



# **INTERNAL AUDIT OFFICE FIVE-YEAR VALUE ADDED ANALYSIS (FISCAL YEARS 2009 – 2013)**



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

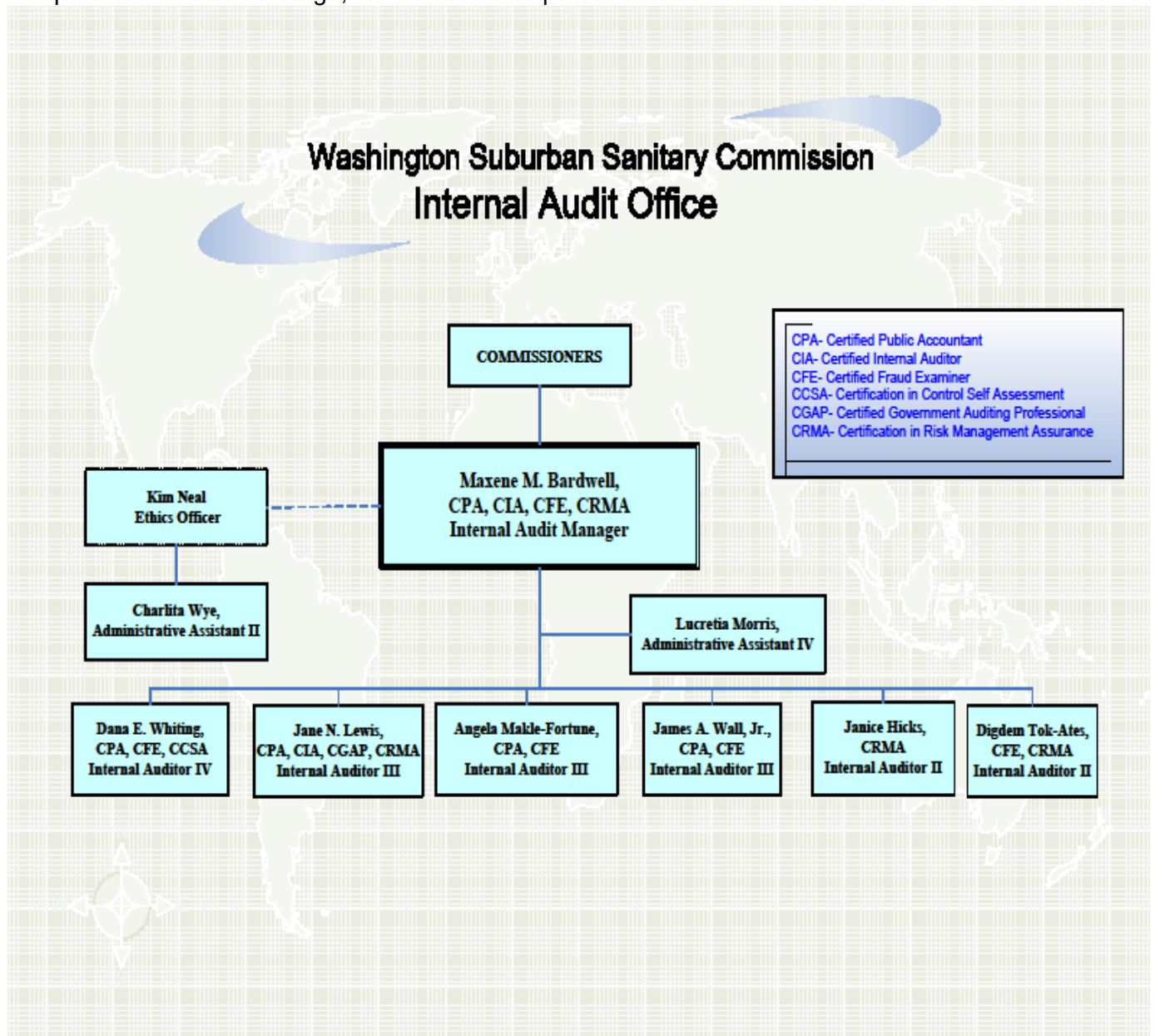
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## OUR HISTORY

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, and economically.

