

**INTERNAL AUDIT OFFICE (IAO)
FISCAL YEAR 2019
RISK-BASED AUDIT PLAN**

Activity	Budgeted Hours	% of Available Hours	Assigned Auditor(s)
Performance Audits, Assurance Services, and Special Requests:			
DC Water Blue Plains WWTP O&M and Capital Indirect Billing Audit for Fiscal Years FY '17	1,100		
DC Water Blue Plains WWTP O&M and Capital Indirect Billings Audit for Fiscal Years FY '15 &16*	300		
DC Water Multi-Jurisdictional User Facility O&M Billings Audit for FY '17	400		
Fleet Services Performance Audit*	100		
Retiree Benefits Performance Audit*	700		
IT Basic Ordering Agreement Compliance Audit*	250		
Commission Office Compliance Audit	600		
Procurement Office Performance Audit (Phase I)	1,500		
Year-End Payroll Review	250		
Claims Checking Account Close-out Audit	100		
Subtotal	5,300		
Continuous Auditing:			
Bi-weekly Payroll Reviews	400		
Quarterly Accounts Payable Reviews	150		
Internal Audit Follow-Up	300		
Physical Inventory Count Observations/Reviews	100		
Quarterly P-Card Reviews	400		
Subtotal	1,340		
Consulting (Advisory) Services:			
Standard Policies and Procedures Reviews	100		
Other Various Projects (i.e., Disaster Recovery, C2M, WAM/MWM, etc.)	200		
Subtotal	300		
SUBTOTAL (Planned Assurance, Consulting, and Continuous Auditing Activities)	6,390		
Mandatory & FW&A Hotline Investigations:			
System Development Charges Compliance Audits	1,000		
FW&A Hotline Investigations	500		
Subtotal (Mandatory and FW&A Hotline Investigations)	2,098		
TOTAL AVAILABLE HOURS: (Assurance, Consulting, Continuous Auditing, Mandatory, and Special Requests)	7,427		
Administrative : Audit Committee, Quality Assurance and Improvement Program, Enterprise Risk Management (ERM) guidance, External Audit Contract management, Annual Risk-Based Audit Plan development, etc.	2,875		
TeamRisk Administration	400		
TeamTEC & TeamSchedule Administration	100		
Continuing Education & Professional Development (internal and external)	636		
Board of Ethics Support	114		
Subtotal (Other Internal Audit Activities)	4,125		
Vacation, holiday, sick, administrative, and other leave	1,947		
Subtotal (Vacation, holidays, sick leave, and other IAO Activities)	6,072		
TOTAL INTERNAL AUDIT ACTIVITY HOURS:	14,560		

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*FY18 Carryover Audit

Performance Audits: Are engagements that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Source: GAGAS

Assurance services: Provide an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. Assurance services add value by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure. Source: IIA IPPF

Requests for Special Audits: Internal Audit periodically receives requests for audit work from Commissioners, the WSSC Board of Ethics, and other Divisions and Offices. They are one-time audits of identified problem areas that are performed on a priority basis. Requests for special audits are carefully considered. If they require a material amount of resources, the Audit Committee/Commissioners, who have direct authority over the IAO, must approve them.

DC Water Blue Plains WWTP Operations & Maintenance (O&M) and Capital Indirect Billings Compliance Audit for Fiscal Year 2017 -- In accordance with the Blue Plains Intermunicipal Agreement (IMA), WSSC (as a Party to the Agreement) is authorized to audit, examine, inspect, or reproduce the books, accounts, records, documents, and other evidence supporting Blue Plains operating and maintenance costs and user fees. Bi-annually, we conduct an audit to ascertain whether adjustments are warranted for previously remitted quarterly and year-end adjustment payments from WSSC to DC Water. An audit of Fiscal Year 2017 O&M Billings and Indirect Cost Allocations for Capital Billings will be conducted. The millions of dollars in financial payback from past audits ranks this audit a high priority.

High Priority Risk. Resources budgeted: 1,100 hours. Percent of available audit hours: 17.7%.

