



September 7, 2023

THE WSSC LOCAL BUSINESS INVESTMENT AND GROWTH PROGRAM COMPLIANCE AUDIT



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Project # 23-BIG-01

A Report to:

Commissioners:

Chair, Regina Y. Speed-Bost
Vice Chair, T. Eloise Foster
Fausto R. Bayonet
Howard A. Denis
Lynnette D. Espy-Williams, Esq.
Mark J. Smith

General Manager/CEO:

Kishia L. Powell

Office of the Inspector General

14405 Laurel Place, Suite #300
Laurel, MD 20707
(301) 206-8300



Quick Look



Why the OIG did this audit

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year 2023 Risk-Based Work Plan and the authority granted to the OIG pursuant to Public Utilities Article, § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted a compliance audit of the WSSC Local Business Investment and Growth Program (BIG Program).

In November 2016, WSSC adopted the BIG Program to promote community investment and growth in WSSC's sanitary districts of Prince George's and Montgomery Counties. Accordingly, the organization initiated the program in February 2017 with a \$12 million investment to assist community banks in providing capital to local businesses. In 2019, WSSC increased its investment to over \$15 million.

The OIG conducted the audit in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards.

Strategic Alignment

This report addresses WSSC's Priority: Spend Customer Dollars Wisely

OIG Contact Information

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THE WSSC LOCAL BUSINESS INVESTMENT AND GROWTH PROGRAM WARRANTS IMPROVEMENT

What the OIG found:

The objective of the audit is to provide management with an independent assessment of whether the BIG Program complied with related laws, regulations, policies, procedures, and contractual agreements. Specifically, the auditors evaluated WSSC's compliance with the following:

- Md. Code Ann., LGA, § 17-205;
- Md. Code Ann., State Fin., and Proc. Art., § 6-222;
- Chapter 5.105, WSSC Code of Regulations; and
- Chapter 5.1000, WSSC Manual of Standard Procedures.

The OIG concluded that WSSC complied with the requirements in Chapter 5.105, WSSC Code of Regulations. However, the audit disclosed that WSSC's activities relating to the BIG Program and the investment policy warrant improvement to adhere to the State of Maryland Law that governs the investment program.

The OIG recommends that WSSC revise Code Chapter 5.105 and SP 5.100.160 to ensure compliance with Md. Code Ann., LGA, § 17-205 (d).

Management agrees with the OIG's recommendation and will process an amendment to WSSC Code Chapter 5.105 and the WSSC SP 5.100.160.

OIG accepts management's response and will track the status of management's remediation plan.



Interoffice Memorandum

OG #20221012-022088

TO: JOSEPH F. BEACH, DEPUTY GENERAL MANAGER, MISSION SUPPORT
GENERAL MANAGER'S OFFICE

THRU: JON T. RYMER, INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL

DS

THRU: MAXENE M. BARDWELL, ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF THE INSPECTOR GENERAL

DS

FROM: JANE N. LEWIS, SUPERVISORY AUDITOR
DAISY QIAN, AUDITOR
OFFICE OF THE INSPECTOR GENERAL

DS

DS

DATE: SEPTEMBER 7, 2023

**SUBJECT: OFFICE OF THE INSPECTOR GENERAL
THE WSSC LOCAL BUSINESS INVESTMENT AND GROWTH
PROGRAM COMPLIANCE AUDIT**

EXECUTIVE SUMMARY

Background

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year 2023 Risk-Based Work Plan and the authority granted to the OIG pursuant to Public Utilities Article, § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted a compliance audit of the WSSC Local Business Investment and Growth Program (BIG Program). The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards (GAGAS)*.¹

The BIG Program is governed by Local Government Article (LGA), § 17-205 and the State Finance and Procurement Article, § 6-222 of the Annotated Code of Maryland, Chapter

¹ In March 2023, an independent external peer review of the OIG was conducted in accordance with GAGAS, and a satisfactory rating was assessed.

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5.105 of the WSSC Code of Regulations (Code), and Chapter 5.1000 of the WSSC Manual of Standard Procedures (SP). WSSC administers the BIG Program as part of its Investment Policy.

