Reports</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>On a biweekly basis, a Payroll Processing Checklist is used by each Payroll employee performing the review procedures. Once a task is completed on the checklist, the payroll employee that performed the task initials the list. The Payroll Manager signs the checklist as evidence of completion of payroll.</p> <p>For one (1) of 6 biweekly payroll checklists tested, evidence of the Payroll Manager's initials, signature or date was not documented. Though payroll was processed and the Payroll Manager had made notes on the checklists, there was a lack of evidence of final review.</p>	<p>As per the Payroll process requirements, the Payroll Manager or designee should continue to sign the checklist to note final approval of payroll processing.</p> <p>Additionally, as a process improvement, management could consider adding a line item to the checklist noting final, formal approval and the date.</p>	<p>Response: Management agrees with the recommendation. The Payroll Manager reviews and signs the checklist each pay cycle as a matter of standard routing but one pay cycle inadvertently did not evidence signature although the review did occur. Line item evidencing Payroll Manager or designee approval will be prominently displayed on cover sheet of the Payroll Processing Checklist</p> <p>Responsible Party: Payroll Manager</p> <p>Target Date: Complete.</p>



APPENDIX A – RATING DEFINITIONS

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



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Internal Audit Report Accounts Payable Process

October 2018



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TRANSMITTAL LETTER

October 2018

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

Pursuant to the approved fiscal year 2018 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 Accounts Payable process. We will be presenting this report to the Audit Committee of DC Water at the next scheduled meeting on October 25, 2018. Our report is organized in the following sections:

Executive Summary	A summary of the observations and related to our internal audit of the Accounts Payable process.
Background	An overview of the Accounts Payable process.
Objectives and Approach	The internal audit objectives and focus are expanded upon in this section, as well as a review of the various phases of our approach.
Detailed Observations	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

The accounts payable (AP) process is a centralized function at DC Water, within the Finance and Budget (FAB) department, which processes vendor payments, customer refunds, construction payments, chemical payments, payments in lieu of taxes, utility costs, employee benefits, union dues, and other expenditures.

The accounts payable process includes controls designed to ensure payments are only made for goods and services that were ordered and received.

The AP division is staffed with one manager who reports directly to the Controller and five Accounts Payable specialists.

In the 21-month period under audit, from October 1, 2016 to June 30, 2018, DC water's accounts payable team processed more than 37,000 transactions totaling approximately \$1.15 billion.

Performance Period

Fieldwork was performed for the period October 1, 2016 through June 30, 2018

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 is to obtain an understanding of the accounts payable process. The audit scope was based on the following objectives:

- Assessing whether the system of internal controls over accounts payable is adequate and appropriate for goods and services and construction contracts.
- Determine the adequacy of existing accounts payable policies and if invoices were processed and paid in accordance with the policies, including employee advance and reimbursement and travel policies.
- Determine if requisitions were properly approved and purchase orders were created based on the contract.
- Determine if invoices processed were for authorized expenditures.
- Determine if records and documentation for Accounts Payable were sufficient to establish an audit trail for all transactions involving disbursements, including petty cash transactions.
- Review controls over Accounts Payable including procedures and documents that indicate the data used to generate disbursements were adequate.
- Review controls over vendor set-up and maintenance related to the Accounts Payable function; including controls related to fictitious, duplicate and inactive vendors.
- Evaluate segregation of duties both within the accounts payable system and over manual procedures, to ensure that conflicting tasks are appropriately restricted.

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

	Number of Observations by Risk Rating		
	High	Moderate	Low
Accounts Payable Internal Audit	0	2	3

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



EXECUTIVE SUMMARY (CONTINUED)

Ratings and Conclusions

The following is a summary of significant observations noted in the areas reviewed (see “Detailed Observations” section for additional information). Definitions of the rating scales are included in the Appendices.

