



**DISTRICT OF COLUMBIA  
WATER AND SEWER AUTHORITY**

**Board of Directors**

*Audit Committee*

*Thursday, April 22, 2021*

9:30 a.m.

**Microsoft Teams Meeting**

**Join on your computer or mobile app**

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**Or call in (audio only)**

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Phone Conference ID: 773 344 372#

- 1. **Call to Order**..... Floyd Holt, Chairperson
- 2. **Roll Call**.....Linda Manley, Board Secretary
- 3. **Internal Audit Update**..... Dan Whelan, RSM, Auditor General
  - A. FY 2021 Internal Audit Plan Status Update
  - B. Status Update on Prior Audit Findings
  - C. [Procurement Pre-Award and Selection Audit](#)
  - D. [Succession Planning Assessment](#)
  - E. Hotline Update
- 4. **Executive Session\*** ..... Floyd Holt, Chairperson
- 5. **Adjournment**..... Floyd Holt, Chairperson

\* The DC Water Board of Directors may go into executive session at this meeting pursuant to the District of Columbia Open Meetings Act of 2010, if such action is approved by a majority vote of the Board members who constitute a quorum to discuss: matters prohibited from public disclosure pursuant to a court order or law under D.C. Official Code § 2-575(b)(1); contract negotiations under D.C. Official Code § 2-575(b)(1); legal, confidential or privileged matters under D.C. Official Code § 2-575(b)(4); collective bargaining negotiations under D.C. Official Code § 2-575(b)(5); facility security under D.C. Official Code § 2-575(b)(8); disciplinary matters under D.C. Official Code § 2-575(b)(9); personnel matters under D.C. Official Code § 2-575(b)(10); proprietary matters under D.C. Official Code § 2-575(b)(11); decision in an adjudication action under D.C. Official Code § 2-575(b)(13); civil or criminal matters where disclosure to the public may harm the investigation under D.C. Official Code § 2-575(b)(14), and other matters provided in the Act.

# DC WATER

## Audit Committee Meeting



April 22, 2021

# Agenda

- FY 2021 Internal Audit Plan Status Update
- Status Update on Prior Audit Findings
- Report on Completed Audits
  - Procurement Pre-Award and Selection Audit
  - Succession Planning Assessment
- Hotline Update
- Executive Session
  - Remote Workforce Security Assessment
  - Oracle Embedded Risk Assurance Phase 1 Update

# AUDIT PLAN STATUS UPDATE

# Internal Audit Plan Status Update

Audit	Status
<b>FY 2020</b>	
Oracle Embedded Risk Assurance Phase 1	Fieldwork in Progress*
<b>FY 2021</b>	
Work Order Management – DMS	Report Complete
<b>Procurement Audit</b>	<b>Report Complete</b>
<b>Succession Planning Assessment</b>	<b>Report Complete</b>
<b>Remote Workforce Security Assessment</b>	<b>Report Complete</b>
Contract Compliance Audit	Fieldwork in Progress
PCS Review	Planning in Progress
Strategic Plan Monitoring Audit	Not Started
Remediation Follow Up Procedures	On-going
Hotline Management	On-going

*\*Note: The original scope of the Oracle Embedded Risk Assurance Phase 1 project has been completed, which was specific to the pre-go live environment. Management reviewed the risks identified and requested for a post-go live assessment of the segregation of duties results. Internal Audit will conduct the post-go live review this quarter. A project update will be provided in Executive Session.*

# Internal Audit Plan FY 2021 Timeline

	Oct - 20	Nov - 20	Dec - 20	Jan - 21	Feb - 21	Mar - 21	Apr - 21	May - 21	Jun - 21	Jul - 21	Aug - 21	Sep - 21	Oct - 21
▶ FY20 Oracle Embedded Risk Assurance	█								█				
▶ Work Order Management – DMS	█	█	█	█									
▶ Procurement Audit				█	█	█	█						
▶ Succession Planning Assessment				█	█	█	█						
▶ Remote Workforce Security Assessment				█	█	█	█						
▶ Contract Compliance Audit							█	█	█	█			
▶ PCS Review							█	█	█	█			
▶ Strategic Plan Monitoring Audit										█	█	█	█
▶ FY 2022 Risk Assessment										█	█	█	█
▶ Ongoing Follow-up Procedures	█	█	█	█	█	█	█	█	█	█	█	█	█
▶ Ongoing Hotline Monitoring	█	█	█	█	█	█	█	█	█	█	█	█	█