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.



## 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.



## WSSC Internal Audit



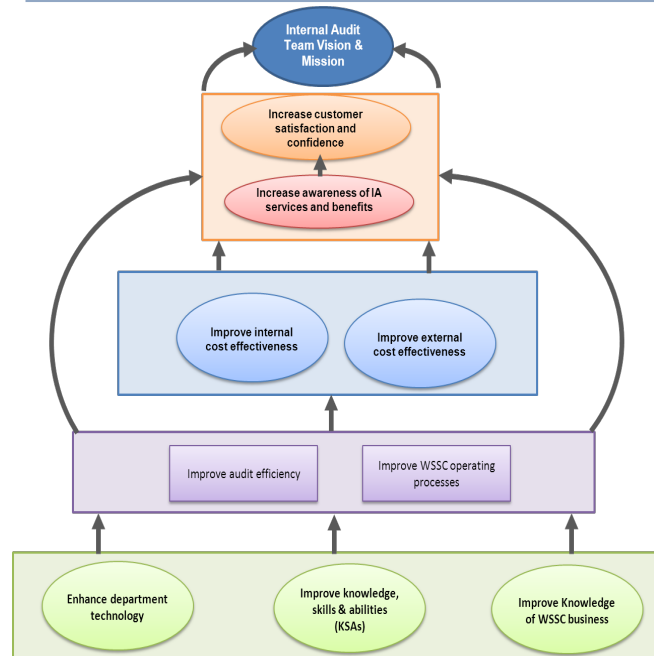
### VISION

Oversight that inspires stakeholder confidence...ALWAYS.

### MISSION

Our mission is to help WSSC meet its objectives in a fiscally and ethically responsible manner, by striving to provide an independent and objective appraisal of WSSC's internal controls, risk management system, and compliance with laws, regulations, policies, and procedures.

### STRATEGY MAP



### OBJECTIVES

Increase customer satisfaction and confidence

Increase awareness of IA services and benefits

Improve internal cost effectiveness

Improve external cost effectiveness

Improve audit efficiency

Improve WSSC operating processes

Enhance department technology

Improve Knowledge, Skills & Abilities (KSAs)

Improve Knowledge of WSSC business

## EXECUTIVE SUMMARY

During the past five fiscal years (2009 – 2013) the Washington Suburban Sanitary Commission's (WSSC) Internal Audit Office (IAO) has experienced a noticeable amount of progress, including, but not limited to: 1) implementing enhanced value-adding Commission-wide risk-based Audit Plans, 2) launching and maintaining the Commission's Fraud, Waste and Abuse Hotline, 3) establishing an Ethics Office and 4) implementing TeamMate® audit management software.

Over this period of time our quantitative value added projects have resulted in saving the Commission and its stakeholders millions of dollars. Those quantitative projects consist of the Blue Plains Intermunicipal Agreement (IMA) audits and reviews of developer reimbursement requests for system development charges (SDCs).

However, the bulk of our value added achievements are qualitative in nature and is demonstrated by our ability to bring a systematic, disciplined approach to evaluate and improve the effectiveness of WSSC's risk management, control, and governance processes. The table below provides a five-year look back at our key performance indicators, which are categorized into four value adding areas: 1) customer, 2) financial, 3) people, and 4) process.

