



OFFICE OF THE INSPECTOR GENERAL LAUREL, MARYLAND

BLUE PLAINS O&M BILL AUDIT FY2022



OIG PROJECT NUMBER 24-BP-01

14501 SWEITZER LANE, LAUREL, MARYLAND 20707
(301) 206-8300 / officeoftheinspectorgeneral@wsscwater.com



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Jon T. Rymer, Inspector General

May 7, 2026

SENT VIA EMAIL

David 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 an audit of the Fiscal Year 2022 Operations and Maintenance (O&M) bill provided by the District of Columbia Water and Sewer Authority (DC Water). The OIG conducted the audit in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS).

The OIG's objectives are as follows:

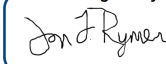
- To identify non-shareable and shareable costs;
- To obtain sufficient evidence to support the charges and expenses in the DC Water O&M bills;
- To examine the information for accuracy and reasonableness; and
- To issue a report on any overpayments (refunds) and underpayments (payables) for WSSC and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

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 the OIG obtained DC Water's understanding of the methodology of the adjustments.

Please find enclosed the *Statement of WSSC Audit Adjustments* for the fiscal year ended September 30, 2022, which shows a net overpayment by WSSC of \$762,721.06, including interest. The accompanying notes are an integral part of the *Statement of WSSC Audit Adjustments*.

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

Sincerely,

DocuSigned by:


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Jon T. Rymer, Inspector General
Office of the Inspector General

Enclosure

cc: CEO and General Manager, (K. Powell)
General Counsel, (N. Hickson)
Chief Financial Officer, (M. Musara)
DC Water, Chief Financial Officer & EVP (Acting), (L. Oyeyemi)
DC Water, Vice President, Finance, (I. Boykin)
WSSC, Regional Water/Wastewater Manager, (J. Caudill)
WSSC, Chief Engineer, (A. Wong)

**BLUE PLAINS O&M BILL AUDIT
STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022**

Adjustment Description	FY 2022 Under (Over) Payment
Unfilled Human Resources Positions, Note 2	\$ (75,485.00)
Misapplication of BMS Costs, Note 3	(36,189.00)
Non-shareable Finance - Risk Management Costs, Note 4	(87,390.08)
Security Cost Allocation, Note 5	(30,189.73)
Information Technology Cost Allocation, Note 6	(39,969.29)
Central Operations Facility (COF) Space Allocation, Note 7	(7,335.37)
HQQ Space Allocation, Note 8	24,406.80
Blue Drop and Wastewater Treatment Plant, Note 9	(385,754.58)
Constellation True-Up, Note 10	(22,270.02)
Non-shareable Litigation Cost, Note 11	(121,649.38)
Indirect Cost Rate Error, Note 12	<u>133,617.00</u>
Total Adjustments Before Interest	\$ (648,208.65)
Interest (Calculated to 3-31-26), Note 13	<u>(114,512.41)</u>
Total Adjustments Including Interest	<u>\$ (762,721.06)</u>

See the Notes to the Statement of WSSC Adjustments

BLUE PLAINS O&M BILL AUDIT
NOTES TO THE STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 – Summary of Business Relationship

The IMA and its Amendment, (effective 2013) is an agreement between the District of Columbia (DC), DC Water, Fairfax County, Virginia, Montgomery and Prince George’s counties, and WSSC (collectively the “Parties”) governing the operations and related expenses of 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. Specifically, under this cost allocation framework, DC Water charges the other parties on a quarterly basis for their respective portions of the costs. DC Water compiles and transmits an O&M settlement bill to all the IMA partners in March, following the end of its fiscal year as of September 30, 2022. The settlement bill includes all direct services expended to operate the Blue Plains WWTP, and is 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 – Unfilled Human Resources Positions

DC Water’s People and Talent Department oversees all personnel activities and submits a budget projecting the number of positions that will be filled during the current fiscal year. Certain personnel expenses are treated as indirect costs and allocated accordingly. The OIG audit team examined DC Water’s supporting documentation. We found that some positions remained unfilled during the fiscal year, and the overall work hours of other positions were less than expected. Therefore, the indirect cost percentage assessed was adjusted to account for these changes. For the fiscal year ended September 30, 2022, WSSC overpaid \$75,485.

NOTE 3 – 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 examined samples of maintenance services invoices and identified that some invoices were related to off-site locations. Those invoices were excluded from Blue Plains maintenance costs. For the fiscal year ended September 30, 2022, WSSC overpaid \$36,189.

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 AUDIT
NOTES TO THE STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022**

NOTE 4 – Non-shareable Finance and Risk Management Costs

Finance – Risk Management is an indirect cost sector in the O&M bill, and risks are evaluated across three insurance areas: workers’ compensation, liability, and property. These costs are allocated to all directly services provided by DC Water. The OIG audit team examined these costs and identified non-shareable costs to the IMA partners. These costs were excluded, and the indirect cost rate was recalculated. As a result, WSSC overpaid costs in this area by \$87,390.08 for the fiscal year ended September 30, 2022.

NOTE 5 – Non-shareable Security Costs

DC Water employs contractors to provide security for its headquarters and operating facilities. These costs are also classified as indirect costs and allocated across departments and operations. The OIG audit team identified non-shareable costs and recalculated the indirect cost rate. As a result, WSSC overpaid \$30,189.73 in security costs for the fiscal year ended September 30, 2022.