# PRIOR AUDIT FINDINGS – FOLLOW UP STATUS

# Open High Risk Prior Audit Findings

	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date
1	2016	7/28/2016	Training, Licensing, and Certification	<b>Identification and monitoring of training requirements by position</b> <i>Status notes: Two of three training buckets (safety and compliance) have been configured in LMS. Coordination underway with HRBPs to complete final training bucket (technical training).</i>	9/30/2017	10/1/2021
2	2017	4/27/2017	Data Privacy Assessment	<b>Finding Issued in Executive Session</b>	5/1/2017	11/30/2021
3	2017	10/26/2017	Entity Level Assessment	<b>Lack of a comprehensive risk management function to evaluate entity-wide risk</b>	10/1/2018	3/31/2022
4				<b>Lack of Authority-wide policy and procedure management function</b> <i>Status notes: EPMO is in the process of developing an Enterprise Risk Management (ERM) Policy to be institutionalized across the enterprise. EPMO is also developing a policy regarding policy and procedure administration to address Authority-wide policy development, issuance, and maintenance. A DC Water Policy Administrator position will be created.</i>	9/30/2018	2/28/2022
5	2017	10/26/2017	Materials Management Operations and Inventory	<b>Inadequate documentation of variance review and root cause analysis for Lawson inventory data</b> <i>Status notes: New field for variance review and root cause detail has been incorporated into new Oracle ERP Inventory module. A new cycle count process will be implemented by the end of April.</i>	1/17/2018	4/30/2021
6	2018	1/24/2019	Enterprise Work Order Management Assessment	<b>DWO – Inadequate capture of labor and materials cost data in Maximo work orders</b> <i>Status notes: Pilot for hydrant program is complete. Roll out of valve application is anticipated by the end of the fiscal year.</i>	9/30/2020	9/30/2021
7	2019	4/25/2019	Legal Operations Assessment	<b>Lack of definition of Office of Legal Affairs’ role in matters across the Authority</b> <i>Status notes: Milestones provided by Legal regarding closure of this item. Meetings have been held with Division Chiefs to discuss the process of drafting a service level agreement (SLA) to formalize the role Legal Affairs will play and how and when Divisions should reach out to Legal for counsel.</i>	9/30/2020	9/30/2021





# Open High Risk Prior Audit Findings

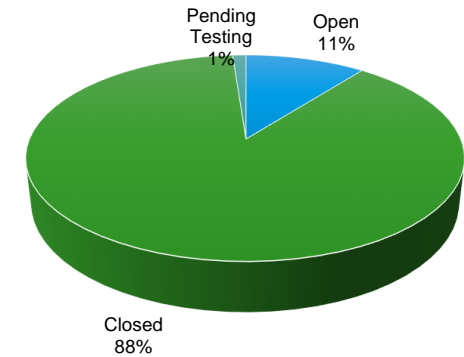
	Audit FY	Issue Date	Audit Report	High Risk Open Finding	Original Target Date	New Target Date
<b>8</b>	2019	4/25/2019	<b>Occupational Safety and Health Internal Audit</b>	<b>Outdated comprehensive safety plan for the Authority</b> <i>Status notes: Safety policies are now going through the process of leadership review and communicating to the various Unions for feedback and discussion.</i>	3/1/2020	9/31/2021
<b>9</b>	2019	7/25/2019	<b>Purchasing Card Internal Audit</b>	<b>Non-compliance with documented PCard and TCard policies</b> <i>Status notes: PCard policy has been updated and updated training conducted for all cardholders. TCard policy updates are on-hold given other COVID-19 response priorities and limited TCard usage.</i>	5/25/2020	On hold
<b>10</b>	2019	1/23/2020	<b>Asset Management Assessment</b>	<b>Inaccurate data captured in GIS map and data table</b> <i>Status notes: GIS team has made progress identifying required fields and missing data. PowerBI dashboard created to monitor linear asset attributes. Delays caused by competing priorities for COVID-19 response and Engineering organization review.</i>	7/31/2020	7/31/2021
<b>11</b>	2020	4/23/2020	<b>Facilities Management Internal Audit</b>	<b>Utilization of Maximo – Inconsistent Entry of Materials &amp; Labor</b> <b>Work Order Monitoring – Lack of Supervisor Review &amp; KPIs</b> <i>Status notes: Facilities will be working in coordination with IT and Materials Management to facilitate the capture of materials on individual work orders, along with training personnel on the use of new mobile tablets for work order completion, including Foreman review requirements.</i>	6/15/2020	8/31/2021
					6/15/2020	8/31/2021

Legend	
	Past due
	Original target date has not yet come due

# Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>Prior to FY20 Audit Findings</b>					
Training, Licensing & Certification	7/28/2016	7	1	6	0
Annual Budgeting and Planning	4/27/2017	1	1	0	0
HR/Employee Privacy Review	4/27/2017	7	1	6	0
Entity Level Assessment	10/26/2017	7	2	4	1
Materials Management Operations and Inventory	10/26/2017	4	1	3	0
Accounts Payable	10/25/2018	5	0	5	0
Integrated Work Order Management	1/24/2019	10	2	8	0
Legal Operations	4/25/2019	4	3	1	0
Occupational Safety and Health	4/25/2019	4	2	2	0
Purchasing Card Internal Audit	7/25/2019	3	1	1	1
CIS Application Security SOD Review	10/24/2019	4	2	2	0
Asset Management Assessment	1/23/2020	2	2	0	0
	<b>Total</b>	<b>58</b>	<b>18</b>	<b>38</b>	<b>2</b>

**FY16 – FY19 Prior Audit Findings Status**



<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

Note that the audit findings reported above only represent findings prior to FY19 with the status of "Pending Testing" or "Open". Audits conducted prior to FY19 for which all findings have been closed are not represented in this table. However, the pie chart to the right includes status of all audit findings FY16 - FY19.

