

AUDIT COMMITTEE

PROPOSED AGENDA

- A. Open Session
 - 1. Approval of Agenda
- B. Briefing Materials
 - 1. Audit Report(s)
 - *Year-End Payroll Compliance Review – Retro Pay*
 - 2. Status Updates
 - *Follow-up on Management Action Plans*
 - *3rd Quarter FY '19 Fraud, Waste & Abuse Hotline Report*
- C. Other Business
- D. Adjournment
- E. Next Meeting Date

AUDIT REPORTS

www.wsscwater.com/OIG

Audit Reports: Observation Risk Categories

| RISK CATEGORIES | DESCRIPTION |
|--|---|
| HIGH | Critical control weaknesses (i.e., exceptions to regulations, policies, procedures and/or rules). |
| MEDIUM | Control deficiencies which impair the Commission's ability to initiate, authorize, record, process, or report data. |
| LOW | Less significant efficiency and effectiveness control enhancement matters which are captured in management memorandums. |
| Note: Categorization is subject to auditor judgment and other contributing factors | |

YEAR-END PAYROLL COMPLIANCE REVIEW – RETRO PAY

Executive Summary

Background

We performed an annual review of the retro pay process associated with the Washington Suburban Sanitary Commission (WSSC) payroll system. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (*Standards*).

Audit Team:

Janice Hicks – Auditor

Executive Summary (Cont'd)

Objective

To provide management with an independent assessment of the retro pay process, evaluate the related internal controls, and identify improvements, where needed.

Scope

We reviewed all retro pays processed from July 1, 2016 to June 30, 2017. We examined the compensation policies and procedures, personnel data in the Oracle Human Resources Management System (HRMS), and interviewed process owners.

Discussion Draft was issued **November 13, 2018.**

Management's initial responses were received **January 16, 2019.**

Exit Conference held **02/26/19.**

Management's final responses were received **April 19, 2019.**

What is Retro Pay

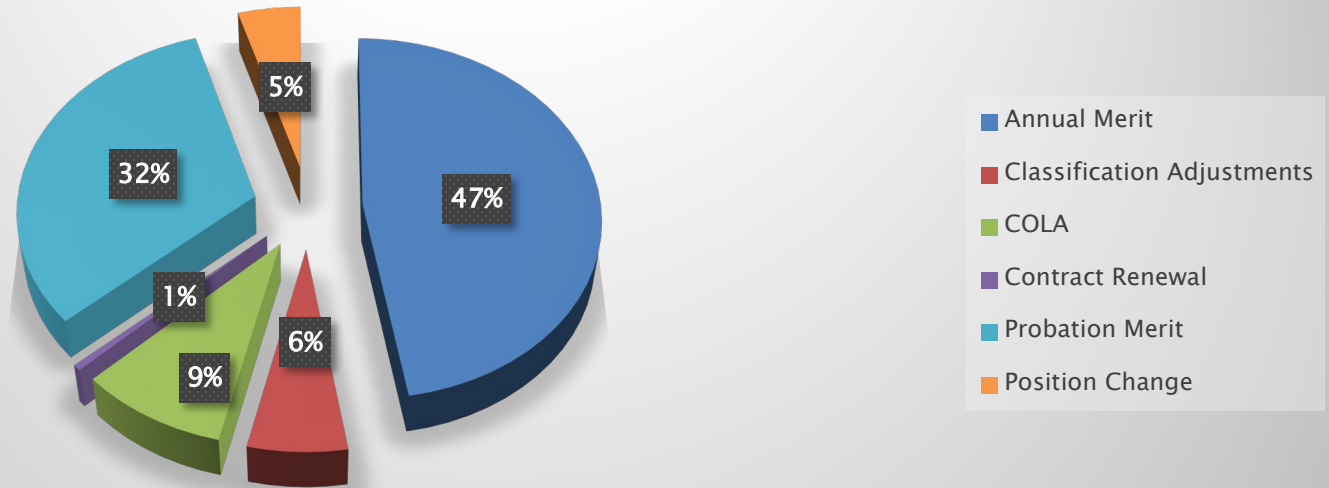
Retro pay allows WSSC to compensate an employee for a financial change that occurred in the past or to correct any identified errors or omissions. Retro pay calculates the dollar amount the employee would have earned based on their current salary, the percentage or amount of the increase, and the effective date.