Summary of Observations	
Observations	Rating
Formal requests to add, remove or edit information in the vendor master file should be documented within a request form and an information form accompanied with a vendor W-9 form. For five of the 25 samples tested for proper vendor setup, there was no request form provided for the vendor setup process. Additionally, two of these five forms did not have a completed W-9 form.	Moderate
During our testing of prompt payment of invoices, we noted that 7 of 120 invoices (6%) were paid later than 30 days of the invoice date and four (3%) did not leverage an available discount as indicated on the invoice. Although the Prompt Payment Act allows for 45 days, DC Water’s stated policy is 30 days for payment.	Moderate
We noted that access to the accounts payable email inbox, used by vendors to submit invoices electronically to DC Water, is not routinely monitored by management to determine appropriateness of access. The accounts payable email address is an account to which vendors email their invoices and queries. Several individuals monitor this mailbox. We noted that two employees had unauthorized access upon departure. One person is no longer employed at DC Water and the other is now in a new position. While this access was updated during our fieldwork, a more routine monitoring process should be implemented.	Low
The chapter of the Accounting Policy and Procedures Manual related to accounts payable is in the process of being updated; however, there is no evidence of periodic review and approval. The policy manual shows last update as of 2014, and we noted several areas in which current practice doesn’t match the procedures noted.	Low
DC Water requires a purchase requisition to be completed for all purchases. The requesting department must approve the purchase requisitions. For 21 of the 120 expenses reviewed (17.5%), we did not find evidence of purchase requisition approval, as required by the SOP, or a formalized exception approval to the process. However, the supporting documentation included other evidence of purchase approval including POs, invoices and approved payments. These items were primarily related to chemicals purchases and stock replenishment purchases, which are partially automated.	Low



BACKGROUND, OBJECTIVES AND APPROACH

Background

Accounts Payable Function

DC Water and Sewer Authority (DC Water) has its accounts payable (AP) process as a centralized function, within the Finance and Budget (FAB) department. Accounts Payable processes vendor payments, customer refunds, construction payments, chemical payments, payment in lieu of taxes, utility costs, employee benefits, union dues, and other expenditures. The accounts payable process includes controls designed to ensure payments are only made for goods and services that were ordered and received. The AP division is staffed with one manager who reports directly to the controller and five Accounts Payable specialists. Vendors are reminded three times a year, via formal communications, to issue invoices. This process is facilitated by FAB and is performed by the department heads.

AP Transactions

In the 21-month period under audit, from October 1, 2016 to June 30, 2018, DC Water's accounts payable team processed more than 37,000 transactions totaling approximately \$1.15 billion. Capital expenses amounted to 75% of the total spend, and the remainder 25% attributed to operating expenses. Individual transactions averaged \$30,700 and ranged from \$0.01 to \$15 million. Please see table 'Total Spend' for the breakdown in capital and operating spend below, and '21 month spend by department' for each department's spending, on page 8.

Total Spend (21 months)			
	% Spend	\$ Spend	# of Payments
Operating	24.71%	\$ 284,998,644	33,671
Capital	75.28%	\$ 868,235,909	3,877
Petty Cash	0.003%	\$ 35,097	19
Total	100.00%	\$ 1,153,234,553	37,548

Payment Process

Payments are processed via Bank of America's Paymode-X system. DC Water's main bank and depository is TD Bank. Weekly payment wire is authorized by the Controller to be sent to Bank of America (BOA). BOA processes three forms of payment via the ePayables system – ACH, paper check or Ghost card/virtual card/credit card. BOA is responsible for all vendor payment account set-up and directly communicates with vendors via email to set-up their accounts for electronic payments.

Purchase and Travel Cards (out-of-scope)

The FAB department also participates in a purchasing and travel cards program, which was designed for micro-purchases that do not have an existing purchase orders or for which the vendor cannot accept a check or ACH. P-Cards are not considered a primary method of payment at DC Water. This program was audited separately in FY 2017.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (Continued)

Policies & Procedures

The DC Water Accounting Policy and Procedures Manual includes a chapter on the Procurement/Disbursement cycle. It includes guidelines on direct purchases, invoice approvals, construction contract payments, and disbursement of payments and each related process in the workflow system, Lawson. The Lawson system provides an integrated approach to purchasing goods and services and recording the transactions in the general ledger.

Reconciliations

Monthly reconciliations are performed by a senior accountant and reviewed by the accounting manager. Reconciling items are supported and resolved before the manager signs off on the reconciliation. Remaining reconciling items are aged to monitor clearing and follow escheatment requirements for items that do not clear under the District's unclaimed property laws.

Petty Cash

An AP specialist maintains \$2,500 in petty cash in a safe deposit box and accounts for transactions via a monthly Excel list, saved on FAB's shared drive. The specialist reconciles, replenishes and reports petty cash to AP manager for his review and approval on a monthly basis. Any petty cash transactions over \$75 are approved and signed off by the controller, and the maximum amount of any single transaction is limited to \$150.