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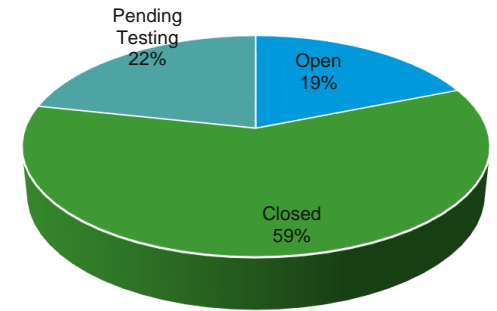
Color Key	
<span style="color: blue;">■</span>	At least 1 original remediation target date has been extended



# Status Update on Prior Audit Findings

Audit Report/Subject	Report Issue Date	Corrective Actions			
		Total	Open	Closed	Pending Testing <sup>1</sup>
<b>FY20 Audit Findings</b>					
Work Order Planning Assessment	4/23/2020	4	0	3	1
Phase 2: Physical Security Penetration Testing	4/23/2020	3	0	3	0
Facilities Management Audit	4/23/2020	3	3	0	0
Benefits and Compensation Audit	4/23/2020	5	2	3	0
Engineering Change Order Assessment	10/22/2020	3	0	3	0
SCADA ICS Review	10/22/2020	16	1	9	6
Customer Billing and Collections Audit	10/22/2020	3	1	1	1
	<b>Total</b>	<b>37</b>	<b>7</b>	<b>22</b>	<b>8</b>

**FY20 Prior Audit Findings Status**



**Color Key**

At least 1 original remediation target date has been extended

<sup>1</sup> "Pending Testing" indicates that Management represents that the Action Plan is Completed, but Internal Audit has not yet performed testing to validate the status.

In total, 91% of all prior audit findings from FY14 – FY20 are closed. Management’s target closure rate is 90%.

## Action Deferred Update

The following items are considered “action deferred” items that are contingent on other action occurring and not included in the Prior Audit Findings Update slides above:

1. Intellectual Property Personnel Policy: Policy under review by Legal. Legal anticipates it will be ready for Executive Leadership review by the end of April.

*The Authority has also been reviewing overarching policy management procedures, which is an open finding from the FY16 Entity-Level Assessment.*

# PROCUREMENT PRE- AWARD AND SELECTION AUDIT

# Procurement Pre-Award and Selection Audit

## Purpose

The purpose of this review was to obtain an understanding of the various processes that take place leading up to the Authority entering into contract agreements with vendors for necessary purchases. Our testing period covered all of January 1, 2020 through December 31, 2020.

## Scope

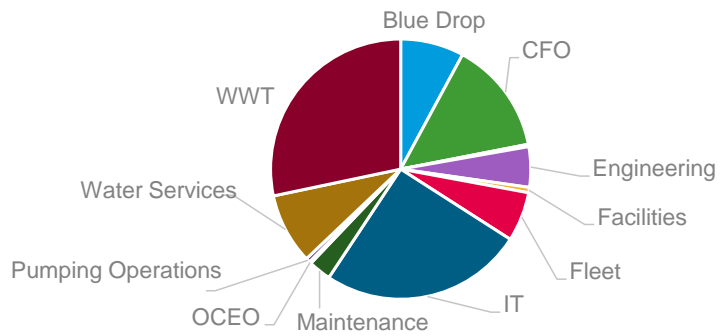
Based on our audit objectives, the following procedures were performed:

- Conducted walkthroughs with Procurement Department staff to understand the standard operating procedures related to selection and pre-award of vendor contracts.
- Selected a representative sample of contracts for review of the following processes:
  - Preparation of procurement request
  - Solicitation of vendor responses
  - Evaluation of vendor responses
  - Funding and timely execution
  - Record retention
- Evaluated controls for the processes above as outlined in the Procurement Manual for the respective procurement method used (i.e. micro-purchase, small purchase, sealed bid, competitive proposal, multi-step, expedited purchase, limited competition, joint, General Services Administration schedule purchase, rider)
- Evaluated controls for the processes above as outlined in the Procurement Manual for the types of procurements that do not require competition (i.e. sole source, emergency, categorical exemption)
- Identified potential opportunities for process improvement or control gaps and underlying root causes.
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps.

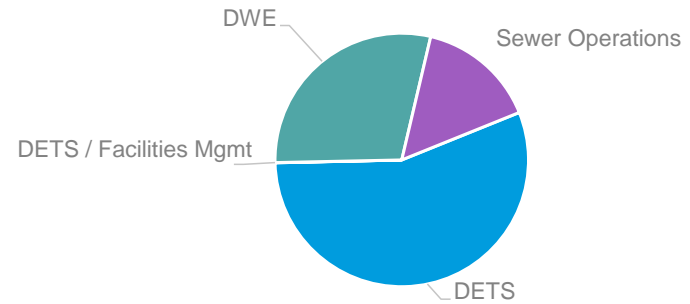
# Procurement Pre-Award and Selection Audit

For the period of January 1, 2020 – December 31, 2020, there were a total of 22 goods and services contracts with a total contract value of \$28,440,064.20. In the same period, there were a total of 12 capital program contracts with a total contract value of \$105,245,820.50.