Findings & Management Response

| Findings | Rating | Recommendations |
|---|---------------|---|
| 1. Under-and Overcompensated Employees | Medium | <ul style="list-style-type: none">• Establish internal controls to monitor changes in pay scales for employees• Review the compensation of all flexible workers to ensure there are no other employees that are under or overcompensated• Automate the multi-year retro pay process |

Types of Retro Pays Processed

FY 2017
Classifications of Retro Pays Processed



During Fiscal Year 2017, the HRD in conjunction with the Payroll Section processed 194 retro pays with a total dollar value of \$79,540.34. Forty-seven percent (47%) of retro pays were attributable to late processing of annual increases and 32% were due to delayed processing of probation merit increases. Additionally, retro pays were also due to Cost of Living Adjustments, contract renewals, position changes, reinstatements, salary adjustments, step increases, and errors.

Findings & Management Response (Cont'd.)

Management agrees with the recommendation and below is the action plan by department to implement the recommendations:

Finance Response:

The Payroll Section has opted to continue manually calculating multi-year retroactive pays and they have been calculated accurately. The Payroll Section is currently working with the IT Enterprise System Division to review and resolve the issues. Due to the resource constraints for Project Cornerstone, we anticipate fully implementing Retro Pay Enhanced by March 31, 2020.

Information Technology Response:

The IT Enterprise System Division responsible for supporting the Oracle platforms (HRMS & Finance) will work with the Payroll Section to ensure the items identified are corrected as soon as possible, but no later than June 30, 2019.

Findings & Management Response (Cont'd.)

Human Resources Response:

The Human Resources (HR) Department has established the following internal controls to monitor changes in pay scales for employees:

- Human Resources (HR) ... requires the salary ranges to be updated in Oracle prior to the Compensation Division manually updating the Classification and Compensation Schedules.
- After the Classification and Compensation Schedules are updated, a HR staff member not involved with the updating process, reviews it and compares it again to the Oracle updates as an additional internal control.

Findings & Management Response (Cont'd.)

Human Resources Response, Cont'd.:

- Management is implementing a checklist for the annual COLA process that will clearly state who is getting a COLA for the upcoming fiscal year (union employees vs. all other employees etc.) and the specific COLA increase amount; each salary schedule will be listed, and the salary scheduled will be checked off as it is updated with the COLA.
- Management is implementing an annual review process where someone other than the person responsible for initially entering personnel changes in Oracle will review at least 5% of the year's processed personnel changes ...

Findings & Management Response (Cont'd.)

Human Resources Response, Cont'd.:

- Management ... evaluating the implementation of accountability measures as it relates to PMPs. I will report back by December 30, 2019 with a status report.

Conclusion

We determined there are no formal policies governing the retro pay process. However, there are documented internal operating procedures. The internal operating procedures include the use of an automated process for generating retro pay adjustments occurring within one year. Additionally, the Payroll Section is working with the Information Technology Department to automate the multi-year retro pay process.

We thank the personnel of the Payroll Section and Human Resources Department for providing documentation, answering questions and handling audit requests in a timely manner.




QUESTIONS?

Status Updates

Office of the Inspector General Follow-up on Management Action Plans

Management Action Plans Dashboard

| Department | Corrective Actions | | | |
|--|---|------|------------|-------|
| | Implemented Pending OIG Verification | Open | Delinquent | Total |
| Finance Department | | 2 | | 2 |
| Police & Homeland Security | | 3 | | 3 |
| Information Technology Department | 7 | 1 | | 8 |
| General Services Department | 11 | 7 | 1 | 19 |
| Utility Services | 1 | | | 1 |
| Office of Supplier Diversity & Inclusion | 1 | | | 1 |
| Procurement Department | 1 | 1 | | 2 |
| Production Department | 3 | 1 | | 4 |
| TOTAL | 24 | 15 | 1 | 40 |

| Color Key | |
|--|--|
|  | Remediation is due within 30 days for at least 1 issue. |
|  | Remediation is due within 31-60 days for at least 1 issue. |
|  | Management action plan is overdue |