Customer		FY'09	FY'10	FY'11	FY'12	FY'13
KPI	Target	Actual	Actual	Actual	Actual	Actual
Avg. Percent of Satisfied Clients	90%	100%	100%	98%	100%	100%
% of Audit Recommendations Accepted*	80%	63%*	84%	100%	61%*	100%
% of Recommendations Closed & Verified	80%	100%	80%	77%	84%	65%
Financial						
KPI	Target	Actual	Actual	Actual	Actual	Actual
SDC Reimbursements Requests Actual Fiscal Year Cost Savings	\$500,000	\$895,263	\$23,431	\$13,569	\$0.00	\$729,696
Blue Plains O&M Billings Final Adjustments Savings**	\$1,000,000	N/A**	\$2,247,835	N/A**	\$1,362,425	N/A**
People						
KPI	Target	Actual	Actual	Actual	Actual	Actual
Number of Auditors with Required Professional Certifications***	71%	71%	71%	71%	86%***	100%***
Annual Completion of 40 Continuing Professional Education (CPE) Hrs.	100%	100%	100%	100%	100%	100%
Process						
KPI	Target	Actual	Actual	Actual	Actual	Actual
% of Assurance Projects Completed ≤ Budgeted Hrs. and/or Fiscal Year	75%	50%	71%	44%	62%	44%
% of Carryover Assurance Projects	25%	50%	29%	56%	38%	56%

\* Management accepts risk (low risk items) or identified risks no longer applicable

\*\* Audit is performed bi-annually

\*\*\*Exceeds certification requirements (5 out of 7 internal auditor positions require professional certifications.)

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.

Financial (*Strategy for financial savings as viewed by our stakeholders*) – We continue to save the Commission and its stakeholders millions of dollars with the combination of financial savings from our Blue Plains operations and maintenance audits; as well as SDC reviews.

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 clients.

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 fiscal year. However, we have experienced challenges in the years when first-time and Blue Plains audits occur, as well as when Hotline investigations take priority.

## COMMISSION-WIDE RISK-BASED AUDIT PLANS

Fiscal Year (FY) 2013 marks the fifth 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.

Specifically, identification of those key risk areas in the Commission has led to audits in the areas of Engineering & Construction, Procurement, Development Services, Customer Care, Human Resources, Information Technology, and Plant Operations.

The results of our five-year impact analysis reveals that our internal auditing efforts (with the cooperation of audited Teams and Offices) has led to the implementation of: **48** policy and procedural changes; addressed **5** compliance matters; halted **18** financial losses, mitigated **36** operational risks; and provided advisement to management on at least **2** strategic initiatives.

A sample of some key risk-mitigating audit results is highlighted in the table below:

Audit Project Name	Observation	Audit Recommendation	Risk	Value Added Change	Impact
Acquisition	The Procurement Manual has not been revised or updated since 1995	Update Manual to reflect approved operational practices	High	The Commission established and adopted Procurement Regulation effective August 1, 2012	Current and best practices are now captured in WSSC's Procurement Regulation
Acquisition	Unapproved spending limits are currently set up for cardholders	Cardholder agreements with P-Card vendor should be consistent with approved standard procedures	High	Standard Procedure GEN-07-01	New procedure is in line with vendor cardholder agreement
Water Audit	Water supplied to contractors during construction, at no cost, is not measured	Measure water used during new pipe construction, water main replacement, and cleaning/lining contracts	High	Effective 12/30/10 the Engineering and Construction Team started measuring water during the various construction projects identified	Measured water is now accounted for in WSSC's water loss calculation that is ultimately used in the Commission's Water Audit Report submitted to MDE
Development Services Group	Billed work processes not reconciled	Ensure that all the "To Be Billed" accounts established since the inception of the "To Be Billed" process are identified and reconciled to assist WSSC in receiving outstanding revenues	High	Reconciliation process enhanced	Unbilled accounts are now accounted for
Sick Leave Bank (SLB)	SLB hours paid were greater than SLB hours contributed	Reconciliation of the hours awarded, paid, and returned to the SLB on a consistent basis	High	Reconciliation process implemented	SLB Board can no longer pay out more hours than the SLB has available via contributed employee hrs.
HR Phase I	Unemployment Benefits are paid w/o adequate verification	HR to adopt several actions that will result in providing accurate info. To the State Unemployment Insurance Division	High	Adequate training provided to responsible employees	More accurate Unemployment Insurance claims are now provided to the State of Maryland
HR Phase I	Workers Compensation contract is outdated and in conflict with the Delegation of Authority	Competitively solicit a new contract to provide this service	High	The Worker Compensation contract was competitively solicited, awarded and implemented.	Current Worker's Compensation contract
IT General Computer Controls	Errors on IT Equipment Inventory Forms	Ensure the IT Equipment Inventory Form is completed accurately	Medium	New Policy – Loaner Equipment Standard, IT12-SOI developed	IT equipment inventory data is more complete and accurate