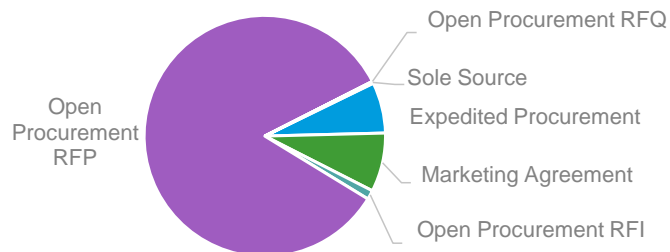
Goods & Services - Contract Value by Department



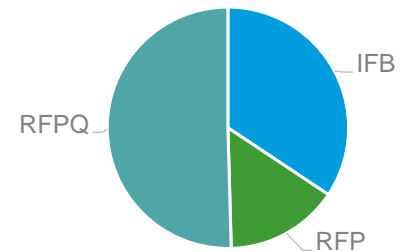
Capital Programs - Contract Value by Department



Goods & Services - Contract Value by Procurement Type



Capital Programs - Contract Value by Procurement Type



# Procurement Pre-Award and Selection Audit

Observations	Risk Rating
<b>1. Contract Execution Delays</b>	High
<p><b>Management Action Plan:</b></p> <ul style="list-style-type: none"> <li>• Contract #1– Board and Leadership Team Workshop and Strategy Review: In this case, an arbitrary contract start date was added as a placeholder in the contract draft at the start of contract negotiation, but the date was not updated before the contract was executed. The contractor did not begin work until the contract was fully executed, and DC Water’s program proceeded as planned and on schedule.                             <ul style="list-style-type: none"> <li>○ Planned Action: Make sure the contract variables are properly updated in the final executable document.</li> </ul> </li> <li>• Contract #2– Instrumentation Maintenance: This delay was caused when Procurement leadership made a last-minute change in the contract value, requiring some documentation to be revised. No work under the contract was at risk during the three-day period between start date and execution.                             <ul style="list-style-type: none"> <li>○ Planned Action: Remind Sourcing Specialists to be mindful of the impact of last-minute changes and to raise the issue to management as appropriate.</li> </ul> </li> <li>• Contract #3– ROCIP: The delay between contract start date and execution was caused by a lapse in project management. The contractor continued to work during this period.                             <ul style="list-style-type: none"> <li>○ Planned Action: The contract negotiation begins after the supplier selection is approved by Procurement leadership and completed prior to the Board approval. Unexpected contract changes were requested by the vendor and had to be negotiated after the Board approval and took some time to complete before executing the contract. In the future, the contract will be submitted for the Board action after the contract is fully agreed by both parties. To avoid any potential delay, Procurement will start the solicitation sooner to accommodate a sufficient contract negotiation time and to avoid the lapse in the contracts.</li> </ul> </li> </ul> <p><b>Target Date:</b> May 31, 2021</p> <p><b>Responsible Parties:</b> VP Procurement &amp; Compliance</p>	



# SUCCESSION PLANNING ASSESSMENT



# Succession Planning Assessment

## Purpose

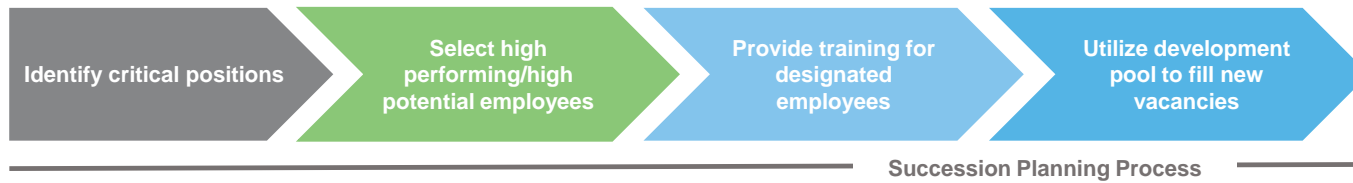
The purpose of this review was to obtain an understanding of how the succession planning function is managed and monitored at the Authority, and evaluate the design and operating effectiveness of the related internal controls. Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated January 15, 2021, and were limited to those procedures described therein. Fieldwork was performed January 2021 through February 2021.

## Scope

Based on our audit objectives, the following procedures were performed:

- Validated that critical positions are identified and defined, and appropriate backfill positions are established and approved by leadership;
- Evaluated how succession planning is managed at the Authority-level and Department-level, including the documentation, monitoring, and reporting of assigned requirements / initiatives;
- Evaluated how succession planning is monitored for ongoing changes to personnel, including terminations, new hires, and planned or unplanned leave;
- Determined how succession planning is communicated and reported to management and the Board of Directors; and
- Identified process improvement opportunities and recommend internal control enhancements to improve the overall monitoring of succession planning.

