



INTERNAL AUDIT OFFICE

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FISCAL YEAR 2014  
**ANNUAL REPORT**  
(July 1, 2013 – June 30, 2014)

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*“Oversight that inspires stakeholder confidence . . . ALWAYS”*

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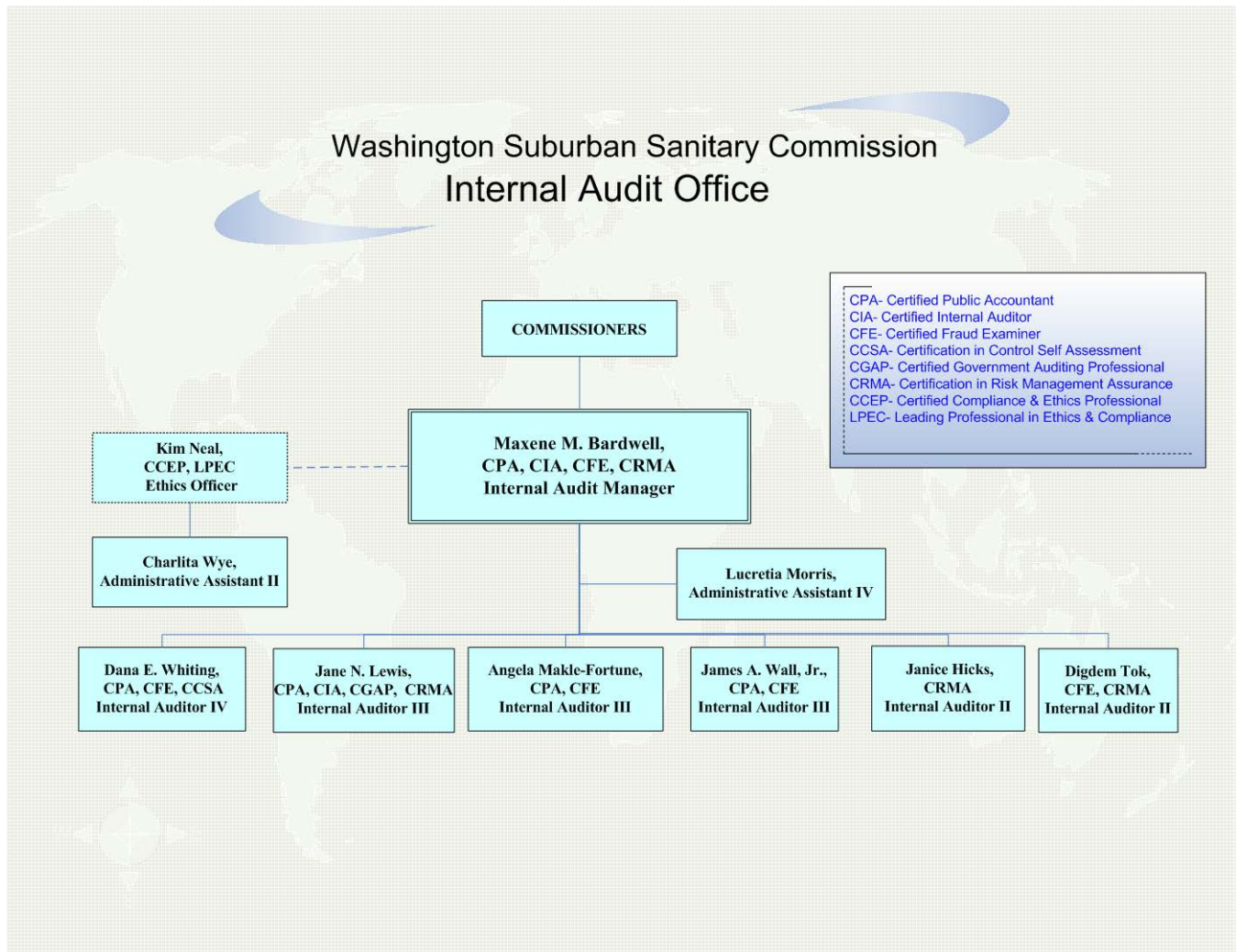
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## OUR HISTORY

Established in 1972 by the Washington Suburban Sanitary Commission (WSSC), the Internal Audit Office (IAO) has been in existence for more than 40 years. The IAO was established to provide independent, objective assurance and advisory services. Together, these services evaluate and improve the Commission’s risk management, control, and governance operations, which are essential to achieving organizational goals and objectives efficiently, effectively, economically, and ethically.