DC Water Blue Plains WWTP Operations & Maintenance (O&M) and Capital Indirect Billings Compliance Audit for Fiscal Years 2015 and 2016 -- In accordance with the Blue Plains Intermunicipal Agreement (IMA), WSSC (as a Party to the Agreement) is authorized to audit, examine, inspect, or reproduce the books, accounts, records, documents, and other evidence supporting Blue Plains operating and maintenance costs and user fees. Bi-annually, we conduct an audit to ascertain whether adjustments are warranted for previously remitted quarterly and year-end adjustment payments from WSSC to DC Water. We are in the final stage of this audit and expect to finalize our audit of Fiscal Years 2015 and 2016 O&M Billings and Indirect Cost Allocations for Capital Billings before fiscal year-end. The millions of dollars in financial payback from past audits ranks this audit a high priority.

High Priority Risk. Resources budgeted: 300 hours. Percent of available audit hours: 17.7%.

DC Water Multi-Jurisdiction Use Facility(ies) (MJUFs) O&M Billing Compliance Audit for Fiscal Year 2017 -- MJUF is a term that recognizes that more than one jurisdictions flows are treated by or pass through a facility(ies) and that the costs associated with those facilities are shared among the Parties. In accordance with the Blue Plains Intermunicipal Agreement (IMA), WSSC (as a Party to the Agreement) is authorized to audit, examine, inspect, or reproduce the books, accounts, records, documents, and other evidence supporting Blue Plains operating and maintenance costs and user fees. DC Water Enabling Legislation identified only 19 Joint Use Facilities but more MJUFs were discovered than had been identified in the Enabling Legislation and the 1985 IMA. The 1985 IMA was replaced by the 2012 IMA and the Capital MJUF Study coincided with preparation of the 2012 IMA and was referenced as the guide for Capital Cost Allocation for MJUF facilities that are shared outside of Blue Plains. Accordingly, an audit of DC Water's Fiscal Year 2017 Billing will be conducted. The

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financial payback is unknown; however, the bill is considerably lower in costs as compared to the Blue Plains O&M Billings.

High Priority Risk. Resources budgeted: 400 hours. Percent of available audit hours: 17.7%.

Fleet Services Division Performance Audit -- A performance audit of the Fleet Services Division commenced in FY '17 to assess compliance with WSSC policies and procedures, which are designed to enforce/support external rules, laws, and regulations. In part, the mission of Fleet Services is to provide transportation and work site equipment that is safe and reliable and facilitates the achievement of the WSSC mission. Its customers are fellow employees who depend on its transportation and equipment services. We are in the final report phase of this performance audit.

High Priority Risk. Resources budgeted: 100 hours. Percent of available audit hours: 11.7%.

DC Retiree Benefits Performance Audit -- An operational audit of WSSC's retiree benefits will be undertaken to assess compliance with WSSC policies and procedures, which are designed to enforce/support external rules, laws, and regulations. The mission of the Retiree Benefits Group is to strategically develop comprehensive benefit and wellbeing programs to improve the health and wellbeing for all Commission employees, retirees, and dependents.

High Priority Risk. Resources budgeted: 700 hours. Percent of available audit hours: 8.8%.

IT Basic Ordering Agreement Compliance Audit – An audit of Information Technology Basic Ordering Agreement management was undertaken during FY '17 to review adherence to WSSC's Procurement policies and procedures. This audit has been carried over to FY '19. We are in the final report phase of this performance audit.

High Priority Risk. Resources budgeted: 250 hours. Percent of available audit hours: 8.8%.

Procurement Office Performance Audit (Phase I) – The WSSC Procurement Office is responsible for consolidation of all WSSC procurement as well as working in partnership with the OSDI/Supplier Diversity Office and delivering the right goods and services to the right place, at the right time, at the right cost through an effective and well managed supply chain. This Office is experiencing a high-level of staff turnover and multiple concerns have been expressed through various channels. We will conduct a performance audit to improve Procurement's performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

High Priority Risk. Resources budgeted: 250 hours. Percent of available audit hours: 8.8%.