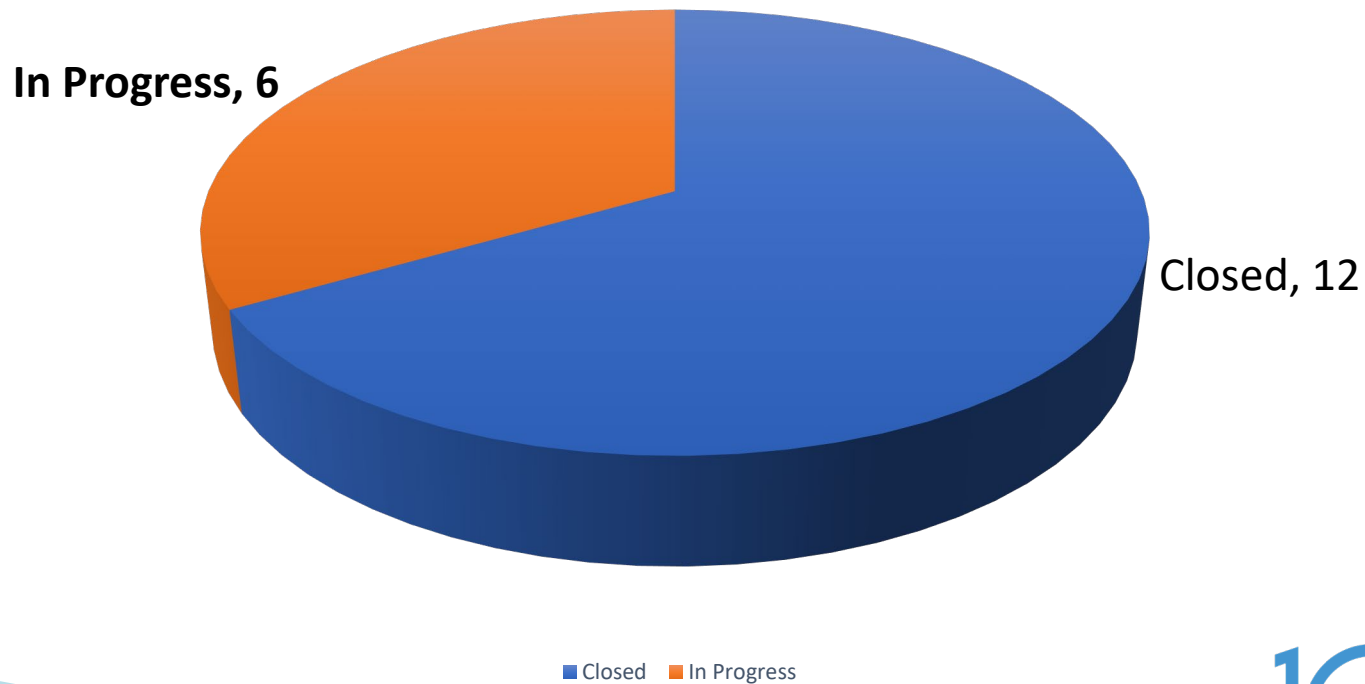
QUESTIONS?

3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Case Status:

Investigation Case Status
3rd Quarter Fiscal Year 2019



3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

In Progress Cases:

| Assignment | Number | Average # of Days in Progress |
|---|--------|-------------------------------|
| WSSC Police Department/ Investigations Section | 1 | 194 |
| Ethics Office/Board of Ethics | 2 | 112 |
| Equal Employment Opportunity Office | 1 | 9 |
| OIG Audit Division | 2 | 158 |
| Quarterly Total: | 6 | |

3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Closed Cases Outcomes:

| ALLEGATION TYPE | NUMBER | CONCLUSION | DISPOSITION |
|------------------------------|-----------|--|--|
| Customer Relations | 3 | <ul style="list-style-type: none"> Unsubstantiated. Telephone spoofing not supported. Identified management matter alleging higher than usual water bill. Unsubstantiated. Allegation involving a gas appliance inspection. | <ul style="list-style-type: none"> No further action taken. Referred to the Customer Service Department. Management notified customer about WSSC's gas appliance inspection policy. |
| Theft of Goods/Services | 3 | <ul style="list-style-type: none"> Unsubstantiated. Theft of water allegation (2 @ the same address). Identified management matter involving new travel tool. | <ul style="list-style-type: none"> Homeowner hired contractors performing required work. Management is evaluating WSSC's Travel Regulation. In the interim, DGMs are granting exceptions from using the travel tool for cost differences greater than 10% that are considered to be hardships. |
| Safety Issues and Sanitation | 2 | <ul style="list-style-type: none"> Alleged dangerous storm drain located outside of the Washington Suburban Sanitary District. Discharging of water from a house onto a public sidewalk is making the sidewalk dangerous due to ice formation. | <ul style="list-style-type: none"> Referred reporting party to the Montgomery County Department of Public Works. Contractor redirected water away from the public sidewalk. |
| Asset Misappropriation | 2 | <ul style="list-style-type: none"> Inconclusive. Questionable contractor mileage reimbursement requests. Suspected check tampering is being investigated by external authorities. | <ul style="list-style-type: none"> Memo to management in progress for actionable items. Handled by external bank investigators. |
| Policy Issues | 1 | Financial accounting matter. | Referred to external auditors. |
| Wage/Hour Issues | 1 | Identified management wage decision. | Referred to appropriate management. |
| Quarterly Total: | 12 | | |