The impact analysis results are a true indication of the often qualitative value we add to the Commission and its stakeholders. Additionally, we continue to provide advisory services by providing advice during various Commission projects and offering advice from an internal control perspective on operational policies and procedures.

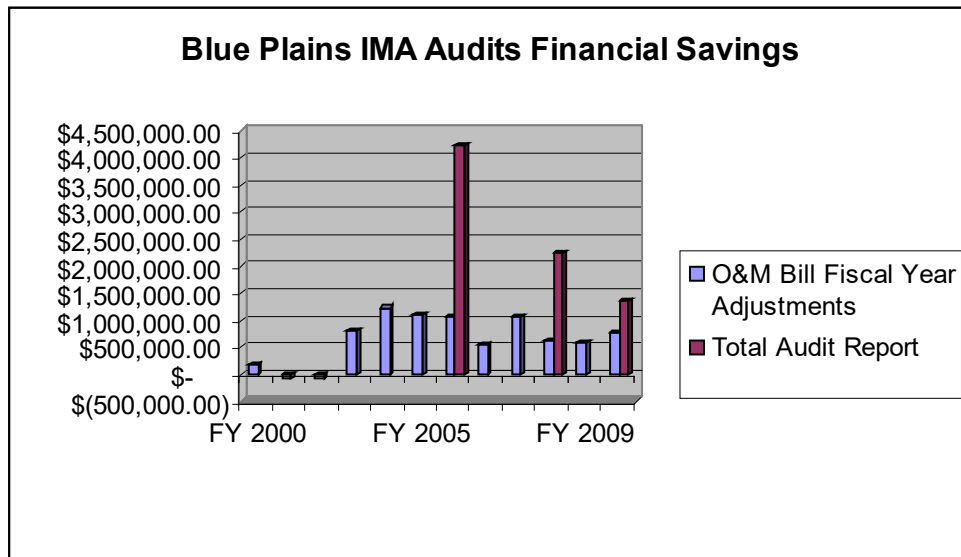
Although our focus appears to be on WSSC's operations, those operations are designed to achieve the Commission's strategic objectives. Helping the Commission identify more efficient, effective, and economical ways to obtain those objectives, in turn, helps the IAO function achieve its aforementioned 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

Over the past five fiscal years financial savings for the Commission has been over \$7.8 million. These financial savings are the direct result of the bi-annual audits we conduct and have led to credits to the quarterly billings WSSC prepays in advance of the actual expenses it incurs for its share of the Blue Plains Wastewater Treatment Plant operated by DC Water. The financial savings are depicted below:

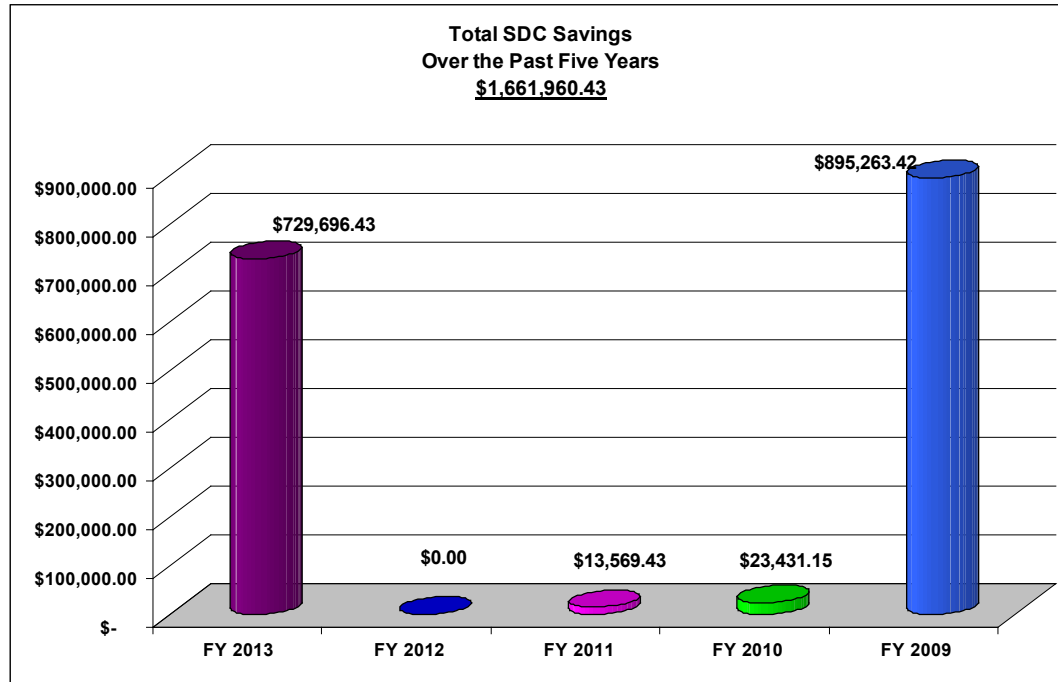
O&M Bill Fiscal Year	WSSC Audit Report Issue Date	Total Audit Report Adjustments
FY2000/2006	June 18, 2008	\$ 4,212,141.44
FY 2006/2008	April 30, 2010	\$ 2,247,834.78
FY 2009/2010	May 7, 2012	\$ 1,362,425.03
		<u>\$ 7,822,401.25</u>



### SDC AUDITS

Our SDC audits of developer costs intended 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. Over the past five years we helped save the Commission and its stakeholders \$1,661,960.43 through SDC reviews alone.





As indicated by the charts above, between the fiscal years of 2009 and 2013, we experienced considerable fluctuation regarding SDC cost savings to the Commission. As a result of the down economy and other issues, some developers experienced business ownership changes and dissolutions during this period. The highest costs savings were experienced during 2009 and the lowest in 2012.