# Succession Planning Assessment



Average Departures Year over Year (10/1/2016 – 1/8/2021)		
Total Departures	Years	Average
408	5	81.6

Annual Departures of Leadership Positions	
Year	# of Leadership Departures
FY 2017	12
FY 2018	16
FY 2019**	23
FY 2020	12
FY 2021 (Partial)	1

\*Leadership designation for operational departments consisted of General Foreman and above; for other departments, any position above Manager.

\*\*There was a change in leadership (CEO) in FY2019.

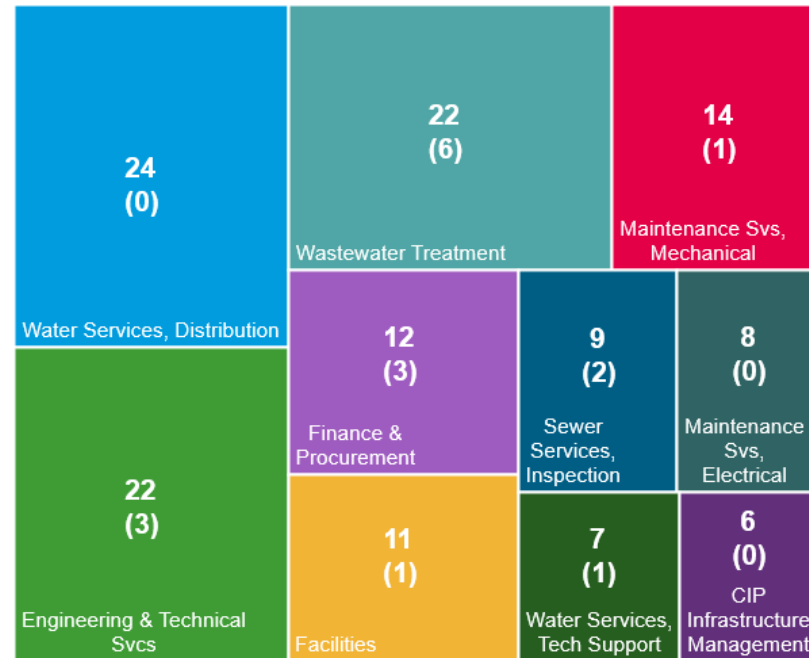
# Succession Planning Assessment

## Top 10 Departments – Retirement Eligible Personnel

Having an understanding of the number of department members that are eligible for retirement is key for succession planning, because it provides insight regarding which departments are likely to have open positions in the near future. The chart on the following page shows the percentage of total department count that is eligible for retirement.

### Retirement Eligibility Requirements:

- 55+ years of age with 30+ years of service
- 60+ years of age with 20+ years of service
- 62+ years of age with 5+ years of service
- 65+ years of age



\*Leadership designation for operational departments consisted of General Foreman and above; for other departments, any position above Manager.

\*Number of leadership personnel eligible for retirement is shown in parentheses.



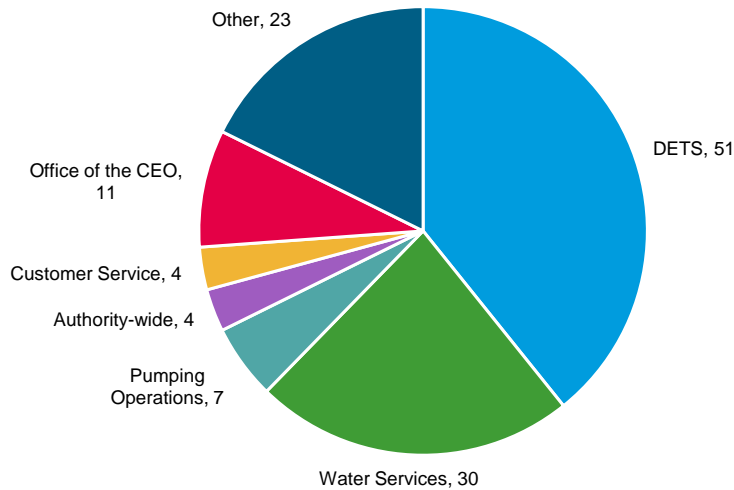
*One moderate risk finding is included in the full report.*