Commission Office Compliance Audit – We will conduct a special request compliance audit of the Commission Office to confirm its compliance with WSSC standards, policies, procedures, and best practices regarding transparency and accountability. The audit scope will focus on the operations of the Commission Office and related activities between the Commission Office and Corporate Secretary's Office.

Medium Priority Risk. Resources budgeted: 600 hours. Percent of available audit hours: 8.8%.

Year-End Payroll Review – Each fiscal year we perform a compliance review of an element associated with the WSSC's payroll system. Past audits have disclosed monetary impacts between \$10,000 - \$50,000.

Medium Priority Risk. Resources budgeted: 250 hours. Percent of available audit hours: 8.8

Claims Checking Account Clouse-out Audit – The Finance Department and Claims and Emergency Services (an Office of the General Counsel's Office), have agreed to transfer the responsibility of processing and disbursing checks for damage claims. The Disbursements Department will assume the responsibility for processing all remittances on behalf of WSSC, with the exception of filing and other minimal fees paid directly by the General Counsel's Office. This is expected to streamline check processing operations and strengthen internal controls. As a result, the

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Disbursement Department Section Manager has requested an audit the close-out procedures for the Claims Checking account and the performance of other auditing procedures to ensure that the changeover is finalized appropriately and all activities and transactions are properly accounted.

Medium Priority Risk. Resources budgeted: 100 hours. Percent of available audit hours: 8.8

Continuous Auditing: Continuous auditing involves performing control and risk assessments on a frequent basis, if not virtually in real-time. The need to accelerate audit activities has led to the increased adoption of continuous auditing as a vital monitoring tool. Continuous auditing is therefore designed to enable auditors to report on a subject matter within a much shorter timeframe than under the traditional model. The ability to provide management with real-time auditing on the functioning of controls and on financial transactions can enhance significantly management's ability to make key business decisions. Sources: IIA & ISACA

The areas designated for continuous auditing (biweekly payroll reviews, accounts payable, P-Cards, physical inventory counts, and fiscal year-end payroll reviews) are highly susceptible areas for fraudulent activities. Additionally, this fiscal year we will continue to follow-up on all agreed upon audit recommendations. Special emphasis will be given to recommendations that, according to management, have been implemented and are pending audit verification/examination. **Resources budgeted: 1,840 hours. Percent of available audit hours: 21.8%.**

Consulting Services: Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. Consulting services add value by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure.

Source: IIA

A designated number of audit hours have been allocated to provide assistance to management as advisors. Our informal consulting engagements consist of limited-life projects, ad hoc meetings, routine information exchange, and review of standard policies, procedures, manual, and guidelines. Special consulting engagements involve our participation in system conversions and other IT projects. We also participate in emergency consulting engagements for recovery or maintenance of operations after a disaster or other extraordinary business event. Lastly, the internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives. This action will be accomplished by advising during the requirements phase of various information technology projects to assess end user needs and the relation to WSSC's strategic objectives. Note, our involvement is solely as advisors without management responsibility as to not impair auditor independence. **Resources budgeted: 300 hours. Percent of available audit hours: 3.5%.**

Mandatory Compliance Audits and FW&A Hotline Investigations:

System Development Charges

As required by Public Utilities Article, Section 25-405(d), we will review and approve the actual costs incurred by developers who help build WSSC's infrastructure. At the end of Fiscal Year (FY) 2018, we had twenty (20) SDC audit requests in our possession. These audit requests are expected to be initiated and/or completed during FY'19. However, these audit requests are ongoing and this number is expected to fluctuate throughout this fiscal year. **Resources budgeted: 1,000 hours. Percent of available audit hours: 11.7%.**

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Fraud, Waste and Abuse Hotline Investigations

The WSSC's Fraud, Waste and Abuse Hotline was implemented in the fall of 2011. Since its implementation, a dedicated number of hours are needed to conduct investigations of alleged fraud, waste and abuse.

High Priority Risk. Resources budgeted: 500 hours. Percent of available audit hours: 5.9%.