NOTE 6 – Recalculation of Information Technology Costs

DC Water allocates Information Technology Costs across six responsibility centers, and those costs are also treated as indirect costs. The OIG audit team examined the allocation of IT costs and noted that some costs should be excluded and reclassified as costs attributable solely to DC Water. Based on the reallocation of IT costs, it was determined that WSSC overpaid \$39,969.29 for the fiscal year ended September 30, 2022.

NOTE 7 – Central Operations Facility (COF) Space Allocation

Section 2, 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. It specifies “the DC Water Central Operations Facility (COF) building O&M Costs allocated to wastewater services shall be [fifty-four percent] 54%.” The Agreement further provides 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.”

Over the past three audit years, the OIG audit team recalculated the cost allocation percentage and reduced it to 30% due to identified changes involving DC Water’s administrative officers and functions. Subsequently, DC Water reevaluated the cost drivers affecting the allocation method and, along with its IMA partners, proposed a change to the cost allocation to 47%, effective October 1, 2021. The OIG audit team reviewed the new methodology and did not propose adjustments. For the fiscal year ended September 30, 2022, WSSC overpaid \$7,335.37.

BLUE PLAINS O&M BILL AUDIT
NOTES TO THE STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

NOTE 8 – Headquarters Office (HQP) Space Allocation

DC Water moved to its new headquarters office (HQP) during FY22 and determined that a portion of the costs was shareable amongst its IMA partners. HQP includes DC Water's executive and administrative offices as well as some offices for operations. The DC Water accounting staff prepared a reasonable methodology and calculated a cost allocation percentage of 35%. This percentage would have been in effect for fiscal year 2022. However, a job cost code for HQP has not yet been established, and the DC Water Accounting staff offered a method to estimate the share cost for HQP. The OIG audit team agreed, and it was determined that WSSC underpaid its share of the costs in the amount of \$24,406.80 for fiscal year 2022.

NOTE 9 – Blue Drop and Wastewater Treatment Plant

Blue Drop, LLC (Blue Drop) is a non-ratepayer revenue affiliate of DC Water. According to DC Water, Blue Drop earns revenue from hosting events at DC Water's headquarters and from the sale of biosolids. The Parties share the costs of funding and operating Blue Drop. However, the marketing and direct sales costs are eliminated from Blue Drop's share pool. In addition, although WWTP personnel also perform duties on behalf of Blue Drop, their related labor costs were also eliminated from the allocation. For the fiscal year ended September 30, 2022, WSSC overpaid \$385,754.58.

NOTE 10 – Constellation True-UP

Constellation New Energy, Inc. (Constellation) supplies electricity and gas to DC Water's headquarters and 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 year ended September 30, 2022, WSSC overpaid \$22,270.02.

NOTE 11 – Non-shareable Litigation Costs

DC Water's Legal Affairs Department manages all litigation matters and incurs costs for professional services and contractual support necessary to perform its responsibilities. These costs are recorded as indirect costs and are ultimately shared among IMA users. Due to confidentiality considerations, we requested that the DC Water Legal Affairs Department review the vendors and invoices to identify which costs are shareable under the IMA and which should be excluded as non-shareable. Based on the information provided by their office, we reconciled and examined the costs and determined that adjustments were warranted. Based on this analysis, WSSC overpaid \$121,649.38 for the fiscal year ended September 30, 2022.

BLUE PLAINS O&M BILL AUDIT
NOTES TO THE STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022

NOTE 12 – Indirect Cost Percentage Error

DC Water incurs indirect costs in the course of delivering its direct services, and an indirect cost percentage is calculated for each service to allocate those expenses. Under the IMA, indirect costs are allocated based on the respective flow percentages 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 25.18% and adjusted the settlement bill. The OIG audit team reviewed and concurred with the calculation and adjustment. For the fiscal year ended September 2022, WSSC underpaid \$133,617.

NOTE 13 – Interest Calculation

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 this audit, 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 March 31, 2026, which is the approximate date the adjustments were finalized. For the fiscal year ended September 30, 2022, WSSC will receive an interest payment of \$114,512.41, with an average interest rate of 3.78%.

NOTE 14 – Subsequent Events

IMA Amendments

DC Water and its IMA partners have proposed changes to the Operating Agreements of the IMA affecting the Blue Plains & Associated Facility O&M Costs Allocation for the COF and HQO spaces. The proposed cost allocations for COF (47%) and HQO (35%) will be formalized and signed in an amendment to the IMA on or before June 30, 2026. DC Water and its IMA partners have agreed on an effective date beginning with DC Water's fiscal year, starting October 1, 2021.

**BLUE PLAINS O&M BILL AUDIT
NOTES TO THE STATEMENT OF WSSC AUDIT ADJUSTMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022**

NOTE 14 – Subsequent Events (continued)

Remittance to IMA Partners

The OIG’s audit report represents the final examination of DC Water’s FY2022 O&M bill. The information contained in this audit report is accurate, supported by evidence that was properly analyzed and examined by both the OIG audit team and the DC Water Accounting staff. Notwithstanding these determinations, the IMA partners and their respective management teams, at their discretion, may and can elect to negotiate and change the actual payment of the final credit due to the IMA partners. The OIG has no role in determining the actual amount of the payment or the timing of the payment to the IMA partners. The OIG may provide information to the IMA partners regarding this audit, and will respond to all requests pursuant to GAGAS, other accounting standards, and related laws governing our audit.