Training

There are five team members on the AP staff. The manager and specialists attend the *Accounts Payable and Procure to Pay Conference* on alternate years and have obtained their AP certifications. During the year that they do not attend, they learn via online webinars and keep their certifications current.

International Payments

Payments are not made to any international payees, with the exception of Canada. Bank of America's Paymode-X system is designed to automatically bounce any international payments.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The primary objective of DC Water's Internal Audit of Accounts Payable was to:

- Assess whether the system of internal controls over the accounts payable is adequate and appropriate for goods and services, and construction contracts.
- Determine the adequacy of existing accounts payable policies and if invoices were processed and paid in accordance with the policies, including employee advance and reimbursement and travel policies.
- Determine if requisitions were properly approved.
- Determine if invoices processed were for authorized expenditures.
- Determine if records and documentation for Accounts Payable were sufficient to establish an audit trail for all transactions involving disbursements, including petty cash transactions.
- Review controls over Accounts Payable including procedures and documents that indicate the data used to generate disbursements were adequate.
- Review controls over vendor set-up and maintenance related to the Accounts Payable function; including controls related to fictitious, duplicate and inactive vendors.
- Evaluate segregation of duties both within the accounts payable system and over manual procedures, to ensure that conflicting tasks are appropriately restricted.

Approach

Our audit approach consisted of the following phases:

Understanding of the Process

The purpose of this phase was to gain an understanding of the accounts payable process by interviewing key personnel in AP, Finance as well as Procurement, to understand related controls. We also interviewed other DC Water employees, in IT, Construction, etc., as deemed necessary. We obtained and reviewed existing policy and procedure documentation and standard forms. Additionally, we reviewed applicable laws and regulations. We also analyzed accounts payable transaction data to understand volume and trends.



BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Detailed Testing

The purpose of this phase was to test the documentation of completed payments of vendor invoices, including:

- Requisition approval and Purchase Order (PO) issuance and modification
- Invoice approval process
- Vendor setup process in Lawson
- Policies and procedures for accounts payable
- Petty cash access, advances and distribution
- Customer refunds, if any
- Authorization of manual checks and wire transfers

Reporting

At the conclusion of this audit, we summarized our observations related to the Accounts Payable process. We have reviewed the results of our testing with management. Management's response and action plan are included herein.



DETAILED OBSERVATIONS

Accounts Payable Internal Audit			
1	<u>New vendor documentation</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>DC Water requires the following forms prior to the creation of a new vendor in the system:</p> <ol style="list-style-type: none"> 1) Vendor Request Form: <i>Internal Form completed by DC Water Requesting Staff and signed by a Manager</i> 2) Vendor Information Form: <i>Completed by the vendor</i> 3) IRS Form W-9: <i>Completed by the vendor.</i> <p>For five of 25 (20%) items selected for testing, there was no vendor setup request form provided. Additionally, two of these five also did not have a vendor W-9 form. It was noted that the five vendors are older, and were created prior to the setup procedures being updated. Management is working through all of the vendors to update documentation as needed.</p> <p>Formal requests to add, remove or edit information in the vendor master file should be documented within an approved request form, and accompanied with an IRS form W-9, <i>Request for Taxpayer Identification Number and Certification</i>, in order to capture additional identification information.</p>	<p>The updated procedures for new vendor setup should continue to be followed and verified prior to setup of a new vendor in Lawson.</p> <p>Management should also consider adding quality control procedures to the Vendor Request Form to document vendor payment terms and conditions, conflicts of interest, allowable discounts, promotional support, transactional accuracy, use of technology, and production scheduling flexibility, etc.</p> <p>Other considerations could include maintaining a miscellaneous vendor activity file to facilitate 1099 reporting and consider expanding the use of p-cards to reduce the need for one-time vendors.</p>	<p>Response: Procedures have been established with the required vendor setup form and related IRS Form W-9 initiated by Procurement and approved by the Controller prior to creation of a vendor in system. Management will consider adding to same form information related to allowable discounts as Procurement is moving to require prompt pay discount term to future vendor contracts. Currently, management does categorize one-time vendors separately so they can be deactivated within 30 days of payment.</p> <p>Responsible Party: Financial Systems and Controls & Controller</p> <p>Target Date: Effective immediately.</p>