Other Internal Audit Activities:

Quality Assurance and Improvement Program & Administrative Projects

In addition to allocating time to conduct office administration and audit planning, our administrative activities entail ensuring Internal Audit Office internal operating procedures meet the Institute of Internal Auditors' quality assurance and improvement program standards. Additionally, time is allocated to support Audit Committee oversight of the Internal Audit Function and assisting with enterprise risk management (ERM) efforts. **Resources budgeted: 2,875 hours.**

TeamRisk Administration

Resources will continue to be spent populating the TeamRisk module of our audit management software in order to maintain a continuous internal audit risk assessment process. It is our hope during this fiscal year to populate the internal control segment of TeamRisk by obtaining direct input from our audit clients via an automated data gathering process. Ultimately, this will assist us with our efforts to provide audit coverage to the WSSC that maximizes exposure of the audit function and provides balanced coverage throughout the Commission. **Resources budgeted: 400 hours.**

TeamTEC and TeamSchedule Administration

We plan to continue implementing the TeamTEC module of TeamMate, our audit management software. TeamTEC provides the ability to record, track, and report on time and expenses across audit projects. This module integrates with other TeamMate Suite modules and the functionality builds upon the time scheduling of resources. It enables auditors to track time and expenses and permits audit management to compare actual to budgeted hours and costs on a continuous monitoring basis. TeamSchedule is one of the modules TeamTEC integrates with and it helps to automate the assignment of project resources. TeamSchedule also provides the audit team with a personalized view of their project assignments, facilitates budget forecasting, and enables audit management to better monitor resource utilization. **Resources budgeted: 100 hours.**

Continuing Education and Professional Development

Continuing education and professional development (*in-house and externally*) is essential to help ensure audit staff improves or obtains the most current knowledge, skills, and other competencies needed to perform their individual responsibilities/audit assignments. Training will vary with approved Audit Plans and Commission special project needs. However, five (5) WSSC internal auditors who are CPAs, must maintain active license status in the performance of their responsibilities. In accordance with the State of Maryland Board of Public Accountancy, licensees must certify that they have completed at least 80 hours of continuing education, within the two years before application for renewal. As of October 1, 2006, licensees must report at least 4 hours of continuing professional education (CPE) in professional ethics. Self-study courses are limited to forty (40) hours of CPE within the renewal period. Additionally, all auditors are required to maintain active status for their Certified Fraud Examiner certifications. **Resources budgeted: 636 hours.**

Board of Ethics (BOE) Support

These hours anticipate pending support needed due to expired term(s) of Board of Ethics members and other staffing matters. The Internal Audit Office continues to be responsible for assisting in the management of the WSSC Ethics Program and providing administrative staff support to the Board of Ethics (BOE) as needed. This could entail providing assistance in the following manner: attending monthly and special BOE meetings; obtaining Financial Disclosures from required filers upon separation of employment; assisting with investigations related to WSSC Code of Ethics violation

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allegations; and providing Code of Ethics training to new hires when the Ethics Officer is unavailable.
Resources budgeted: 114 hours.

Priority of Risk	
High Priority Risk	If any one of the criteria is met: Financial loss is greater than \$50,000, very likely reputation impairment, regulatory non-compliance results in severe consequences, potentially severe health and/or safety concerns, occurs more than once a year in this industry, heightened security concerns, major environmental impact concerns, 100% of customers impacted, 100% of employees impacted, or critical operations impairment.
Medium Priority Risk	If any one of the criteria is met: Financial loss is between \$10,000 - \$50,000, likely reputation impairment, regulatory non-compliance results in negative consequences, potential health and/or safety concerns, occurs once a year in this industry, some security concerns, possible environmental impact concerns, 25% - 50% of customers impacted, 25% - 50% of employees impacted, or essential operations impairment.
Low Priority Risk	If any one of the criteria is met: Financial loss is between \$1,000 - \$9,999, unlikely reputation impairment, regulatory non-compliance results in minor consequences, minimal health and/or safety concerns, occurred once or infrequently in this industry, minimal security concerns, minimal environmental impact concerns, 24% or less of customers impacted, 24% or less of employees impacted, or non-essential operations impairment.

Risk-Based Audit Frequency	
High Priority Risk	12-month audit cycle
Medium Priority Risk	18-month audit cycle
Low Priority Risk	24-36 month audit cycle