# HOTLINE UPDATE AND SEMI-ANNUAL ANALYSIS

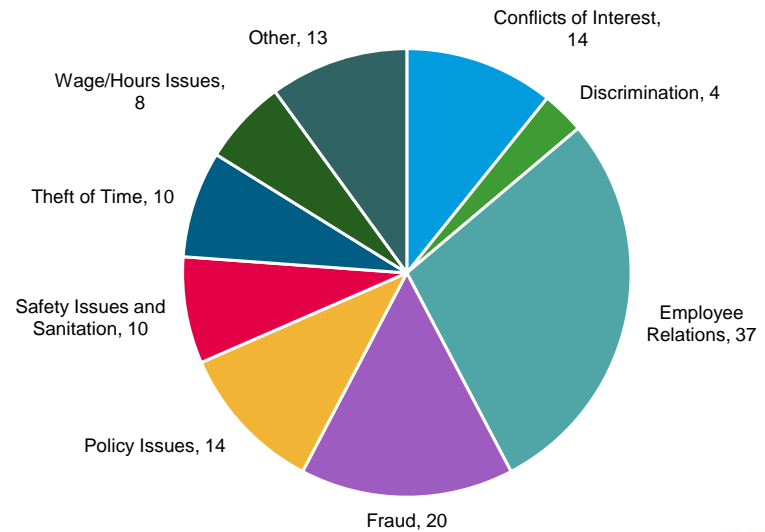
# Hotline Call Analysis

We conducted an analysis of the 130 hotline calls that have been received since FY 2016 to date, to determine if there are any trends, evaluate the quantity of calls (allegations) that were substantiated, and other matrices. The following charts represent the breakdown of calls by Department and case type.