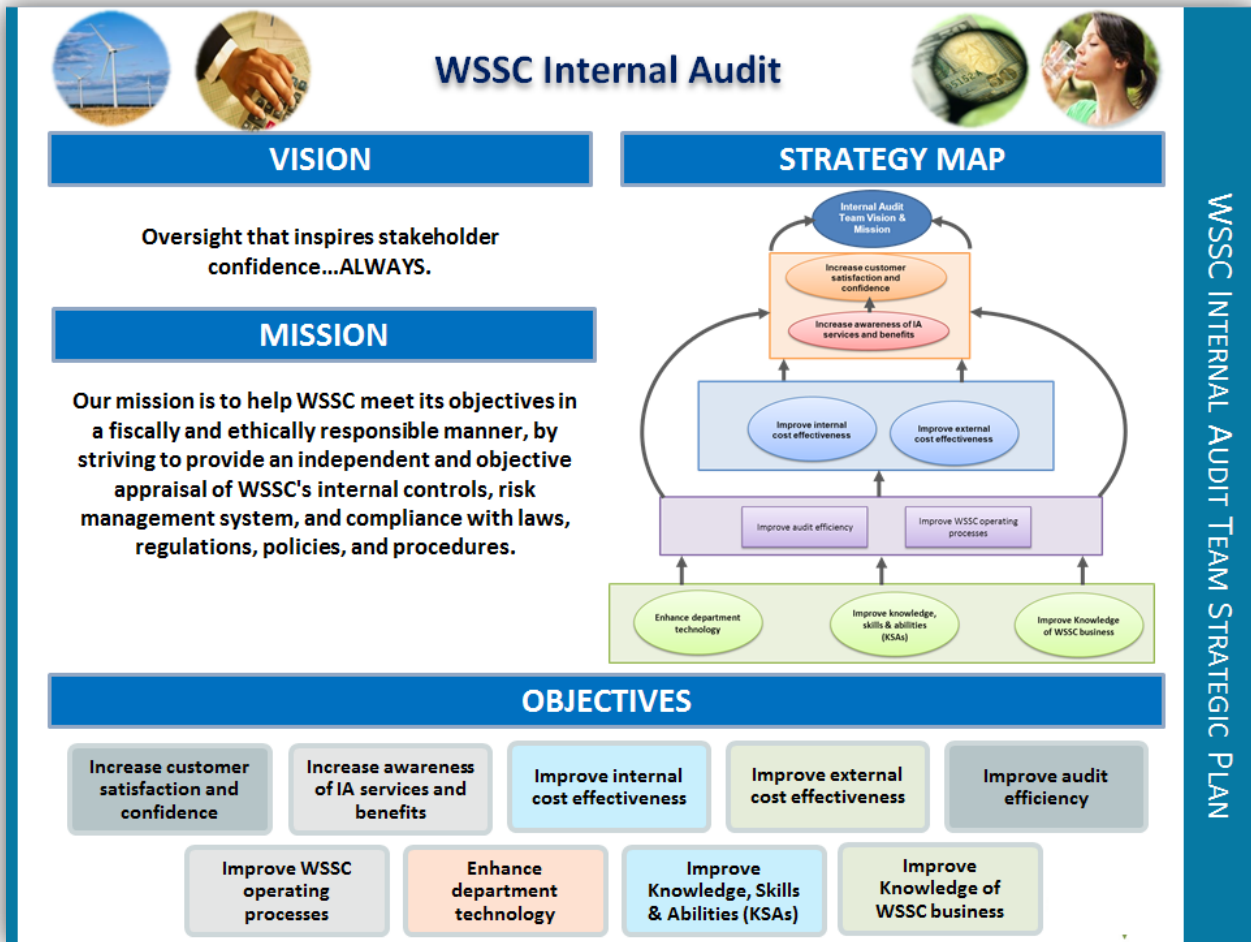
To ensure independence, IAO personnel report to the six-member body of Commissioners (also known as the Commission). This reporting relationship ensures independence, promotes comprehensive audit coverage, and assures adequate consideration of audit recommendations. The establishment of the WSSC Audit Committee in Fiscal Year (FY) 2014 will help to strengthen the Internal Audit function.



## OUR PURPOSE/ROLE

The authority and responsibilities of the IAO are spelled out in Standard Procedure IA 90-01 (a.k.a. our Audit Charter). In accordance with this Procedure, the Internal Audit Manager and IAO staff is authorized full and unrestricted access to all WSSC activities, records, property, and personnel. To ensure our independence, the Internal Audit Office is recognized as a support function that has no direct responsibility or authority over any activities audited or reviewed.

Our vision, mission, strategy, and objectives are disclosed below in our strategic plan.



## EXECUTIVE SUMMARY

The Washington Suburban Sanitary Commission’s (WSSC) Internal Audit Office (IAO) continues to provide value-adding assurance and consulting services for the Commission’s internal and external stakeholders.

Over the course of FY 2014 we completed or initiated several audit projects, spearheaded the establishment of the Commission’s first Audit Committee, issued a fraud survey, rolled out Phase I of our automated risk assessment process, and enhanced awareness of the Ethics Program. We continue to provide reviews of developer reimbursement requests for system development charges (SDCs) audits, which resulted in noticeable cost savings.

Our ability to bring a systematic, disciplined approach to evaluate and improve the effectiveness of WSSC’s risk management, control, and governance processes is at the root of our commitment to service. The table below provides a two-year glimpse of our key performance indicators, which are categorized into four bands: 1) customer, 2) financial, 3) people, and 4) process.

Customer			FY'13	FY'14	
	KPI	Target	Actual	Actual	Variance
	Avg. Percent of Satisfied Clients	90%	100%	100%	
	% of Audit Recommendations Accepted	80%	100%	100%	
	Average # of Days from Management Implementation to Audit Verification	30 Days	68.5 Days	8.2 Days	-60.3 Days
<b>Financial</b>					
	KPI	Target	Actual	Actual	
	SDC Reimbursements Requests Actual Fiscal Year Cost Savings	\$500,000	\$729,696	\$1,741,360	+\$1,011,934
	Blue Plains O&M Billings Final Adjustments Savings*	\$1,000,000	N/A	N/A	
<b>People</b>					
	KPI	Target	Actual	Actual	
	Number of Auditors with Required Professional Certifications	71%	100%**	100%**	
	Annual Completion of 40 Continuing Professional Education (CPE) Hrs.	100%	100%	100%	
<b>Process</b>					
	KPI	Target	Actual	Actual	
	% of Carryover Assurance Projects	75%	56%	50%	-6%
	% of Assurance Projects Completed ≤ Budgeted Hrs. and/or within Fiscal Year	25%	44%	50%	+6%

\* Audit is performed on a biennial-basis

\*\*Exceeds certification requirements

The various strategies we use to measure our performance also incorporate our professional standards. The specific meaning and further explanation of the results follow.