DETAILED OBSERVATIONS (CONTINUED)

Accounts Payable Internal Audit			
2	<u>Prompt payment of invoices</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Moderate		
	<p>The Prompt Payment Act requires vendor invoices be paid within forty-five calendar days of approval of the invoice by Accounts Payable or the ordering department; unless certain extenuating conditions exist, or otherwise agreed-upon. DC Water's internal procedure requires invoices to be paid within 30 days of acceptance. Acceptance is generally defined as the creation date for the invoice in the Lawson system workflow, unless an invoice is noted as 'in dispute' within the workflow.</p> <p>During our testing of 120 payments, we noted 7 (6%) were paid after 30 days of the invoice creation date in Lawson. Payment delays may be due to normal business practices such as ensuring that ordered goods or services were properly received and complete billing details were obtained. However, upon further discussion with management, these 7 were related to improper date entry and other processing delays. Late payments may result in penalties and loss of available discounts.</p> <p>We further noted that four payments made did not leverage an available discount. One of these was for a construction contractor, but for materials only, rather than labor, which is rarely (if ever) discounted. Per discussion with management, any available discounts on construction vendor invoices will be difficult to leverage, given the amount of time needed to verify that the payment applications contain all of the necessary support prior to issuing payment. We understand that Procurement is developing a process by which discounts will be more readily leveraged within the new ERP system.</p>	<p>We recommend that AP technicians input the actual invoice date and the invoice receipt date (which signals acceptance) in the appropriate fields within the Lawson system.</p> <p>Additionally, management should continue to evaluate and consider leveraging available vendor discounts wherever possible.</p>	<p>Response: Management agrees with the stated recommendation. Management will reinforce the need for correct input of invoice date by the staff and monitor through sampling of invoices with comparison to input to system.</p> <p>Responsible Party: Accounts Payable Manager, Controller</p> <p>Target Date: Effective immediately.</p>



DETAILED OBSERVATIONS (CONTINUED)

Accounts Payable Internal Audit			
3	<u>E-mail account access review</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>The Accounts Payable email address is an account to which vendors email their invoices and queries. Several individuals monitor this mailbox. We noted that the access is not routinely monitored by management to determine appropriateness of access.</p> <p>As a result, we noted that two employees had unauthorized access. One person is no longer employed at DC Water and the other is now in a new position. Upon further review, it was determined that the employee no longer at DC Water was not able to access the mailbox remotely. This access was updated during our fieldwork.</p> <p>The email account, or any other online resources, cannot be accessed remotely through the internet, if the exiting employee no longer has a valid account on the domain.</p>	<p>We recommend the email account access be periodically reviewed by management and updated as needed.</p>	<p>Response: We agree with the recommendation. The AP Manager will monitor AP mailbox access on a quarterly basis, or as needed for changes in personnel, and report same to Controller who will document review with signature and return to AP Manager and Senior Analyst, Financial Systems and Controls.</p> <p>Responsible Party: AP Manager & Controller</p> <p>Target Date: Effective immediately.</p>



DETAILED OBSERVATIONS (CONTINUED)

Accounts Payable Internal Audit			
4	<u>Management approval of revised SOP</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>During fieldwork, we noted that Chapter 6 of the Accounting Policy and Procedures Manual, which relates to accounts payable, is being updated by management; however, there is no evidence of periodic review for continued relevancy and approval. Per the manual, the last revision update was in 2014. We further noted a separate Customer Refund Process document and Vendor Master File Process Narrative that captures the procedures required, but are not fully incorporated into the manual. There is a draft revision in process, pending review and approval.</p> <p>Lack of regular updates or document version control may result in employees missing key steps in the processes, or changes in process that do not get properly documented. Outdated written policies and procedures can cause confusion and inconsistencies or inaccuracies in processing and performing accounts payable duties, especially with new or assisting employees.</p>	<p>We recommend the revised procedures be finalized and approved, and reviewed for relevancy on a periodic basis.</p> <p>Changes to procedures should be disseminated to respective personnel through the use of Pipeline or the secured Finance & Budget network directory. Training on changed procedures should be provided, as needed.</p>	<p>Response: The accounts payable procedures manual will be revised on an annual basis to reflect any relevant business process or procedural changes and evidence of the update will be maintained. Information will be made available on the DCW intranet.</p> <p>Responsible Party: Accounts Payable Manager</p> <p>Target Date: 31-March-2019</p>