## FRAUD, WASTE AND ABUSE HOTLINE

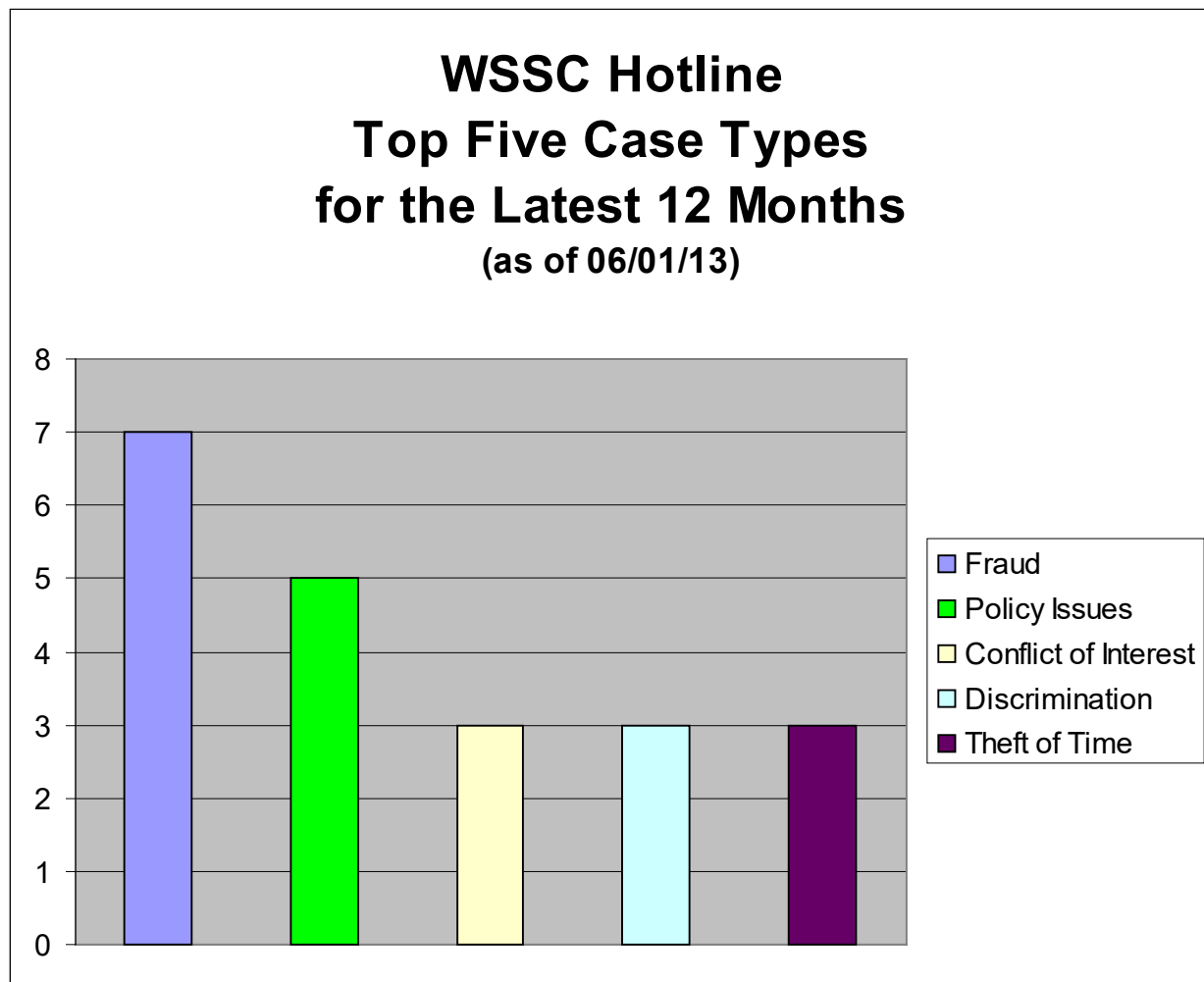


To enhance our oversight services, the Commission's Fraud, Waste and Abuse Hotline (Hotline) experienced a soft launch on September 30, 2011. Utilizing support from the Communications Office staff, the Hotline was announced first to Commission employees on that date. A hard launch occurred with the publication of the WSSC's Pipeline Newsletter, which is distributed to all WSSD customers/ratepayers.

All calls are answered by an external Hotline services provider to maintain anonymity and ease the fear of retaliation. The Hotline is available to all internal and external stakeholders 24 hours a day, 7 days per week, and 365 days per year.

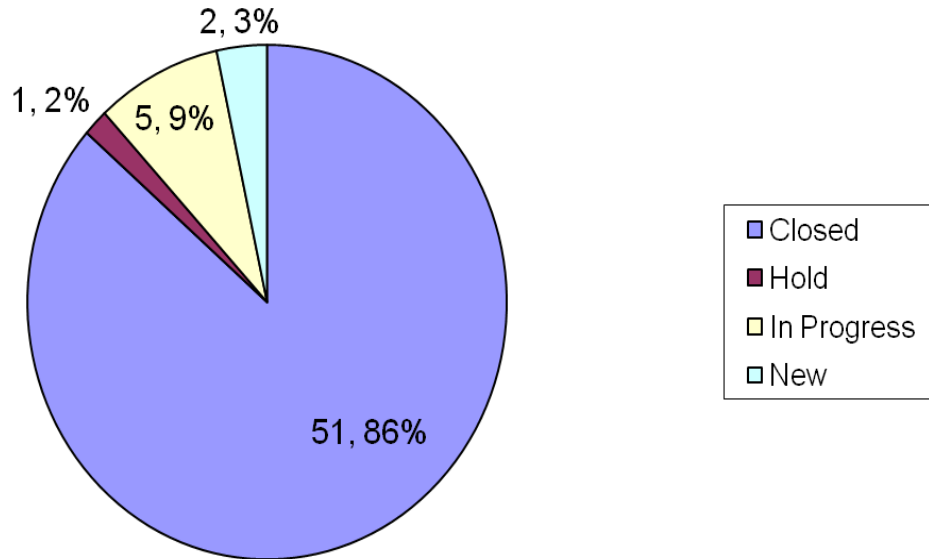
Hotline investigations are handled by a group of individuals called the Hotline Response Team that includes Certified Fraud Examiners from the IAO, WSSC Police Investigators, and other individuals who have obtained the experience or training necessary to conduct such examinations relative to their respective areas such as fair practice. These individuals also receive requisite training throughout each fiscal year to ensure best practices for Hotline investigations are administered.