Customer (*Strategy for creating value for our customers*) – Our audit clients have consistently shown their approval of our level of service. During FY 2014 we did not encounter any rejections of audit recommendations. Additionally, our turnaround time between receiving notification of management action plan implementation and audit verification was reduced tremendously (by 60 days). We attribute this drastic decrease to audit management software upgrades (which enabled the breakdown of audit observations into segments). Moreover, we experienced a reduction in the number of action plan due date changes.

Financial (*Strategy for financial savings as viewed by our stakeholders*) – We continue to save the Commission and its stakeholders noticeable dollars with the combination of financial savings from our Blue Plains operations and maintenance audits; as well as SDC reviews. The Blue Plains Operations and Maintenance Audit was carried over into FY 2015 due to scope increase (the addition of FY 2013 billings data). The fieldwork for this audit is complete; but adjustments are currently being finalized. SDC reviews resulted in a total savings of \$1,741,360<sup>1</sup>.

People (*Strategy that supports change, innovation, and growth*) – Internal auditors continuously met or exceeded in this category, which signifies the level of effort we put forth to keep current with trends in our profession, as well as enhance our skill sets to provide world class services to our audit clients. During FY 2014 as an added condition of employment, the CFE credential became mandatory for all Internal Auditors to earn within a 36 months. This strategic measure will ensure that all WSSC Fraud, Waste and Abuse Hotline investigations handled by the Internal Audit Function are conducted and/or reviewed by CFEs. The CFE credential denotes proven expertise in fraud prevention and detection. Presently, all internal auditors have earned one or more of the following certifications (as indicated on the IAO Page 3 organizational chart): Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Government Auditing Professional (CGAP), Certification in Control Self Assessment (CCSA), and Certification in Risk Management Assurance (CRMA). Additionally, the Ethics Officer holds professional credentials as a Certified Compliance & Ethics Professional (CCEP) and Leading Professional in Ethics + Compliance (LPEC).

Process (*Strategy for internal audit processes that creates value for stakeholders*) – We strive to complete our audits within our budgeted available audit hours and approved audit plan each fiscal year. However, it is customary to experience challenges in the years when first-time and Blue Plains audits occur, as well as when Hotline investigations take priority. This fiscal year we successfully achieved our target goals in this area by reducing the number of carryover audit projects and increasing the number of audits completed within budget by 6% each.

## COMMISSION-WIDE RISK-BASED AUDIT PLANS

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Fiscal Year 2014 marks the sixth year that we have been conducting Commission-wide risk-based audits. Taking a Commission-wide approach to assessing risk has enabled Internal Audit to focus its limited resources on the highest risk areas of the Commission.

The risk assessment is a systematic process for assessing and integrating professional judgments about the probability of adverse conditions and/or events. The process provides a means to organize these judgments so that they may be used to assist in developing an audit schedule that helps the Commission obtain its objectives. A vital part of the process entails gathering information from the senior and mid-level managers of the Commission and assessing the relevant risk factors and weighting them through defined impact and probability calculations. During FY 2014 Phase I of our automated risk self-assessment process was rolled out to executive leaders.

The Fiscal Year 2014 risk assessment led to audits in the areas of Customer Care and Information Technology. Several carryover audits were completed during the reporting year: Laboratory Service and Materials Management Group Audits as well as the Consent Decree Compliance Audit.

Our risk-mitigating audit recommendations resulted in the following policy changes during this fiscal year:

<b>Audit Name</b>	<b>Risk Classification</b>	<b>Policy Changed or Created</b>	<b>Impact</b>
HR Phase I	High	5:03 Family Medical and Military Caregiver Leave Policy Change	Non-regulation updated to reflect current and best practices
HR Phase I	High	5:08 Military Leave, Rights & Benefits Policy Change	Non-regulation updated to reflect current and best practices
HR Phase I	High	Workers’ Compensation Policy Change	Non-regulation updated to reflect current and best practices
HR Phase II	Low	2:34 Harassment, Employment Discrimination and Retaliation Policy Change	Non-regulation updated to reflect current and best practices
HR Phase II	Low	2:32 Equal Employment Opportunity Policy Change	Non-regulation updated to reflect current and best practices
HR Phase II	Low	1:08 Employment Procedures Change	Non-regulation updated to reflect current and best practices
HR Phase II	Low	Nursing Mothers Created	Non-regulation created to adhere to workplace accommodation standards
Sick Leave Bank	High	Sick Leave Bank Policy Change	Non-regulation updated to reflect current and best practices
Sick Leave Bank	High	Sick Leave Bank Policy Change	Non-regulation updated to reflect current and best practices

This impact analysis is an indication of the often qualitative value we add to the Commission and its stakeholders. Additionally, we continue to provide consulting/advisory services by providing advice during various Commission projects from an internal control perspective, including advice on operational policies and procedures. Some projects that we served as advisors on this year include the Claims Management System, Social Media, Learning Management System (LMS), Internal Security Task Force, TEAMS Implementation, Records Retention, Continuity of Operations (COOP), Vulnerability Assessment, and Disaster Recovery Testing.

