

AUDIT COMMITTEE

PROPOSED AGENDA

- A. Open Session
 - 1. Approval of Agenda
 - 2. Approval of 2019 Proposed Quarterly Meeting Dates
- B. Briefing Materials
 - 1. Audit Reports
 - *Blue Plains Operations and Maintenance Billings Audit – FY's 2015 & 2016*
 - *IT Basic Ordering Agreement*
 - 2. Status Updates
 - 2nd Quarter FY '19 Fraud, Waste & Abuse Hotline Report*
- C. Other Business
- D. Adjournment
- E. Next Meeting Date

2019 PROPOSED QUARTERLY MEETING DATES

February 20, 2019

May 15, 2019

August 21, 2019

November 20, 2019

NOTE: Meetings dates are subject to change.



AUDIT REPORTS

Blue Plains Operations and Maintenance Billings Audit FY'S 2015 and 2016

Executive Summary

Background

We performed an audit of DC Water's Blue Plains Operations and Maintenance Bills for FY's 2015 and 2016.

- Blue Plains Inter-Municipal Agreement (IMA) of 2012
- Right to Audit
- Settlement Bill

Audit Team:

Angela Makle Fortune – Senior Auditor

Janice Hicks – Auditor

Dee Tok - Auditor

Executive Summary (Cont'd.)

Objective

To ensure WSSC is billed accurately for its share of the operations and maintenance costs in accordance with the IMA.

Scope

- ▶ Transactions, processes, costs and payments effective during DC Water's FY's 2015 and 2016.
- ▶ Each settlement bill is a workbook of approximately 90 worksheets.
- ▶ Includes systems access to DC Water's documents and transactions.

Adjustments

#	Title	FY's 2015 & 2016 Adjustments
1	User Fee Allocation	\$(127,194.00)
2	Job Codes	\$(105,457.00)
3	Natural Gas Worksheet	\$(25,221.00)
4	Fleet Costs	\$(155,570.00)
5	Finance Costs	\$(65,269.00)
6	Electricity Credit	\$(258,046.00)
7	Water Costs	\$(16,304.00)

Adjustments (Cont'd.)

#	Title	FY's 2015 & 2016 Adjustments
8	Litigation Costs	\$(540,397.00)
9	Security Costs	\$ 328,741.00
10	Indirect Costs and Worksheet Allocations	\$ 120,699.00
11	Bureau of Maintenance Costs	\$(69,077.00)
12	Wastewater Treatment Plant	\$(211,648.00)
13	Flow -WSSC Planning Division	\$(750,871.00)
	Interest	\$(87,064.58)
	Total Refund to WSSC:	\$(1,962,678.58)

Conclusion

- ▶ Total adjustments plus interest equates to a **\$1,962,678.58** refund to WSSC.
- ▶ We received agreement with DC Water for all adjustments plus interest.

QUESTIONS?

IT Basic Ordering Agreement Compliance Audit

Executive Summary

Background

This audit originated from a WSSC Fraud, Waste and Abuse Hotline investigation. While the investigation disclosed no findings of fraud or criminal activities, there were some internal control issues identified. Based on this and other factors related to Basic Ordering Agreements (BOAs), we planned a compliance audit on IT Basic Ordering Agreements. This audit was a part of the Fiscal Year 2017 Risk-Based Audit Plan.

The Information Technology (IT) Department's BOAs are unique contractual arrangements comprised of a set number of vendors who offer a predetermined range of prices for several IT related jobs. This allows IT managers to negotiate task orders for specific job functions without recreating or restarting the entire procurement process for services needed by IT. In this audit we examined seven BOA contracts that included 34 IT vendors totaling \$66 million.

Audit Team:

James Wall – Senior Auditor

Executive Summary (Cont'd.)

Objective

The objective of this audit was to determine compliance with current WSSC Procurement Regulations.