**Calls by Department**

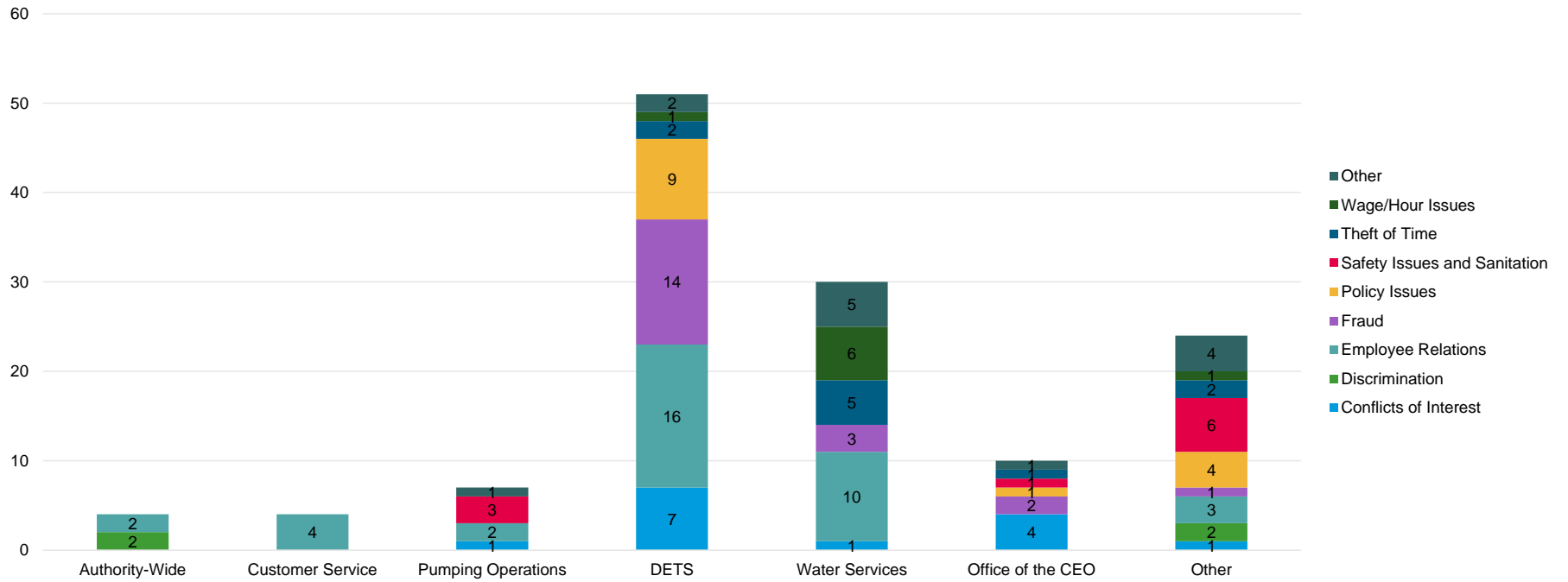


**Calls by Case Type**



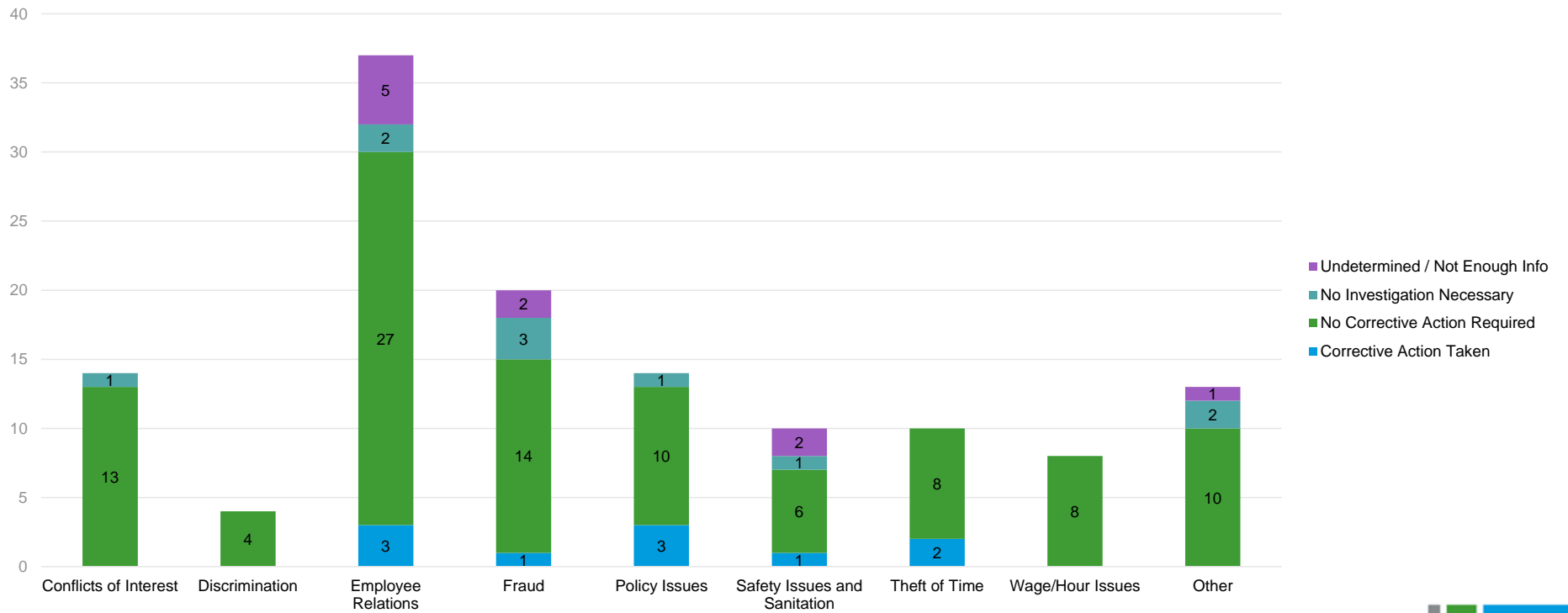
# Hotline Call Analysis (continued)

**Calls by Type and Department**



# Hotline Call Analysis (continued)

## Calls by Type and Outcome



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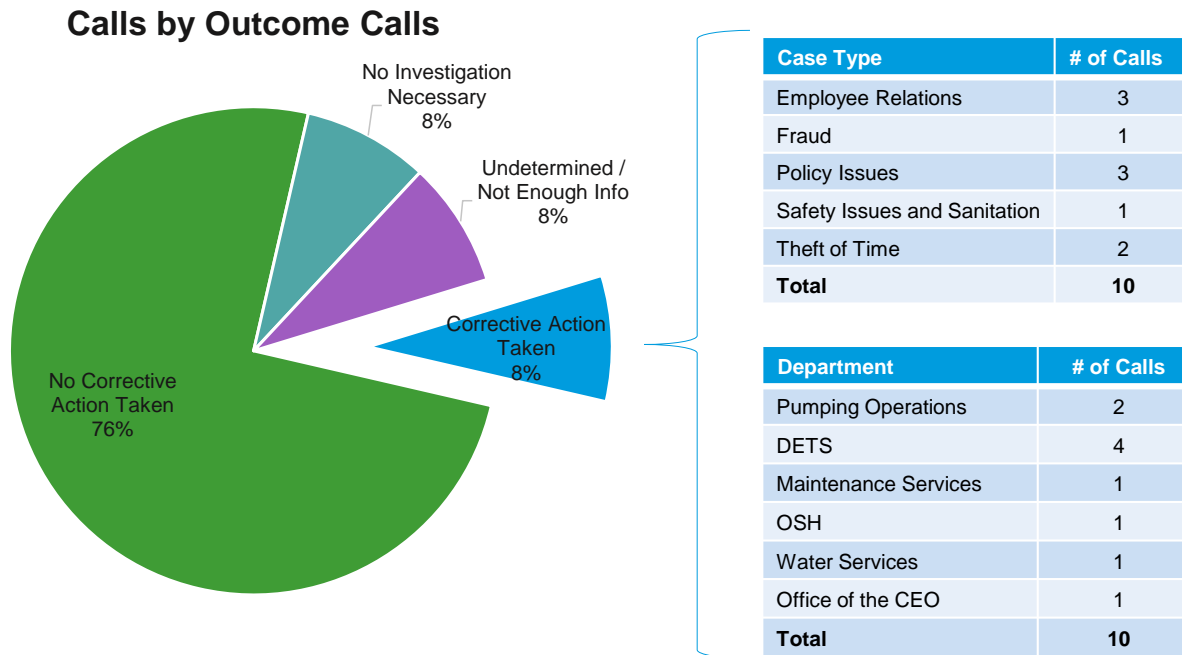
Results as of April 7, 2020





## Hotline Call Analysis (continued)

The following tables represent the breakdown of hotline calls that were substantiated and required corrective action. Of the 130 cases closed, 8% or 10 calls resulted in corrective action.