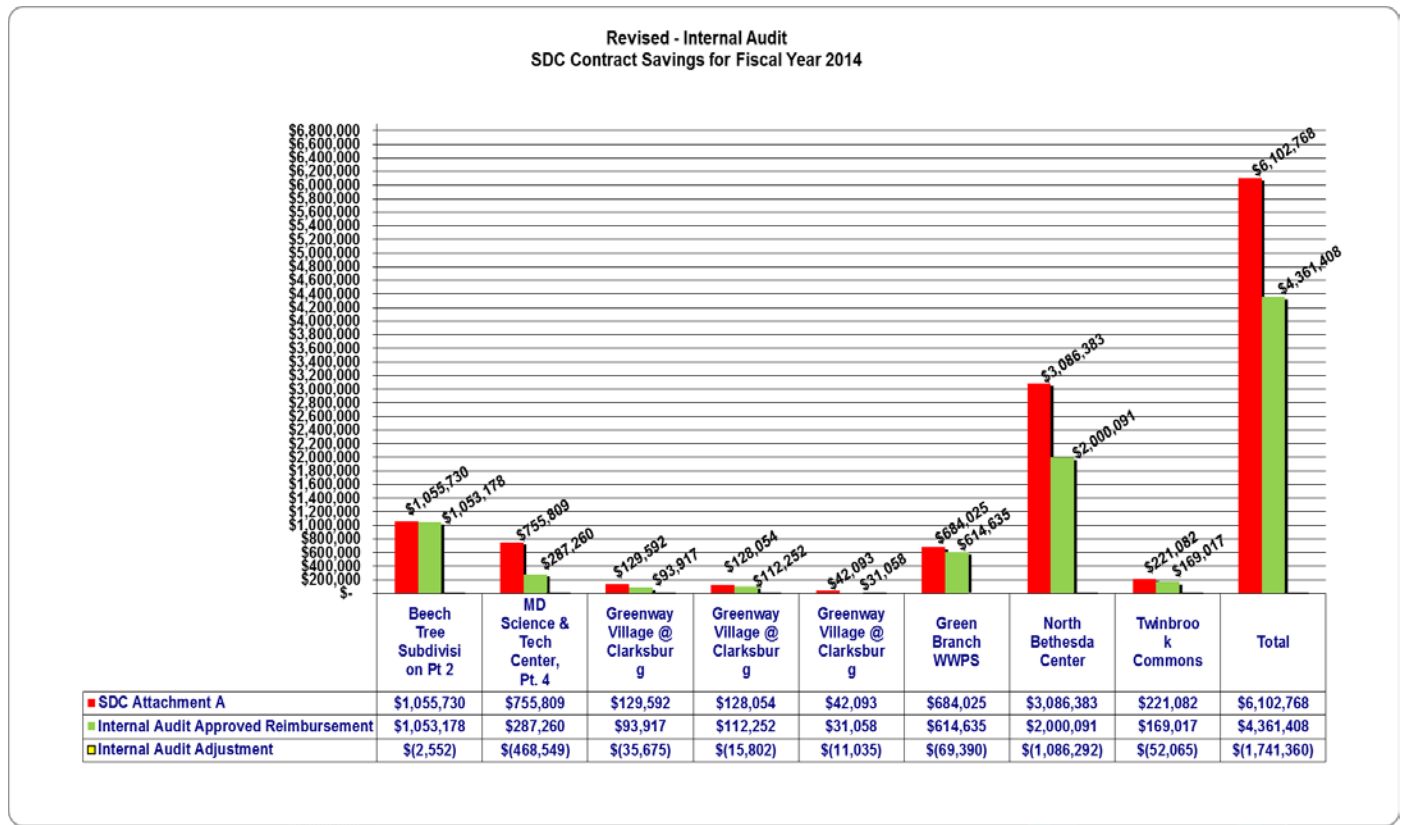
Although our focus appears to be on WSSC’s operations, those operations are designed to achieve the Commission’s strategic objectives. Helping the Commission identify more efficient, effective, and economical ways to obtain those objectives, in turn, helps the IAO function achieve its aforementioned mission. Yet, our actions that result in financial savings to the Commission and its stakeholders must also be noted as they are an essential part of our operations.

## BLUE PLAINS INTERMUNICIPAL AGREEMENT (IMA) AUDITS

We conduct bi-annual audits, which lead to credits to the quarterly billings WSSC prepays in advance of the actual expenses incurred for its share of the Blue Plains Wastewater Treatment Plant operated by DC Water. An audit was initiated during this reporting period for fiscal years 2011 and 2012. However, due to a scope change to include fiscal year 2013, more audit hours were added and resulted in a carryover to FY 2015.

## SDC AUDITS

Our SDC audits of developer costs incurred to cover the cost of building Capital Improvement Program Projects needed to accommodate growth has led to thousands of dollars in adjustment savings. Throughout each fiscal year we routinely receive written requests to perform system development charges audits from the Washington Suburban Sanitary District (WSSD) developer community. This fiscal year, we helped save the Commission and its stakeholders \$1,741,360<sup>1</sup> through SDC reviews alone. This is an increase of \$1,011,934 when compared to actual FY 2013 SDC financial savings.