3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Closed Cases Outcomes, Cont'd.:

| ALLEGATION TYPE | NUMBER | CONCLUSION | DISPOSITION |
|--------------------|--------|--|--|
| Customer Relations | 3 | <ul style="list-style-type: none">Unsubstantiated. Telephone spoofing not supported. | <ul style="list-style-type: none">No further action taken. |

- Spoofing is the act of disguising a communication from an unknown source as being from a known, trusted source. (www.forcepoint.com/cyber-edu/spoofing)
- The reporting party's caller I.D. allegedly displayed WSSC, but when the individual answered the phone, it was allegedly a non-WSSC sales call.
- Investigated by the WSSC Police Department's Investigations Section.
- Unsupported claim.
- No additional complaints were received with a similar allegation.

3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

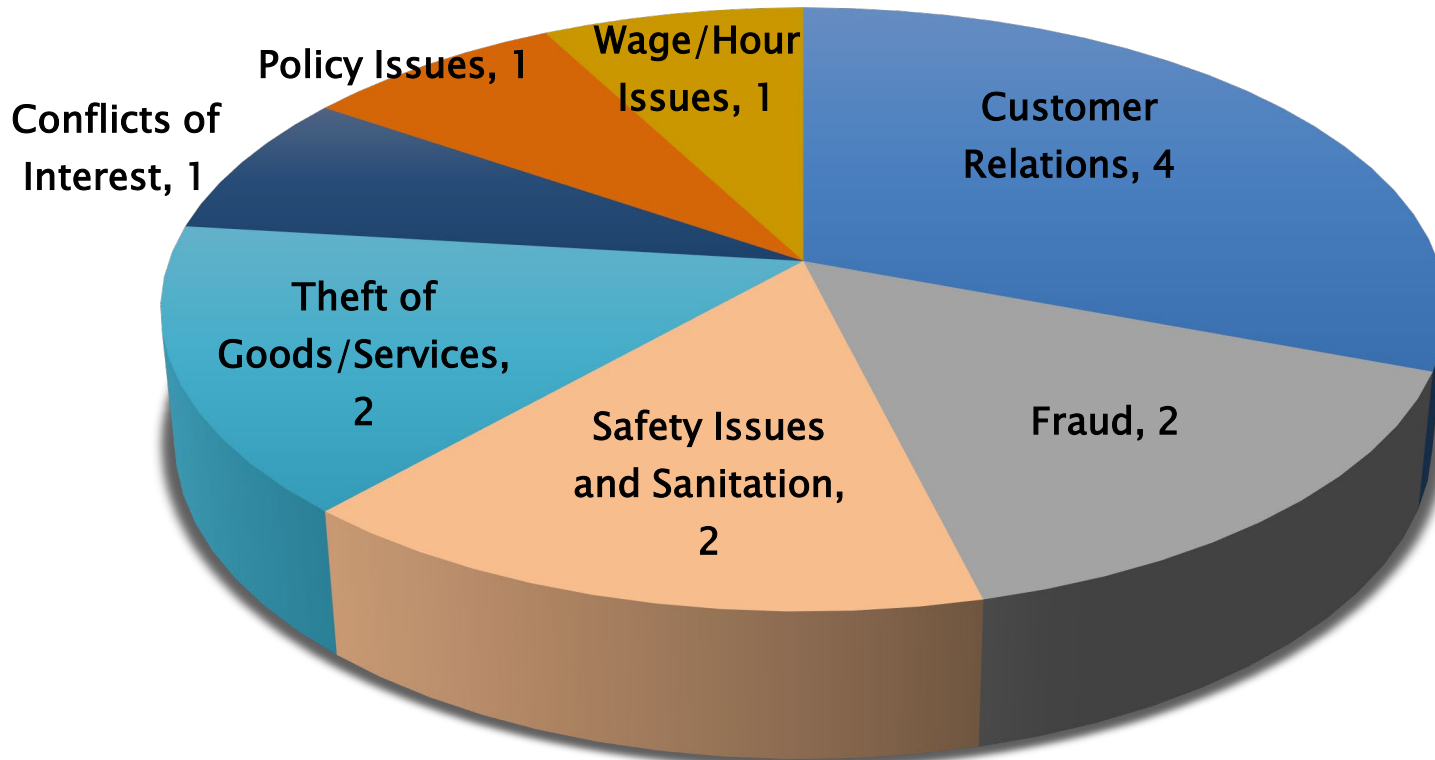
Closed Cases Outcomes, Cont'd.:

| ALLEGATION TYPE | NUMBER | CONCLUSION | DISPOSITION |
|-------------------------|--------|---|---|
| Theft of Goods/Services | 3 | <ul style="list-style-type: none">Identified management matter involving new travel tool. | <ul style="list-style-type: none">Management is evaluating WSSC's Travel Regulation. In the interim, DGMs are granting exceptions from using the travel tool for cost differences greater than 10% that are considered to be hardships. |

