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September 9, 2025

SENT VIA EMAIL

David L. Gadis
General Manager and CEO
District of Columbia Water and Sewer Authority
1385 Canal Street, SE, 5th Floor
Washington, DC 20003

Dear Mr. Gadis:

Pursuant to the Blue Plains Intermunicipal Agreement (IMA), which governs the allocation, use, operation and funding responsibilities associated with the Blue Plains Advanced Wastewater Treatment Plant, the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General (OIG) performed the audits of the Fiscal Year 2021 and 2020 Operations and Maintenance (O&M) bills provided by the District of Columbia Water and Sewer Authority (DC Water). The OIG conducted the audits in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS).

The OIG's objectives are as follows:

- To identify non-shareable and shareable costs;
- To obtain sufficient evidence to support the charges and expenses in the DC Water O&M bills;
- To examine the information for accuracy and reasonableness; and
- To issue a report on any overpayments (refunds) and underpayments (payables) for WSSC and the IMA partners.

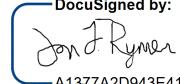
Our office is responsible for auditing the O&M bill. While the IMA requires that any audit resulting in a billing adjustment for one party must be applied uniformly to all affected parties, the underlying details of our audit may not necessarily reflect overpayments or underpayments for other IMA partners. Further, our office does not have a statutory authority or responsibility to other IMA partners. If the IMA partners do not agree with the findings in our report, it's their sole responsibility to determine any necessary amendments or changes to overpayments and underpayments related to their portion of the O&M bill, including any expected interest.

The OIG consulted with personnel from DC Water's Financial Reporting and Billing Department during the finalization of the audit adjustments. The OIG audit team provided detailed explanations and supporting documentation and obtained their understanding of the methodology of the adjustments.

Please find enclosed the *Statements of WSSC Audit Adjustments* for the fiscal years ended September 2021 and 2020, which show a net total in overpayments by WSSC, including interest of \$283,238 and \$1,273,102, respectively.

The OIG appreciates the cooperation and assistance provided by DC Water's staff throughout our audit.

Sincerely,


DocuSigned by:
Jon T. Rymer
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Jon T. Rymer, Inspector General
Office of the Inspector General

Enclosure

cc: WSSC, CEO and General Manager, (K. Powell)
WSSC, General Counsel, (N. Hickson)
WSSC, Chief Financial Officer (M. Musara)
DC Water, Chief Financial Officer & EVP, (M. Brown)
DC Water, VP-Finance, (I. Boykin)
DC Water, Controller, (H. Getahun)
WSSC, Regional Water/Wastewater Manager. (J. Caudill)
WSSC, Chief Engineer, (A. Wong)

BLUE PLAINS O&M BILL AUDITS
STATEMENTS OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

| Adjustment Description | FY 2021 Under (Over) Payment | FY 2020 Under (Over) Payment |
|---|---|---|
| Incorrect Data for Finance - Risk Management, Note 2 | \$ (3,306) | \$ - |
| Unfilled Human Resources Positions, Note 3 | (44,592) | (44,822) |
| Non-shareable Litigation Costs, Note 4 | (24,003) | (170,456) |
| Non-shareable Finance - Risk Management Costs, Note 5 | (51,489) | (79,627) |
| Miscalculated Fleet Costs and Excess Accruals, Note 6 | - | (10,283) |
| Security Cost Allocation, Note 7 | - | 16,097 |
| Recalculation of Indirect Cost Rate related to Security Costs, Note 8 | - | (45,391) |
| Misapplication of BMS Costs, Note 9 | (23,843) | (95,570) |
| Blue Drop and Wastewater Treatment Plant, Note 10 | (257,573) | (599,257) |
| Central Operations Facility (COF) Space Allocation, Note 11 | (11,348) | (6,086) |
| Indirect Cost Percentage Error, Note 12 | 270,100 | - |
| Constellation True-Up, Note 13 | (99,296) | (71,318) |
| Blue Drop Adjustment from Prior Years, Note 14 | - | 6,405 |
| Total Adjustments Before Interest | <u>\$ (245,350)</u> | <u>\$ (1,100,308)</u> |
| Interest (Calculated to 9-5-25), Note 15 | <u>\$ (37,888)</u> | <u>\$ (172,794)</u> |
| Total Adjustments Including Interest | <u>\$ (283,238)</u> | <u>\$ (1,273,102)</u> |

See the Notes to the Statements of WSSC Adjustments

BLUE PLAINS O&M BILL AUDITS
NOTES TO THE STATEMENTS OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

NOTE 1 – Summary of Business Relationship

The IMA and its Amendment, (effective 2013) were entered into by the District of Columbia (DC), DC Water, Fairfax County, Virginia, Montgomery County of Maryland, Prince George's County of Maryland, and WSSC (collectively the "Parties") to govern the operations and related expenses from the Blue Plains Wastewater Treatment Plant (WWTP) owned by DC Water.¹ Under the IMA and its Amendment, the Parties share in the costs of operating and maintaining the Blue Plains WWTP, and DC Water charges the other parties to the IMA for their respective portions of the costs every quarter. DC Water compiles an O&M settlement bill and sends it to all the IMA partners in March, following the end of its fiscal year as of September 30th. The settlement bill includes all direct services expended to operate the Blue Plains WWTP, and are described as follows: customer service, water operations, pumping operations, sewer operations, wastewater treatment operations, process engineering, maintenance costs, and capital. All direct and indirect costs related to these services are shared among the IMA partners based on the actual flow of wastewater per day.