## FRAUD SURVEY

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The IAO distributed a fraud survey to Commission employees during the month of May. We received 209 responses. The following is a brief summary of the survey results:

1. 69% either disagreed or strongly disagreed that their respective Team/Group/Unit/Area suffered from fraud in the last three years.
2. 67% either disagreed or strongly disagreed that their respective Team/Group/Unit/Area suffered reputational damage.
3. 32% neither agree nor disagree that they believe fraud is a serious problem for WSSC. Another 25% disagree that fraud is a serious problem.
4. 37% agree that their respective Team/Group/Unit/Area is properly protected against fraud. 29% neither agree nor disagree with that statement.
5. 41% neither agree nor disagree that their respective Team/Group/Unit/Area employs an in house or external specialist resource to protect my Team/Group/Unit/Area against fraud and prevent fraud from happening.
6. 28% of employees both disagree and agree that they are concerned about the possibility of fraud affecting my Team/Group/Unit/Area.
7. 41% of employees agree that WSSC has an established process for oversight of fraud risks by the Commissioners or others charged with governance.
8. 51% of employees neither agree nor disagree that WSSC has created “ownership” of fraud risks by identifying a member of senior management as having responsibility for managing all fraud risks within the organization and by explicitly communicating to business unit managers that they are responsible for managing fraud risks within their area.
9. 44% of employees believe WSSC has implemented an ongoing process for the regular identification of significant fraud risks to which it is exposed.
10. 40% of employees believe WSSC has established a process to detect, investigate and resolve potentially significant fraud.
11. 46% of employees know where to go to report suspected fraud.

Based on these results, the IAO will take action to increase fraud reporting and awareness during FY 2015.

## FRAUD, WASTE AND ABUSE HOTLINE

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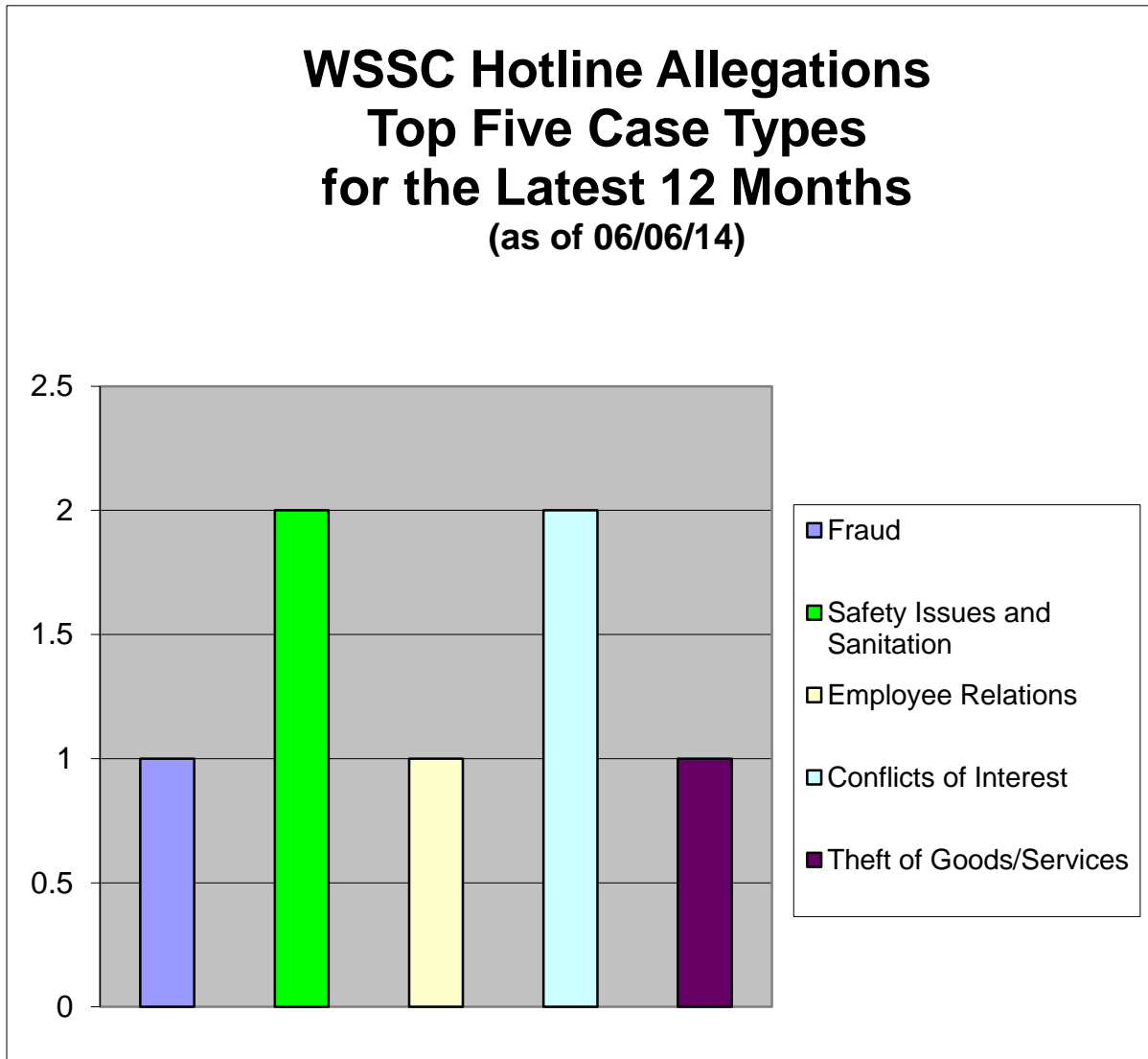
The WSSC Fraud, Waste and Abuse Hotline is available to all internal and external stakeholders 24 hours a day, 7 days per week, and 365 days per year. Hotline investigations are handled by a group of individuals called the Hotline Response Team, which includes Certified Fraud Examiners from the IAO, WSSC Police Investigators, and other individuals who have obtained the experience or training necessary to conduct such examinations relative to their respective areas such as fair practice. These individuals also receive requisite training throughout each fiscal year to ensure best practices for Hotline investigations are administered.