DETAILED OBSERVATIONS (CONTINUED)

Accounts Payable Internal Audit			
5	<u>Purchase Requisitions</u>	<u>Recommendation</u>	<u>Management's Action Plan</u>
	Observation Rating: Low		
	<p>A purchase requisition is required to be completed for all purchases. The requesting department must approve the purchase requisitions. The primary way to do this is through the Lawson pre-set workflow.</p> <p>To initiate direct purchases outside of Lawson, departments generally use the paper Purchase Requisition (WASA 440) form. Per the policy and procedures, the form should be completed, approved, and forwarded by the department along with any supporting documentation.</p> <p>For 11 of the 120 payments reviewed, we did not find proper purchase requisition approval, as required by the SOP. Three capital expenditures and eight operating expenditures did not have associated purchase requisitions. We also noted 10 chemical transactions that are managed using an automated process, thereby not requiring a requisition; however, there is no formal exception to the process noted.</p> <p>For the 11 purchases, although the purchase requisition was not available, there were other supporting documents to evidence purchase approval; including invoices and contracts where applicable. These items were primarily stock replenishment purchases, which are partially automated using economic-order quantity method.</p> <p>The SOP does not address these situations where a formal requisition may not be necessary.</p>	<p>We recommend the procedure be followed and purchase requisition approvals be documented in the Lawson workflow. In cases in which the approval is outside the workflow, we recommend that the physical purchase requisition form be kept on file with the requesting department and procurement personnel.</p> <p>If there are circumstances where a purchase requisition may not be necessary, such as for chemical purchases, there should be an approved, documented exception to the policy. See also observation #4 with respect to the update of the SOP.</p>	<p>Response: Management agrees with the recommendation. Management introduced system functionality that automates the process of invoice payment for chemicals and inventory replenishment and will incorporate the same in accounts payable procedures manual as a documented exception to invoice payment process. Management will also continue to monitor and enforce current processes when a purchase requisition is required.</p> <p>Responsible Party: Accounts Payable, Procurement</p> <p>Target Date: Effective immediately.</p>



PROCESS IMPROVEMENT OPPORTUNITIES

Accounts Payable Internal Audit – Process Improvement Opportunities

PO or Contract Reference on Invoice

When the invoice is entered by the accounting technician, Lawson routes the invoice information to the inbox of the requesting Department Head or their designee, for payment approval once the goods or services are received. We noted instances during our testing where the related purchase order or contract number was not indicated on the invoice. To facilitate reconciliation and proper approvals, all invoices should contain a related purchase order or contract number.

GL Reconciliation Performance

We noted there is no performance requirement for when the A/P general ledger account reconciliation should be completed, reviewed for reconciling items and approved. The reconciliations are generated immediately after month end, but are not reviewed and approved within a pre-defined period, such as 30-45 days from completion. For example, December 2017 reconciliation was prepared on January 4, 2018, but not approved until February 23, 2018. March 2018 reconciliation was prepared on April 2, 2018, but not approved until May 11, 2018. Untimely completion of reconciliations may result in errors, inappropriate transactions, and differences not being identified in a timely manner, which could result in inaccurate reporting. We recommend that all reconciliations are completed, reconciling items are supported, and all review performed within 30 to 45 days after month end. This will enable any reconciling item to be identified and properly accounted for in a timely manner.



APPENDIX A – RATING DEFINITIONS

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



APPENDIX B - ACCOUNTS PAYABLE INTERNAL AUDIT ISSUES COMPARISON

The table below indicates the issues noted during the similar internal audits of the Accounts Payable process of five other public sector entities. The first row provides the title name of the audit report. The last column indicates whether this internal audit of DC Water's Accounts Payable process identified similar issues.