Hotline statistics as of June 01, 2013 are as follows:



As of 06/01/13, WSSC Hotline cases are classified as follows: two (2) new, one (1) on hold, five (5) in progress, and fifty-one (51) closed.

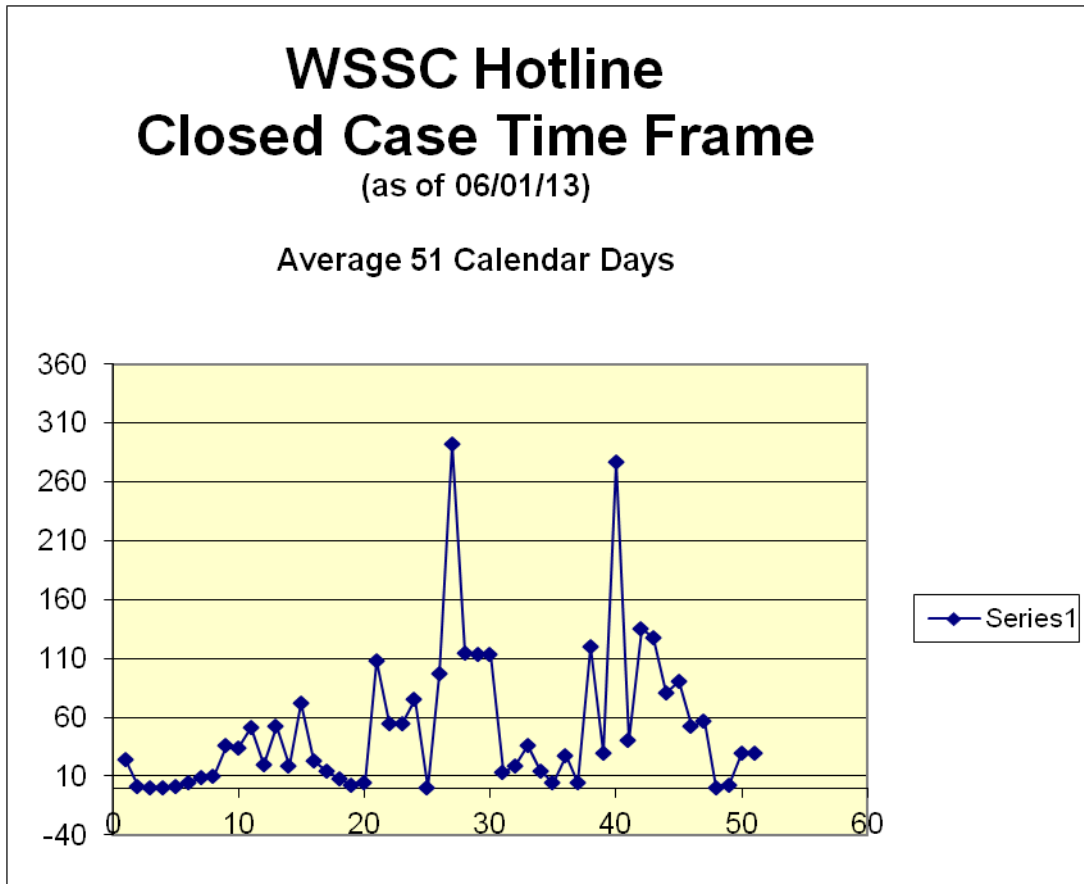
# WSSC Hotline Case Status (as of 06/01/13)