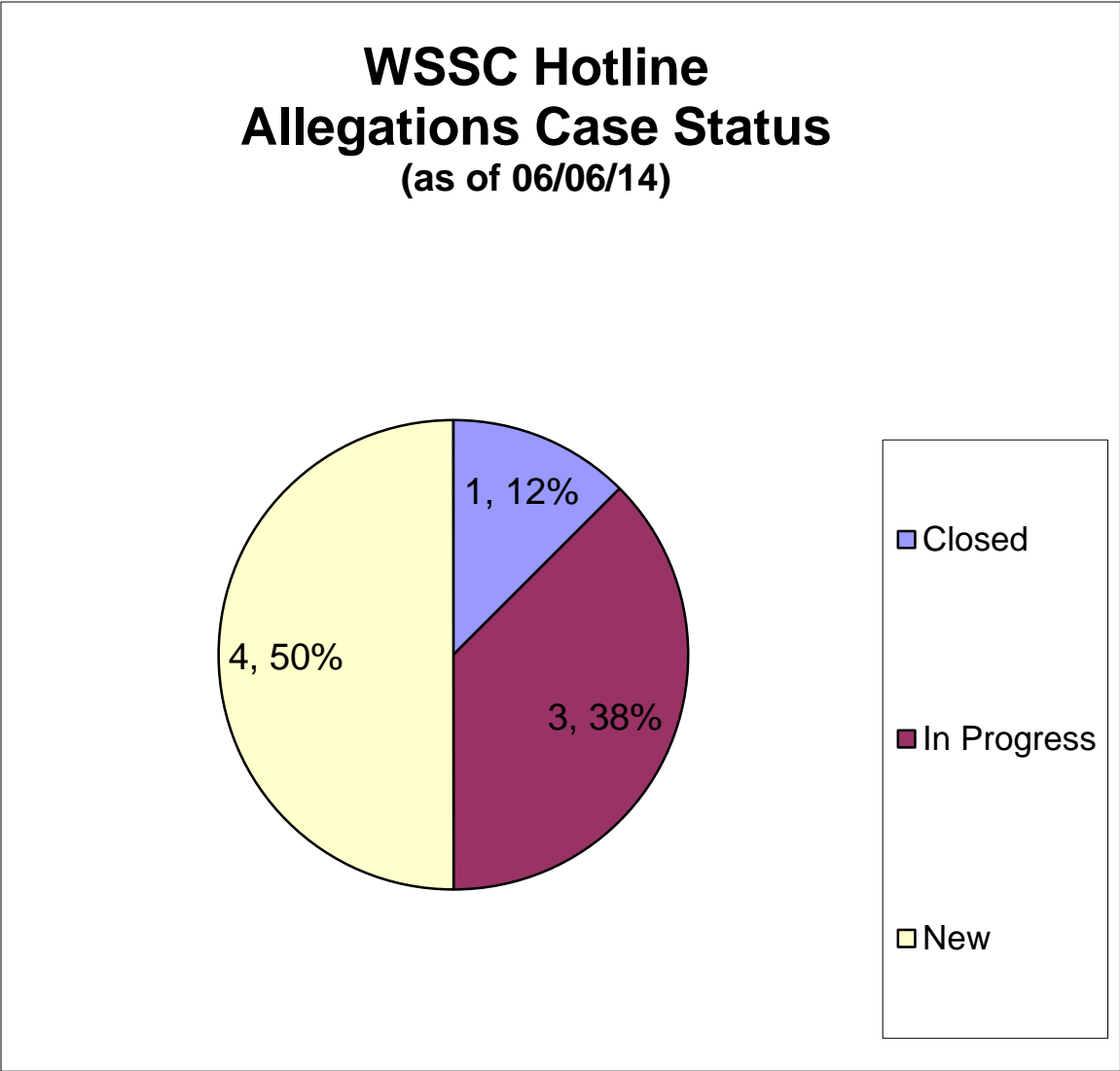
According to the Commission’s Hotline provider, The Network, during calendar year 2013, its intake specialists received one hundred twenty-six (126) calls. Fifteen (15) were caller callbacks. Fifty-four (54) were client follow-up.

Twenty (20) calls were general inquiries that did not result in completed reports, such as hang ups, wrong numbers, etc. Thirty-seven (37) of those calls resulted in incident reports. Nineteen of the incident reports (19) were anonymous reports and eighteen (18) were non-anonymous reports.