#	Issue	City of Clarksville, Gas and Water Department, Accounts Payable Audit	Municipality of Anchorage, Accounts Payable, Finance Department	Ottawa Audit of Accounts Payable	City of Dallas Audit of Accounts Payable Application Controls	Audit of Richmond Public Schools Accounts Payable Division	DC Water Accounts Payable Internal Audit
1	Policies and Procedures	✓		✓		✓	✓
2	Weaknesses Regarding Vendor File Maintenance	✓		✓	✓	✓	
3	Vulnerable to Unauthorized Employee Access	✓		✓	✓	✓	✓ ①
4	Inadequate Segregation of Duties	✓		✓	✓	✓	
5	Computer Files Backup & Storage	✓					
6	Late Payments		✓	✓	✓		✓
7	Missed Discounts		✓	✓	✓		✓
8	Invoices Not Entered Timely		✓				✓
9	Invoices Not Forwarded to Departments Timely		✓				
10	Inappropriately Approved Departmental Invoices					✓	
11	Insufficient Documentation for Employee Reimbursements					✓	
12	Reconciliations Not Performed Timely					✓	✓
13	Inappropriately Approved or Unapproved Payments				✓	✓	
14	Insufficient Documentation for Purchases					✓	✓

① Employee unauthorized access to AP email account, not financial system.



ACCOUNTS PAYABLE
Internal Audit Report
Issued: October 2018


APPENDIX C – TOP VENDORS

Audit Period Spend (21 months – October 1, 2016 to June 30, 2018)