Scope

- ▶ July 1, 2016 to September 30, 2017
- ▶ BOA bidding process
- ▶ Overall management and reporting of BOA activity
- ▶ Hiring procedures for IT consultants
- ▶ Market pay rate for IT consultants
- ▶ Travel reimbursement process
- ▶ Review payment approval process

Quick Look

Observations

We reported six (6) audit observations with recommendations related to internal policies and procedures. All of the observations received a MEDIUM risk rating.

Management Response

After receiving the Discussion Draft, management responded timely within the two-week time period on October 17, 2018. Management agreed with the recommendations and has already reported all of its actions to the General Manager and the Commissioners.

Implementation of Recommendations

Management has implemented, pending OIG verification, four (4) recommendations and the remaining recommendations are anticipated to be addressed by September 30, 2019.

Findings & Management Response

Findings	Rating	Recommendations
<p>1. Inconsistent BOA Hiring Practices</p> <p>Only 1 out of 41 interviews had a documented interview</p>	<p>Medium</p>	<p>Follow HR's Employment Procedures to select and hire IT consultants.</p>

Management Response

Effective September 27, 2018: The IT Organization implemented the following WSSC HR hiring practice for consultants:

- 3-member interview panel
- List of interview questions asked for each interview
- An objective scoring system
- Interview summary by each panel member
- Signed consensus by each panel member on selected candidate
- Conflict of interest form signed by each panel member and/or supervisor, as applicable

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
<p>2. No Travel Cost Standards for IT Consultants</p> <p>Some task orders included travel costs and others included per diems. There was a significant variance in the pay rates.</p>	Medium	Management should adhere to WSSC's new Travel Reimbursement Regulation.

Management Response

- Effective September 1, 2017, the current CIO, who joined WSSC in January 2017, voluntarily took the step of restricting travel.
- Management has also asked companies with master contracts to only propose fully loaded rates that include travel costs.

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
3. No Documented Standard Policies and Procedures for IT Consulting Contracts No "HOW TO" procedural document	Medium	Management should develop written standard policies and procedures for the overall process of IT consulting contracts.

Management Response

The IT Department will work with the Finance Department and Procurement Office to draft a set of policies and procedures by March 29, 2019, that are in line with the business practices currently in line for other BOA contracts throughout the Commission.

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
<p>4. Unexplained Pay Increases for Independent Consultants</p> <p>Pay increases ranged from \$5,145 to \$8,320, or 2% to 3.7%, without support</p>	<p>Medium</p>	<p>Management should establish guidelines to limit pay rate increases given to IT consultants.</p>

Management Response

- Effective January 2017, under the current CIO's leadership, IT instituted a 3% cap for all pay increases. The CIO must review and approve rates/ funding increases for each consultant.
- Unexplained increase requests or increases lacking proper documentation are universally denied.

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
<p>5. Lack of adequate controls for IT vendor payments</p> <p>No description of work, unsigned timesheets, overtime pay</p>	<p>Medium</p>	<p>The CIO or his designee should review all IT contractor invoices for accuracy, completeness, and sufficiency.</p>

Management Response

- Effective January 2017, the CIO began reviewing invoices and IT Consultants are no longer permitted to exceed a 40-hour work week without the CIO's prior approval (for each instance/request).
- Additionally, consultants must have a valid purchase order or release and an approved background investigation or waiver in place from WSSC's Police and Homeland Security Division, before commencing work.

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
<p>6. Inconsistent Pay Rates for IT Consultants</p> <p>Pay rates varied from \$35 to \$67 per hour for similar positions</p>	<p>Medium</p>	<ul style="list-style-type: none"> IT management should conduct a comprehensive market analysis on pay rates for IT consultants for each position or function level. IT management should develop an analysis to consider whether it is best to make a permanent hire for work situations that require a long-term effort.

Management Response

In January 2017, under the current CIO's leadership, the IT Department has worked closely with the Procurement Office through Strategic Sourcing Teams and other coordinated efforts to baseline existing consultant hourly rates against market analysis made available through Gartner and other research firms to identify opportunities for renegotiation.