Hotline statistics as of June 06, 2014 are as follows:



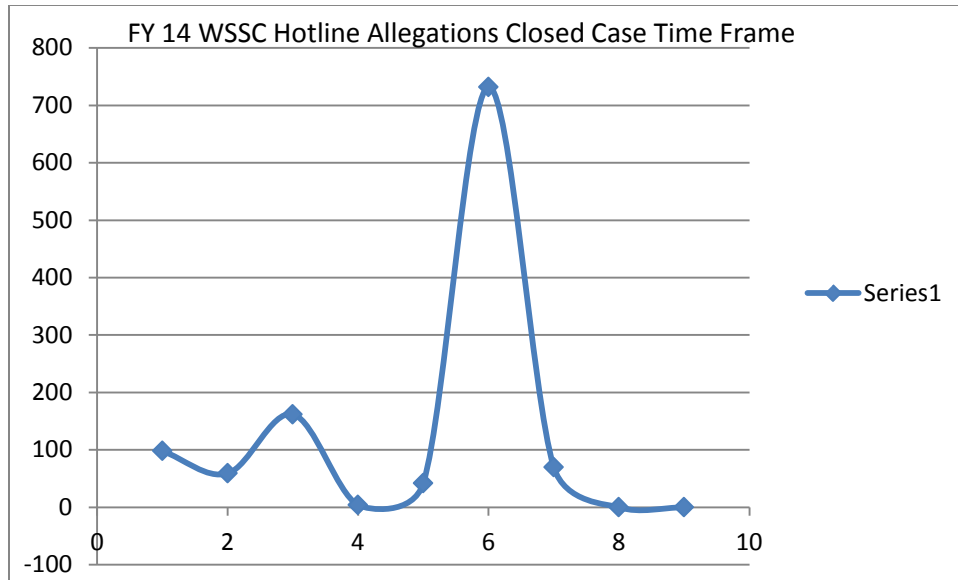
As of 06/06/14, WSSC Hotline cases are classified as follows: three (3) in progress, four (4) new, and one (1) closed.



NOTE: All cases placed on hold will be closed after 30 days if no additional information provided.

**Closed Cases Timeframe:**

As of June 30, 2014, sixty-five (65) cases have been closed since the Hotline launched. Hotline investigations are averaging 69 calendar days from commencement to closure. This is an average increase of 14 calendar days from FY 2013 statistics due to one multi-year case that consisted of extraordinary circumstances. The average number of days from open to close during FY 2014 is 165 due to the aforementioned multi-year case (See chart below). The bulk of closed cases are operational as they relate to Commission policies and procedures compliance. A noticeable trend in the operational allegations reported is related to the accuracy of employee time and attendance. Never the less, the IAO continues to conduct bi-weekly payroll reviews to address apparent anomalies.



**Closed Case Resolution for FY 2014:**

- Unsubstantiated: 7 (88%)
- Substantiated: 1 (12%) and with recommended corrective action

**ETHICS OFFICE**

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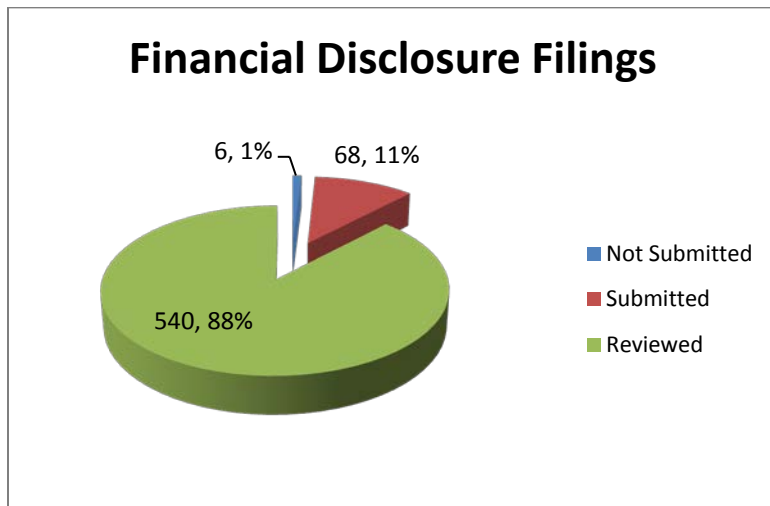
The Ethics Office was established in 2010 to enhance the WSSC’s Ethics Program activities. The Ethics Office currently consists of two less-than-full-time employees—an Ethics Officer and an Administrative Professional. Ethics Program activities and initiatives continue to demonstrate our level of commitment to the promotion of ethical behavior in the workplace as well as support of the Commission’s Board of Ethics. Ethics Program highlights include:

- Implemented a new annual disclosure filing system for Commission employees
- Conducted an employee ethics survey
- Promoted a Lobbyist awareness campaign
- Enhanced Code of ethics training
- Targeted modification of the WSSC Code of Ethics
- Promoted Corporate Compliance and Ethics Week
- Authored Ethics & Compliance in Focus newsletters for Commission employees
- Authored several ethics articles for WSSC employee newsletter Fish Tales
- Code of Ethics training was provided 22 live sessions in FY 2014 at all plants, depots and RGH. The training included live skits performed by WSSC Employees.
- Provided periodic Ethics and Compliance communications to all management to increase awareness
- Published comprehensive list of entities regulated by WSSC