NOTE 2 – Incorrect Data for Finance - Risk Management

Finance – Risk Management is an indirect cost sector in the O&M bill, and risks are evaluated across three insurance areas for workers' compensation, liability, and property. The costs are allocated to all of direct services provided by DC Water. DC Water updated the costs to eliminate non-shareable expenses for contracted services. However, it did not update the corresponding indirect cost allocation percentages to align with the updated figures, resulting in a discrepancy between the adjusted costs and their distribution. Thus, for fiscal year 2021, WSSC overpaid \$3,306. WSSC did not have any overpayments or underpayments in fiscal year 2020.

NOTE 3 – Unfilled Human Resources Positions

DC Water's People and Talent department oversees all personnel activities. In the O&M bill, some positions throughout DC Water remained unfilled during the fiscal year, and the overall work hours of other positions were less than expected. Therefore, the indirect cost percentage was adjusted to account for these changes. For fiscal years ended September 30, 2021 and 2020, WSSC overpaid \$44,592 and \$44,822, respectively.

NOTE 4 – Non-shareable Litigation Costs

DC Water's Legal Affairs department manages all litigation cases and incurs related expenses to perform its responsible function. The adjustment for litigation costs is based on an agreed-upon percentage of the expenses incurred for litigation costs. For fiscal years ended September 30, 2021, and September 30, 2020, WSSC overpaid \$24,003 and \$170,456, respectively.

¹ See *Blue Plains Intermunicipal Agreement*, Aug. 28, 1985, as amended by *First Amended Blue Plains Intermunicipal Agreement*, Sept. 6, 2012 (on file with WSSC).

BLUE PLAINS O&M BILL AUDITS
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FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

NOTE 5 – Non-shareable Finance and Risk Management Costs

DC Water's Finance Department is responsible for planning and reporting for all financial activities. At times, the Finance Department will use independent contractors to perform services on behalf of DC Water. These services and related costs were examined, and a portion was deemed non-shareable costs. For fiscal years ended September 30, 2021, and September 30, 2020, WSSC overpaid \$51,489 and \$79,627, respectively.

NOTE 6 – Miscalculated Fleet Costs and Excess Accruals

DC Water's Fleet costs are classified as a direct cost. Excess accruals for natural gas were inadvertently included in fleet costs. DC Water makes accruals for each fiscal year, and after settling invoices, the accrual is reversed. After comparing vendor invoices, it was determined that there were excess accruals that had not been reversed. For the fiscal year ended September 2020, WSSC overpaid \$10,283. WSSC did not have any overpayments or underpayments in fiscal year 2021.

NOTE 7 – Security Costs Reallocation

In fiscal year 2020, D.C Water changed the security cost allocation methodology. The OIG audit team performed a reallocation of security costs based on the FY2019 methodology using the identified positions and beneficiary department areas within DC Water. As a result, WSSC had underpaid and was assessed an additional payment of \$16,097 for the fiscal year ended September 2020. WSSC did not have any overpayments or underpayments in fiscal year 2021.

NOTE 8 – Recalculation of Indirect Cost Rate related to Security Costs

DC Water classifies security expenditures as an indirect cost. Security costs are allocated among the related beneficiary departments. The OIG audit team identified unallocated costs and updated occupancy square footage related to security costs. Based on this and the effects related to Note 7, it was determined that WSSC overpaid \$45,391 in security costs for the fiscal year ended September 2020. WSSC did not have any overpayments or underpayments in fiscal year 2021.

NOTE 9 – Misapplication of Bureau of Maintenance Services (BMS) Costs

DC Water allocates the bureau of maintenance services costs to three responsibility centers: electrical maintenance, mechanical maintenance, and mechanical management. The OIG audit team reviewed samples of maintenance services invoices and identified that some of the invoices were related to off-site locations. Those invoices were excluded from Blue Plains maintenance costs. For the fiscal years ended September 2021 and 2020, WSSC overpaid \$23,843 and \$95,570, respectively.

BLUE PLAINS O&M BILL AUDITS
NOTES TO THE STATEMENTS OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

NOTE 10 – Blue Drop and Wastewater Treatment Plant

Blue Drop, LLC (Blue Drop) is a non-ratepayer revenue affiliate of DC Water. Blue Drop earns revenue from hosting events at its facility and from the sale of biosolids. The Parties share the cost to fund and operate Blue Drop only to the extent that the costs are directly related to services covered by the IMA. Marketing and direct sales costs are eliminated from Blue Drop's share pool. In addition, WWTP personnel also perform duties on behalf of Blue Drop, and their related costs were eliminated. For fiscal years ended September 2021 and 2020, WSSC overpaid \$257,573 and \$599,257, respectively.