Findings & Management Response (Cont'd.)

Findings	Rating	Recommendations
<p>6. Inconsistent Pay Rates for IT Consultants</p> <p>Pay rates varied from \$35 to \$67 per hour for similar positions</p>	<p>Medium</p>	<ul style="list-style-type: none"> IT management should conduct a comprehensive market analysis on pay rates for IT consultants for each position or function level. IT management should develop an analysis to consider whether it is best to make a permanent hire for work situations that require a long-term effort.

Management Response

The Procurement Office has already used this research to begin conversations with WSSC vendor partners, such as Oracle, about reducing hourly rates. We expect to have this completed by September 30, 2019.

CONCLUSION

Internal controls are effective in mitigating the risks specific to the achievement of business objectives except for observations noted. Opportunities for control enhancement were identified. We have reviewed the results with IT management and a management action plan has been developed. If the recommendations are not implemented, then this could have a negative impact on internal controls, contract costs, and fairness in awarding contracts.

We thank the Chief Information Officer, the IT Contract Administrator, the Acting Chief Procurement Officer, Procurement Division Managers, the Acting Director of Office of Supplier Diversity and Inclusion and all the staff members of each department who assisted with this audit and responded to our requests for information.

QUESTIONS?

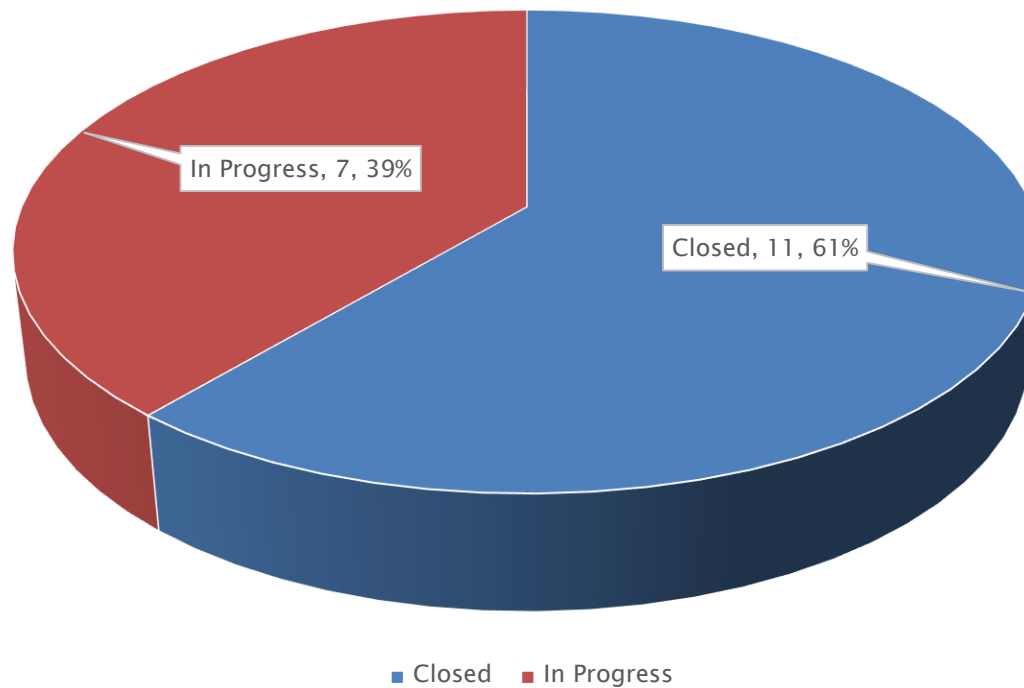
Status Updates

2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Case Status:

Investigation Case Status
2nd Quarter Fiscal Year 2019



2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report (Cont'd.)