Specifically, Md. Code Ann., LGA, § 17-205 provides that a local government entity such as WSSC establish an investment policy and submit it to the Maryland State Treasurer to determine whether the policy is consistent with the local government investment guidelines adopted by the State Treasurer under § 17-204 of this subtitle. Section 6-222 (a)(8) of the State Fin. & Proc. Art., of the Annotated Code of Maryland permits the Treasurer to invest unexpended or surplus money over which the Treasurer has custody in any investment portfolio created under the Maryland Local Government Investment Pool. Section 6-222 of the State Fin. & Proc. Art., also sets forth reasonable standards of care for handling and managing the investment of public funds.

WSSC enforces the Maryland Code requirements in Chapter 5.105 of the WSSC Code, SP 5.1000, and in its administering of the BIG Program. WSSC 5.105 states that "the goal of this program is to enhance and economically empower local business lending by placing deposits in community banks headquartered in Maryland or the District of Columbia and operating in Prince George's and Montgomery Counties that are deemed safe and sound to generate jobs for the benefit of the residents in both counties while providing WSSC with a competitive rate of return on those deposits, which will be covered by the Federal Deposit Insurance Corporation (FDIC) insurance." The SP sets forth the process that WSSC meets the program's goal and affirms that the Big Program operates as part of WSSC's investment portfolio and, as such, must be managed in conformance with federal, state, and other legal requirements, including LGA, § 17-205 and State Fin. & Proc. Art., § 6-222 of the Annotated Code of Maryland.

In November 2016, WSSC adopted the BIG Program to promote community investment and growth in WSSC's sanitary districts of Prince George's and Montgomery Counties. Accordingly, the organization initiated the program in February 2017 with a \$12 million investment to assist community banks in providing capital to local businesses. In 2019, WSSC increased its investment to over \$15 million.²

During the calendar year 2020, WSSC suspended the BIG Program due to reduced interest rates and liquidity uncertainty. Subsequently, the program resumed during the fall of 2021 with a \$14 million investment at three participating community banks.

Further, the WSSC Finance Department (FD) administered the BIG Program, with the Chief Financial Officer (CFO) as the WSSC Treasurer. In July 2022, the CFO left the organization; the Acting CFO did not have any duties under the WSSC Investment Policy that governed the BIG Program during the audit scope period, which the former CFO previously held.

Objective

The objective of the audit is to provide management with an independent assessment of whether the BIG Program complied with related laws, regulations, policies,

² See <https://www.wsscwater.com/sites/default/files/2021-12/BIG%20annual%20report%202019%20FINAL.pdf> (last visited April 19, 2023).

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procedures, and contractual agreements. Specifically, the auditors evaluated WSSC's compliance with the following:

- Md. Code Ann., LGA, § 17-205;
- Md. Code Ann., State Fin. and Proc. Art., § 6-222;
- Chapter 5.105, WSSC Code of Regulations; and
- Chapter 5.1000, WSSC Manual of Standard Procedures.

Scope and Methodology

The OIG modified the length of its audit scope. Instead of auditing from July 1, 2021, to June 30, 2022, the OIG audited activities of the BIG Program for the 18 months from July 1, 2021, to December 31, 2022. To achieve the audit's objective, the OIG engaged in the following tasks:

- Verified with the Chief Investment Officer, Maryland State Treasurer's Office, whether they received the WSSC Investment Policy and any amendments from WSSC;
- Interviewed WSSC's executive management and Retirement Division Manager responsible for administering the BIG Program to gain further understanding of the investment processes;
- Examined bank statements of the three banks participating in the BIG Program as provided by WSSC management and confirmed their eligibility;
- Reviewed annual bank statements of each of the three participating banks showing collateralized deposits in excess of the FDIC insurance limit of \$250,000 during 2022;
- Reviewed the Commission meeting minutes to confirm that the Commissioners approved WSSC's adoption of the Big Program, and any subsequent amendment to the program; and
- Examined available management reports related to the program since its inception in 2016 to confirm that the reporting process adhered to the WSSC Code.

Generally Accepted Government Auditing Standards require the OIG to plan and perform the audit, obtain sufficient, appropriate evidence, and provide a reasonable basis for our findings and conclusions based on the audit objectives. Accordingly, the evidence obtained provides a reasonable basis for our finding and conclusion based on the scope and objective.