Top 50 Vendors - Operating (68% of all Operating Spend)					Top 50 Vendors - Capital (92% of all Capital Spend)						
#	Vendor	Total Spend	#	Vendor	Total Spend	#	Vendor	Total Spend	#	Vendor	Total Spend
1	CIGNA MEDICAL/HEALTH	\$18,691,806	26	SHERWOOD LOGAN ASSOCIATES	\$ 2,168,795	1	PC CDM JOINT VENTURE	\$ 110,951,901	26	O'BRIEN & GERE/ARCADIS JV	\$ 6,070,318
2	CONSTELLATION NEW ENERGY INC	\$13,248,145	27	PVS TECHNOLOGIES INC	\$ 2,147,325	2	IMPREGILO HEALY PARSONS JV	\$ 71,294,745	27	AON RISK SVCS INC OF WASH DC	\$ 5,809,362
3	CONSOLIDATED EDISON SOLUTIONS	\$12,585,586	28	VERIZON	\$ 2,085,837	3	SKANSKA USA BUILDING,INC	\$ 48,902,115	28	INLAND WATERS POLLUTION CONTRL	\$ 5,504,773
4	COLONIAL CHEMICAL SOLUTIONS	\$11,499,496	29	FERGUSON ENTERPRISES INC	\$ 1,887,116	4	FORT MYER CONSTRUCTION CORP	\$ 41,697,407	29	URS CORP	\$ 5,291,047
5	UNIVERSAL PROTECTION SVC LLC	\$ 8,882,928	30	EMERSON PROCESS MGMT POWER &	\$ 1,774,219	5	CORMAN CONSTRUCTION INC	\$ 41,413,593	30	ESIS INC.	\$ 4,939,912
6	POTOMAC ELECTRIC POWER CO	\$ 7,995,639	31	RSM US LLP	\$ 1,703,663	6	AECOM SERVICES OF DC	\$ 37,560,200	31	ACLARA TECHNOLOGIES	\$ 4,914,159
7	KAISER PERMANENTE	\$ 7,925,045	32	MUELLER SYSTEMS LLC	\$ 1,652,493	7	ULLIMAN SCHUTTE CONSTRUCTION	\$ 33,861,698	32	PEER CONSULTANTS PC	\$ 4,887,196
8	MC DEAN INC	\$ 7,118,902	33	ICMA RC	\$ 1,573,414	8	SALINI IMPREGILO HEALY JV NEBT	\$ 32,037,418	33	O' BRIEN & GERE ENGINEERS PC	\$ 4,567,072
9	VERTEX DATA UTILITY SERVICES	\$ 6,902,054	34	CAPITAL PAVING OF DC INC	\$ 1,550,000	9	E.E CRUZ & COMPANY	\$ 30,203,067	34	BELSTAR INC	\$ 3,944,261
10	NUTRI-BLEND INC	\$ 6,802,464	35	URBAN SVC SYSTEMS CORP	\$ 1,536,429	10	ANCHOR CONSTRUCTION CO INC	\$ 28,764,663	35	SAK CONSTRUCTION, LLC	\$ 3,527,420
11	CARTER & CARTER ENTERPRISE INC	\$ 6,188,869	36	DYNAMIC CONCEPTS INC	\$ 1,505,898	11	JA UNDERGROUND PROF CORP	\$ 25,188,576	36	WM SCHLOSSER CO INC	\$ 3,236,970
12	KUEHNE CHEMICAL CO INC	\$ 5,941,847	37	ADVANCE DIGITAL SYSTEMS	\$ 1,490,008	12	AMERICAN CONTRACTING &	\$ 24,601,783	37	CH2M HILL INC	\$ 3,176,869
13	US OFFICE OF PERSONNEL MGMT	\$ 4,753,640	38	NFF INC	\$ 1,452,975	13	JAMES G DAVIS CONSTRUCTION CO	\$ 24,424,739	38	GREELEY HANSEN OBRIEN GERE JV	\$ 3,123,362
14	CENTERRA INTEGRATED SVCS LLC	\$ 4,346,551	39	BEVERIDGE & DIAMOND PC	\$ 1,362,357	14	CAPITAL PAVING OF DC INC	\$ 22,477,954	39	ENTERPRISE SECURITY SOLN, LLC	\$ 2,968,157
15	MITSUBISHI INTERNATIONAL CORP	\$ 4,029,784	40	ESIS INC.	\$ 1,338,384	15	GREELEY & HANSEN LLC	\$ 21,871,100	40	FLIPPO CONSTRUCTION CO INC	\$ 2,806,785
16	PMA INSURANCE GROUP	\$ 4,001,312	41	MB STAFFING SVCS LLC	\$ 1,334,761	16	ARCADIS DISTRICT OF COLUMBIA	\$ 20,825,232	41	MARINE TECHNOLOGIES INC	\$ 2,655,926
17	DC TREASURER	\$ 3,962,610	42	ACLARA TECHNOLOGIES	\$ 1,332,309	17	PC CONSTRUCTION CO	\$ 17,875,434	42	STRUCTURAL PRESERVATION SYSTEM	\$ 2,652,701
18	IMPREGILO HEALY PARSONS JV	\$ 3,465,387	43	RODGERS BROTHERS CUSTODIAL	\$ 1,304,422	18	SKANSKA-JAYDEE JV	\$ 17,345,124	43	VERTEX DATA UTILITY SERVICES	\$ 2,595,429
19	CITIBANK	\$ 3,305,758	44	M&N CONTRACTORS, LLC	\$ 1,298,995	19	BRADSHAW CONSTRUCTION CORP	\$ 13,714,892	44	SAMAHA ASSOCIATES PC	\$ 2,511,962
20	CIGNA GROUP INSURANCE	\$ 3,190,798	45	AON RISK SVCS INC OF WASH DC	\$ 1,281,105	20	MOTT MACDONALD I AND E LLC	\$ 11,033,311	45	SMART GRID SOLUTIONS	\$ 2,435,956
21	POLYDYNE INC #49	\$ 3,029,372	46	PVS CHEMICAL SOLUTIONS	\$ 1,173,603	21	CH2M/PARSONS JV	\$ 8,770,325	46	SAGRES CONSTRUCTION CORP	\$ 2,402,829
22	POLYDYNE INC #21	\$ 2,688,815	47	ELECTRIC MOTOR & CONTRACTING	\$ 1,162,457	22	GILBANE BUILDING COMPANY	\$ 7,799,856	47	COMPLIANCE ENVIROSYSTEMS LLC	\$ 2,288,860
23	ALLIANT INSURANCE SVC INC	\$ 2,555,804	48	METROPOLITAN WASHINGTON COUN	\$ 1,151,833	23	FASTENERS RX	\$ 7,517,396	48	MALCOLM PIRNIE ENGINEERS PLLC	\$ 2,276,622
24	WELLS REIT II 80 M STREET LLC	\$ 2,254,140	49	MARYLAND ENVIRONMENTAL SVC	\$ 1,129,965	24	CONSTELLATION NEW ENERGY INC	\$ 6,982,455	49	ELECTRIC MOTOR & CONTRACTING	\$ 2,262,025
25	WASHINGTON GAS	\$ 2,174,364	50	SERVICE MASTER OF ALEXANDRIA	\$ 1,088,204	25	DC TREASURER	\$ 6,378,881	50	EMERSON PROCESS MGMT POWER &	\$ 2,018,870

Vendors in Green have both Operating and Capital spend

Note: The information shown above is based upon payment data provided by management from the Lawson system by payment date for the 21-month testing period, and therefore is presented on the cash basis, spanning multiple budget cycles. This data and additional data analysis was provided to management for informational purposes only.



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