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

### Closed Cases Time Frame:

As of 06/01/13, 51 cases have now been closed since the Hotline launched. Hotline investigations are averaging 51 calendar days from commencement to closure.



### Closed Case Resolution:

- Unsubstantiated: 26 (51%)
- Substantiated: 16 (31%), many required corrective action (including employee disciplinary action and/or Customer Care Team action)
- Referred: 2 (4%) were referred to management for appropriate handling
- Withdrawn: 2 (4%) was withdrawn by the reporting individual
- Outside of the WSSD: 1 (2%) was outside of the Washington Suburban Sanitary District service area
- Discontinued: 4 (8%) was discontinued due to lack of information needed to identify the alleged perpetrator.

## ETHICS OFFICE

The IAO is charged with assisting the WSSC's Board of Ethics with its responsibilities for maintaining the highest level of professional and ethical conduct and public confidence in the integrity of the Commission. On an ongoing basis, we also continuously monitor the filing of such statements for specified new employees throughout the year.

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 achievements before the establishment of an Ethics Office include;

- Upgrading the Commission's Financial Disclosures Database
- Reinstating Conflict of Interest Statements for non-Financial Disclosure Statement filers
- Developing WSSC's first Code of Conduct
- Providing Code of Ethics Training to New Hires
- Ensuring Personnel Action Notification forms were modified to reflect the mandatory filing of financial disclosure statements by position.

The percentage of employees trained on WSSC's Code of Ethics has been at our about 98% of the WSSC workforce. The Percent of new hires trained via new hire orientation has reaped similar results.

## TEAMMATE® AUDIT MANAGEMENT SOFTWARE

In our effort to streamline our audit processes and enhance the level of services we provide to our audit clients, we commenced with the purchase of multi-module audit management software called TeamMate® in 2008. TeamMate® has enabled the IAO to centralize into one database, its enterprise-wide risk assessment, project and resource scheduling, time and expense capture, working papers, and projects and issues tracking.

Although the enhanced technology offered via TeamMate® is primarily for IAO purposes, it will undoubtedly have benefits for our audit clients due to its numerous interactive features. For example, the risk assessment component titled "TeamRisk," enables auditors and business clients to work together, making data collection for risk assessment faster and easier by using a web-based tool which interacts with MicroSoft Outlook®. The feedback received from these self-assessments will help the IAO maintain the most current risk information for planned audit projects throughout each fiscal year. The information garnered can, in turn, be used by management for its enterprise risk management efforts.

An added advantage of TeamMate® software is our increased ability to track and monitor issues identified by both internal and external auditors on a continuous basis. This added value is done with the use of the TeamCentral module of TeamMate®. TeamCentral is also a web-based global audit and issue tracking database that accumulates project information and findings from all of our individual TeamMate projects and allows us to track the implementation status of recommendations made by internal auditors.

The TeamCentral module facilitates issue follow-up, trend analysis, prior audit review and committee reporting. It is available to key stakeholders, allowing management to focus on the overall objectives and management of audit results with the need to look at details. The security features of this module ensure auditors and audit management only access data for which they have operational authority. More importantly, process owners can access their issues to provide status updates proactively or upon notification; and reporting on results across all projects undertaken and exceptions raised is made easy with the use of standardized reports.

## **CONCLUSION**

Overall, the value added by the IAO function is not always readily apparent. Over the course of several years we have taken considerable action to provide world class service to our stakeholders. Therefore, it is our hope that this report sheds some light on the bulk of the activities that we undertake which add value in numerous ways that cannot always be quantified.