- The reporting party alleges “WSSC is paying more for services than can be had on the open market because of the new travel regulations.”
- Before the investigation commenced, management implemented an interim fix to the issue:
 - Working group to evaluate WSSC’s Travel Regulation
 - Case-by-case exceptions to be granted by DGMs

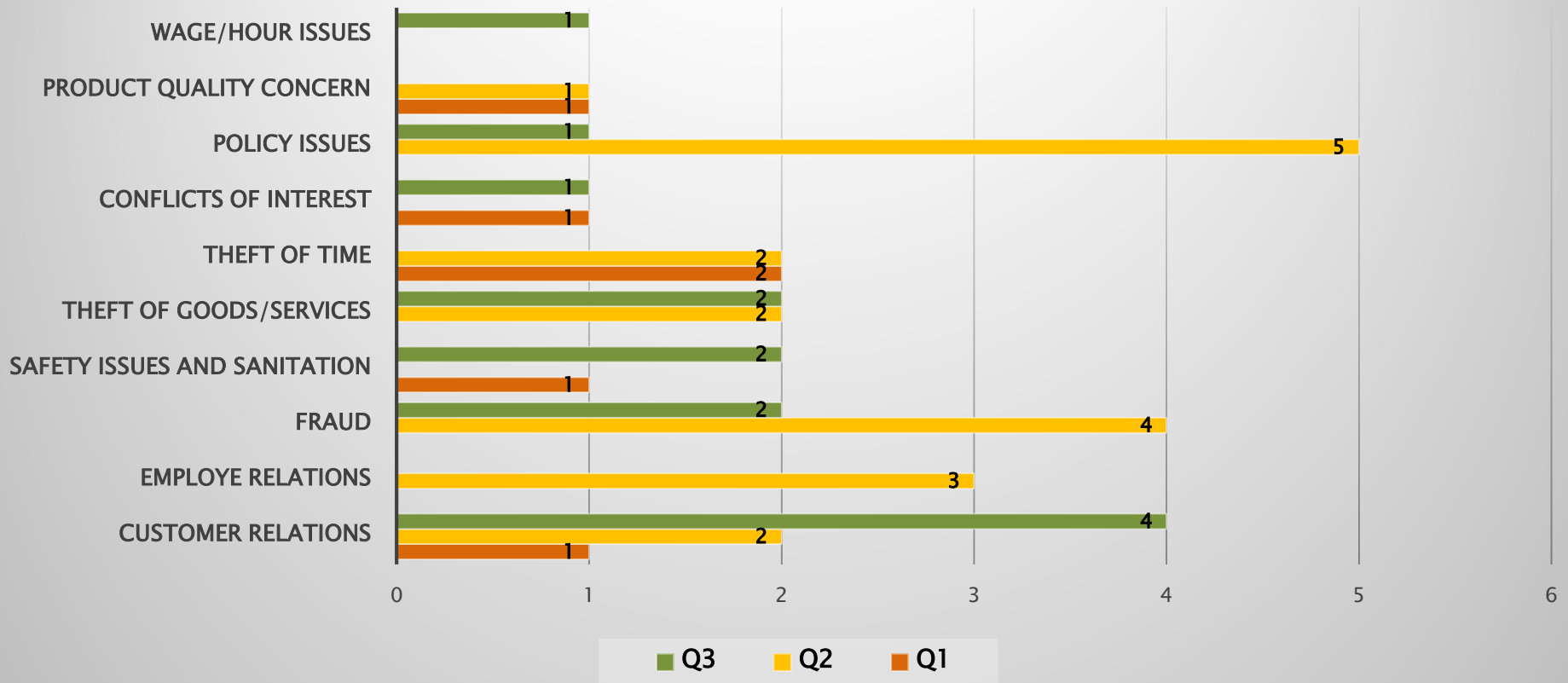
3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Top Hotline Allegations Reported:



3rd Quarter FY'19 Fraud, Waste and Abuse Hotline Report

Top Hotline Allegations Fiscal Year 2019 Quarter Comparison



QUESTIONS?