- Authored handout entitled: “Ethics Guidance for Exiting Employees or Employees Considering Other Employment”
- Created “Non-Conflict of Interest Form” for interview panels, administered by HR, Employment Group
- Produced Ethics awareness posters, displayed throughout Commission
- Commenced training of all Student Interns and their completion of annual conflict of interest statements

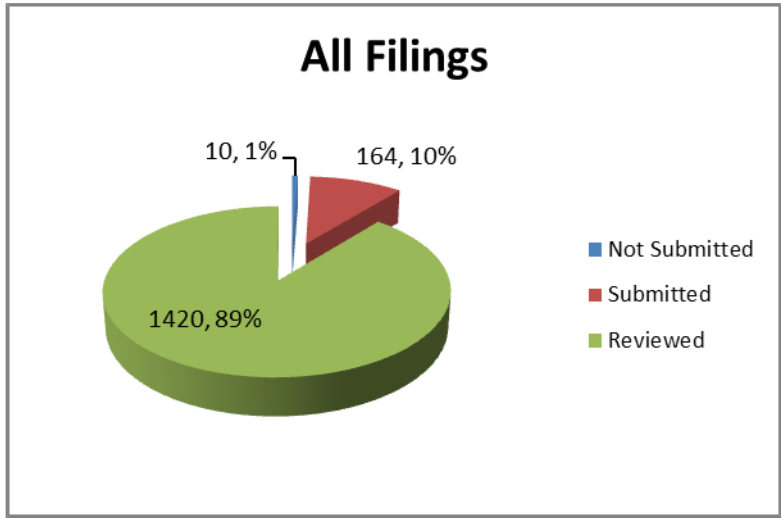
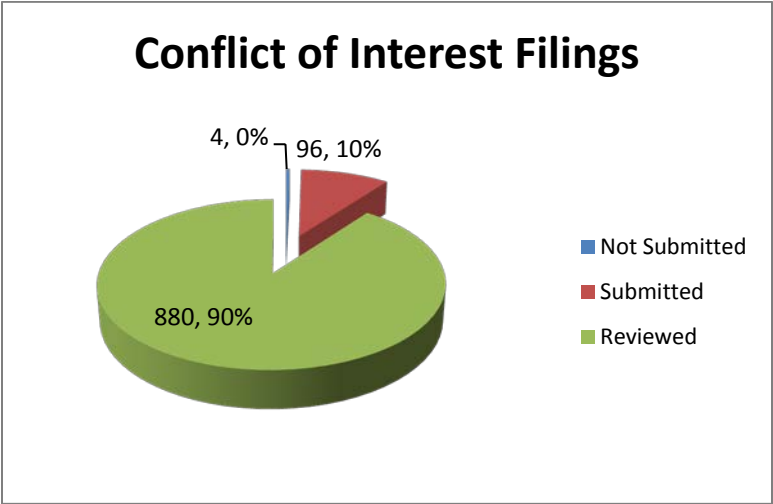
The percentage of employees trained on WSSC’s Code of Ethics continues to be about 98% of the WSSC workforce. One hundred percent of new hires are trained. If they miss their initial New Employee Orientation (NEO), we follow-up with Human Resources (HR) and if needed, the employee’s manager will be contacted to ensure the employee attends.

The charts below depict the results of annual disclosure filings. Note, all ten (10) not submitted filings are employees who are new, recently returning from extended leave, or recently had filing status changed to Financial Disclosure. This does not include twenty-one (21) inactive (deferred) employees.



<u>Financial Disclosure</u>		
Not Submitted	6	1%
Submitted	68	11%
Reviewed	540	88%
	614	

<u>Conflict of Interest Filings</u>		
Not Submitted	4	0%
Submitted	96	10%
Reviewed	880	90%
	980	



<u>All Filings</u>		
Not Submitted	10	1%
Submitted	164	10%
Reviewed	1420	89%
	1594	

## INTERNATIONAL INTERNAL AUDIT AWARENESS MONTH

In recognition of International Internal Audit Awareness Month, members of the IAO hosted an outreach event on May 14, 2014, to educate Commission employees about the services we offer. During the Ceremony the General Manager/Chief Executive Officer, Jerry Johnson, presented the IAO with a proclamation to declare the month of May as International Internal Audit Awareness Month.



The event was well attended by more than 100 Commission employees eager to meet IAO employees and learn about how we can better serve them. While attending, they also had an opportunity to ask questions and partake in the refreshments we provided. A special thank you goes out to all Commission employees, the Commission’s resident photographer, as well as the Graphics Department, and other Communications Office team members for making this a successful event.



## OUTREACH ACTIVITIES

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Throughout each fiscal year we participate in outreach events sponsored by the Commission. In order to support core values such as environmental stewardship and safety awareness, Internal Audit and Ethics Office staff participated in the WSSC Mentoring Program, Children’s’ Water Festival, WSSC blood drive, Principal for a Day, WSSC in the Classroom, and other activities offered in an effort to give back to the Washington Suburban Sanitary District.



## CONCLUSION

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Over the course of FY 2014 we continued our effort to provide world class service to our stakeholders. Although everything we undertake cannot always be quantified, we continue to add value in numerous ways. The completion of various audit projects has led to noted changes, financial savings continue to avail, and Ethics Program initiatives continue to improve the overall culture of the Commission.

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<sup>1</sup>Note: Subsequent to the release of the year ending SDC savings chart, we determine that data pertaining to two of the SDC contracts was miss stated. The changed significantly impacted the FY 2014 SDC savings amount.