Conclusion

The OIG concluded that WSSC complied with the requirements in Chapter 5.105, WSSC Code of Regulations. However, the audit disclosed that WSSC's activities relating to the BIG Program and the investment policy warrant improvement to adhere to the State of Maryland Law that governs the investment program.

Specifically, the local investment policy and amendments were neither filed in accordance with WSSC SP 5.100.160, nor mailed by certified copy to the State Treasurer as

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required by law. Based on the documents reviewed and conversations with the appropriate government officials, OIG ascertained that WSSC officials were not adhering to Md. Code Ann., LGA, § 17-205 (d) by not submitting investment policies or policy amendments.

We thank the Finance Department personnel and appreciate their timely responses and cooperative support.

FINDING, MANAGEMENT RESPONSE, AND ACTION PLAN

Finding: Local Investment Policy and Amendments were not submitted to the State Treasurer as Mandated by Law

Risk Rating: High

According to Md. Code Ann., LGA, § 17-205 (b), the governmental entity [WSSC] shall promptly mail a certified copy to the State Treasurer after adopting a local investment policy. Further, according to § 17-205 (d), if the governing authority amends the governmental entity's local investment policy, the governmental entity shall submit the new local investment policy to the State Treasurer. After developing the local investment guidelines or policy, the governmental entity shall mail a certified copy to the State Treasurer to determine consistency with the local government investment guidelines adopted by the State Treasurer under Md. Code Ann., LGA, § 17-204.

WSSC's Code of Regulations and Manual of Standard Procedures do not designate a WSSC person responsible for filing the investment policy with the State Treasurer. Chapter 5.105, of the WSSC Code references § 17-205 which establishes the requirements for filing investment policies and related documents with the Maryland State Treasurer. WSSC's Standard Procedure 5.100.160 expressly states the requirements for filing its local investment policy.

Officials from the State Treasurer's Office reported in writing that they could not confirm whether they received any investment policies related to the BIG Program from WSSC between January 2016 and February 2023. As a result, auditors were not provided with evidence to confirm that WSSC followed Md. Code Ann., LGA, § 17-205 (b). Additionally, the responsibility for submitting the adopted and amended investment policy to the State Treasurer is not specified in WSSC SP 5.100.160.

In November 2016, WSSC added the BIG Program to its investment portfolio, which led to changes in the investment policy. In January 2018 and July 2021, WSSC officials revised the regulations for the BIG Program. However, during the audit, WSSC could not provide evidence that the State Treasurer reviewed and approved the investment policy and its amendments as mandated by Md. Code Ann., LGA, § 17-205 (d). Management acknowledged that due to an oversight, they submitted the investment policy and related amendments to the State Treasurer after this audit started and have not yet provided OIG with a mail certified copy in evidence. As a result, for the past six years, the BIG Program has not conformed with the Maryland Law that governs the investment of public funds.

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Recommendation: Revise the WSSC Code and Procedures and Comply with Maryland State Law

To comply with the Maryland Law, the OIG recommends three remedial steps; revising the WSSC Code Chapter 5.105 and the WSSC SP 5.100.160 to include the office or position responsible for filing with the Maryland State Treasurer. In addition, WSSC should adhere to Md. Code Ann., LGA, § 17-205 (d), by mailing a certified copy of the amended investment policies adopted in 2016, 2018, and 2021 to the State Treasurer.

The submittal of WSSC's local investment policies, including past amendments, to the State Treasurer will enable the Treasurer to verify whether WSSC's policies align with the State's guidelines for local government investments.

Management Response and Action Plan (including anticipated due date):

Management agrees with the recommendation and will process an amendment to WSSC Code Chapter 5.105 and the WSSC SP 5.100.160 to include the office and person responsible for filing these documents with the Maryland State Treasurer. Management will also transmit the amended investment policies adopted in 2016, 2018, and 2021 to the State Treasurer by certified mail. These actions will take place no later than December 31, 2023.

cc: General Manager/CEO, (K. Powell)
Corporate Secretary, (J. Montes De Oca)
Chief Financial Officer, Acting, (L. Carolina-Powell)
Division Manager, Retirement Division, (R. Baker)