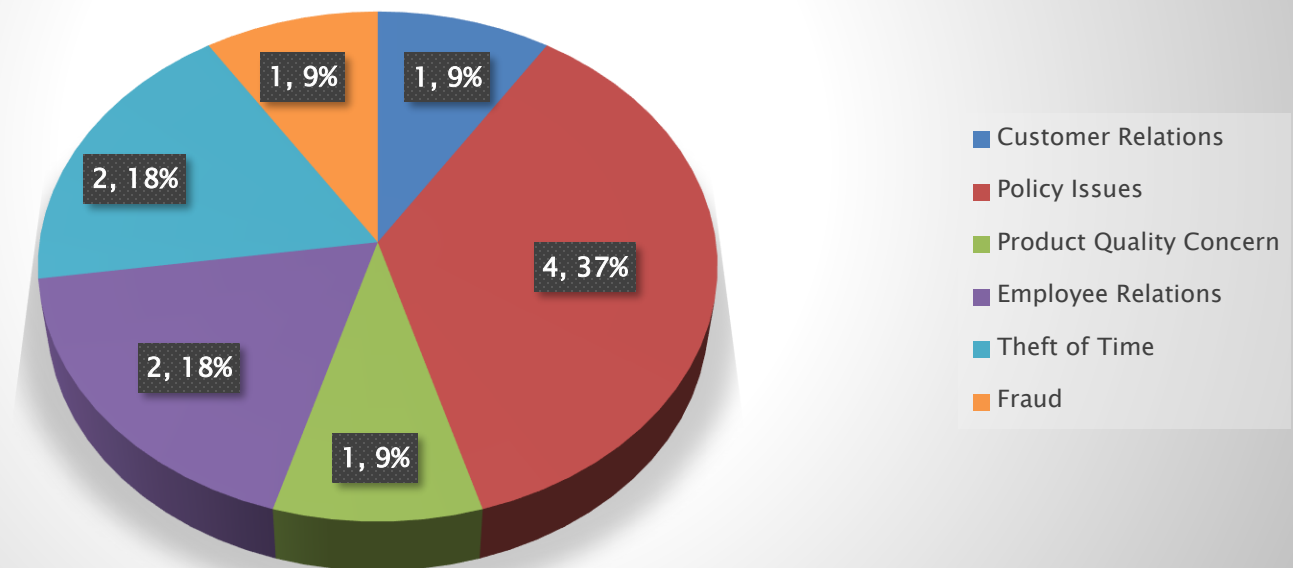
In Progress Cases:

Assignment	Number	Average # of Days in Progress
WSSC Police Department/ Investigations Section	3	25
Ethics Office	1	88
Human Resources Office	1	25
Office of the Inspector General	2	17
Quarterly Total:	7	

2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report (Cont'd.)

Closed Cases:

CLOSED HOTLINE CASES
BY ALLEGATION TYPE
FY 2019 2ND QUARTER



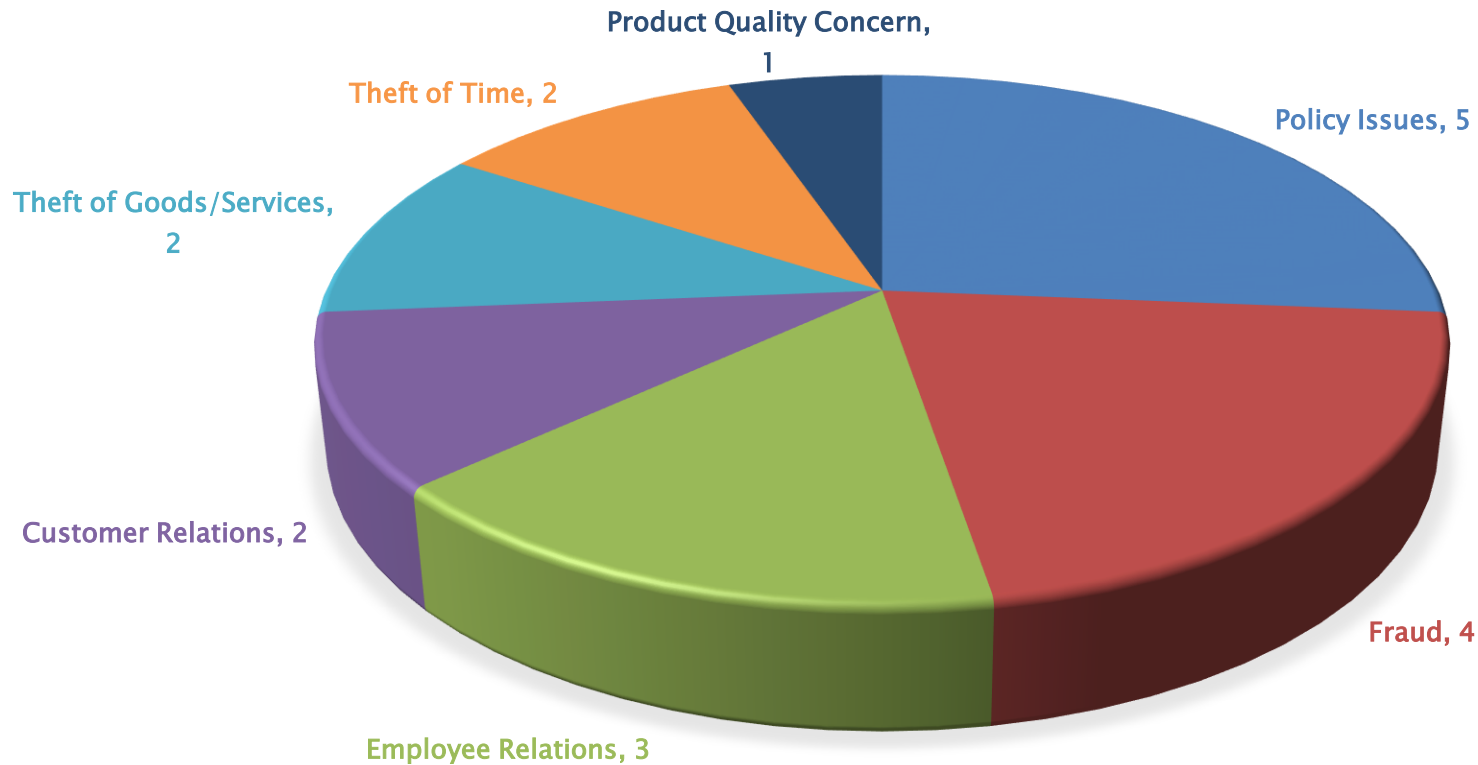
2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report (Cont'd.)

Closed Cases Outcomes:

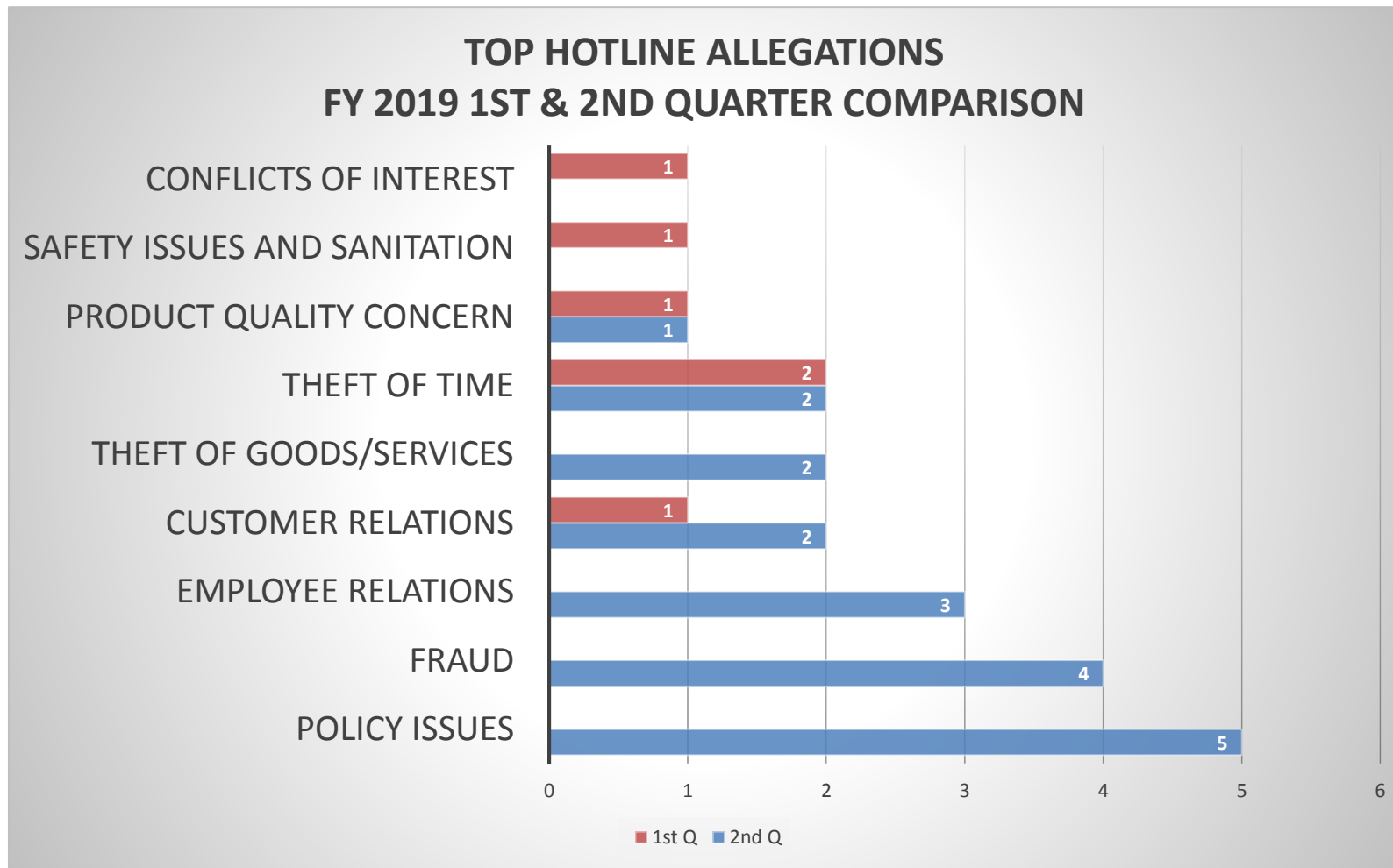
ALLEGATION TYPE	NUMBER	CONCLUSION	DISPOSITION
Policy Issues	4	<ul style="list-style-type: none"> • Management matter • Outside of OIG scope (2) • Possible OIG discretionary audit 	<ul style="list-style-type: none"> • Referred to management • Notified reporting parties • Discretionary audit planned
Customer Relations	1	Possible MPIA request	Notified Corporate Secretary
Asset Misappropriation	1	Management matter	Referred to management
Theft of Time	2	<ul style="list-style-type: none"> • Substantiated • Inconclusive 	<ul style="list-style-type: none"> • Memo to management • No further action taken
Product Quality Concern	1	Management matter	Referred to management
Employee Relations	2	<ul style="list-style-type: none"> • Management Matter • Inconclusive 	<ul style="list-style-type: none"> • Referred to management • No action taken
Quarterly Total:	11		

2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report (Cont'd.)

Top Hotline Allegations Reported:



2nd Quarter FY'19 Fraud, Waste and Abuse Hotline Report (Cont'd.)



QUESTIONS?