NOTE 11 – Central Operations Facility (COF) Space Allocation

Operation Agreement #2, Subsection C, Part 2(b) of the 2012 IMA Derivative Agreement, effective April 3, 2013, addresses the allocation of O&M costs for the Blue Plains and associated facilities, and specifies “the DC Water Central Operations Facility (COF) building O&M Costs allocated to wastewater services shall be [fifty-four percent] 54%.” It further states that “all Parties have the right to request a detailed analysis of this agreed allocation percentage if a circumstance occurs that materially changes the assumptions used in developing this ratio.”

During the audit, it was determined that some administrative officers moved their offices from the COF building to the HQO building in early 2019. DC Water confirmed the changes in a printed presentation. The information provided supports a material change in the assumptions used to develop the COF allocation percentage. Based on the changes, the COF allocation was recalculated and determined to be approximately thirty percent (30%). For the fiscal years ended September 2021 and 2020, WSSC overpaid \$11,348 and \$6,086, respectively. DC Water accounting representatives maintain that the COF administrative offices were in use during the respective fiscal years. The Parties’ management teams are negotiating the updated IMA cost share for COF O&M costs through the Council of Governments Committees. The final settlement of COF O&M costs allocated to wastewater services for both fiscal years will occur when a written agreement is reached. The current adjustments were settled to facilitate the closure of the FY2021 and FY2020 audits only.

NOTE 12 – Indirect Cost Percentage Error

DC Water incurs indirect costs from operating its direct services, and an indirect cost percentage is calculated for each service. The IMA partners share in the indirect cost based on the flow percentage attributed to each IMA partner. The original settlement bill did not include the indirect cost percentage for Maintenance costs in Central Administration. DC Water calculated the indirect cost rate percentage at 26.37% and adjusted the settlement bill. The OIG auditors reviewed the calculation and concurred with the adjustment. For the fiscal year ended September 2021, WSSC underpaid \$270,100. WSSC did not have any overpayments or underpayments in fiscal year 2020.

BLUE PAINS O&M BILL AUDITS
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FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

NOTE 13 – Constellation True-UP

Constellation New Energy, Inc. (Constellation) supplies electricity and gas to DC Water's operating facilities. DC Water receives and pays the monthly bills for the services provided by Constellation. At the end of Constellation's year-end, the annual bill is adjusted for credits, discounts, and rate adjustments compared to the total of DC Water's payments. This resulted in overall credit to DC Water, which is passed on to the IMA partners. For the fiscal years ended September 2021 and 2020, WSSC overpaid \$99,296 and \$71,318, respectively.

NOTE 14 – Blue Drop Adjustment from Prior Years

DC Water's affiliate Blue Drop began operations in 2017. In January 2025, as part of the quarterly O&M billing for Blue Plains, DC Water elected to share the portion of Blue Drop's revenue that is covered by the terms of the IMA with the IMA partners. In the analysis, DC Water deducted Blue Drop general administrative expenses, including marketing and sales, from the revenue share pool. For the O&M audits in fiscal year 2019 and 2018, the IMA partners were excluded from the calculation of any credits or payments for the same expenses. In 2025, the Blue Drop adjustment was reevaluated from FY2017 to FY2023. For FY2021 and FY2020, WSSC received an additional credit of \$171,913.03 and \$155,525.55, respectively. These amounts are included in the total Blue Drop adjustment for those respective years (See Note 10). FY2019, WSSC was assessed an additional billing of \$6,405. WSSC was not assessed and did not receive an additional amount for FY2018.

NOTE 15 – Calculated Interest

According to the IMA, interest is calculated on the outstanding overpayment or underpayment amount from the settlement bill date to the date the adjustments are finalized. The interest rate is based on the U.S. Federal Reserve Bank's discount rate. For the purposes of these audits, the interest start date was March 30th, following the close of DC Water's fiscal year, when the settlement bill is finalized, and extended to September 5, 2025, which is the approximate date the adjustments were finalized. For the fiscal years ended September 2021 and 2020, WSSC will receive an interest payment of \$37,888 and \$172,794, respectively. Over the same fiscal years, the average interest was 3.73% and 3.50%, respectively.

BLUE PAINS O&M BILL AUDITS
NOTES TO THE STATEMENTS OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 2021 AND 2020

NOTE 16 – Subsequent Events

The OIG's report represents the final examination of the FY2021 and FY2020 O&M bills. However, the IMA partners and their respective management teams, at their discretion, may elect to negotiate and change the actual payment of the final credit due to the IMA partners. The information contained in this report is accurate and supported by audit evidence. The OIG has no role in determining the actual payment to the IMA partners; however, it may be required to supply information to the IMA partners regarding the audits. The OIG will respond to all requests pursuant to GAGAS, other accounting standards, and related laws concerning the audits.