# Hotline Update

As of 4/7/2021:

FY 21 Hotline Call Summary	
FY 21 Calls Received	4
FY 21 Cases Closed	4
FY 21 Calls Open	0

FY 20 Hotline Calls	
FY20 Calls Received	10
FY20 Calls Closed	10
FY20 Calls Open	0

FY 19 Hotline Calls	
FY19 Calls Received	28
FY19 Calls Closed	28
FY19 Calls Open	0

Total calls by Fiscal Year:

Year	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY19	FY20	FY21
# of calls	10	20	16	36	31	21	28	10	4
Action Taken	0	2	7	7	2	0	1	0	0

*\*the numbers in the chart above may be inflated based on repeat calls regarding the same matters*



# QUESTIONS AND ANSWERS

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# DC WATER

## Procurement Pre-Award & Selection Audit



April 2021

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**Executive Summary and Objectives**

**Background**

**Approach**

**Observations and Recommended Action**

**Appendix – Risk Rating Definition**

# EXECUTIVE SUMMARY, BACKGROUND AND APPROACH



# Executive Summary and Objectives

## Objective and Scope

The purpose of this review was to obtain an understanding of the various processes that take place leading up to the Authority entering into contract agreements with vendors for necessary purchases. Our testing period covered all of January 1, 2020 through December 31, 2020. The assessment scope was based upon the following objectives:

- Conducted walkthroughs with Procurement Department staff to understand the standard operating procedures related to selection and pre-award of vendor contracts.
- Selected a representative sample of contracts for review of the following processes:
  - Preparation of procurement request
  - Solicitation of vendor responses
  - Evaluation of vendor responses
  - Funding and timely execution
  - Record retention
- Evaluated controls for the processes above as outlined in the Procurement Manual for the respective procurement method used (i.e. micro-purchase, small purchase, sealed bid, competitive proposal, multi-step, expedited purchase, limited competition, joint, General Services Administration schedule purchase, rider)
- Evaluated controls for the processes above as outlined in the Procurement Manual for the types of procurements that do not require competition (i.e. sole source, emergency, categorical exemption)
- Identified potential opportunities for process improvement or control gaps and underlying root causes.
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps.

Fieldwork was performed February 2021 – March 2021.

## Overall Summary and Highlights

There are two observations identified during our assessment including one high risk observation:

1. Contract Execution Delays
2. Contract File Review

These observations are described in the detailed observations section of the report (pages 9 -12). We assigned relative risk or value factors to each observation. Risk ratings are the evaluation of the projected severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

### Summary of Observation Ratings

(See Appendix for risk rating definitions)

Number of Observations by Risk Rating

High	Moderate	Low
1	0	1

We thank all DC Water team members who assisted us throughout this review.



## Background (continued)

In accordance with District of Columbia Code, DC Water must maintain an established procurement system that is consistent with principles of competitive procurement. Specific “Procurement Regulations” were approved by the Board of Directors and published in the District of Columbia Municipal Regulations in 1999 and have since been revised in 2009. The Authority’s Procurement Manual acts as a guideline for staff to follow in the acquisition of goods, services, equipment, and construction.

With the Regulations and Procurement Manual as guiding principles, the procurement process revolving around vendor selection and pre-award of contracts is designed to meet the needs of the Authority. The Manual outlines various authorized procurement method types that should be used to ensure full and open competition, as well as the appropriate methods for purchases that are exempt from competition (see table to the right).

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Authorized Procurement Methods
Micro-purchase
Small purchase (simplified acquisitions)
Sealed bid
Competitive proposal
Multi-step
Expedited purchase
Limited competition
Joint agency
Rider
General Services Administration (GSA) schedule purchase
Competition-Exempt Procurements
Sole Source
Emergency
Categorical Exemption

Contract types vary per procurement depending on the vendor’s responsibility and profit incentive. Contracts that result from using the sealed bid method must be either firm-fixed-price or fixed-price, while contracts resulting from other procurement methods may be of any type that proves most advantageous for the Authority (see table below for more detail).

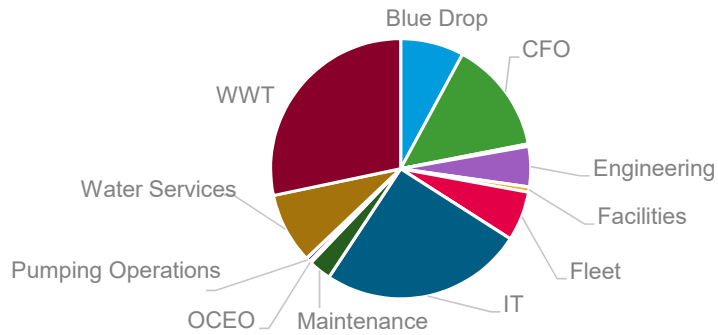
Contract Types	
Fixed Price Contracts	Fixed Price
	Fixed-Price with Economic Price Adjustment
	Fixed-Price with Prospective Price Redetermination
	Fixed-Ceiling-Price with Retroactive Price Redetermination
	Firm-Fixed-Price, Level-of-Effort Term
	Fixed-Price Incentive
Cost Reimbursement Contracts	Cost-Reimbursement
	Cost-Plus-Fixed-Fee
	Cost-Reimbursement Incentive
Time-and-Materials and Labor-Hour Contracts	Time-and-Materials
	Labor-Hour



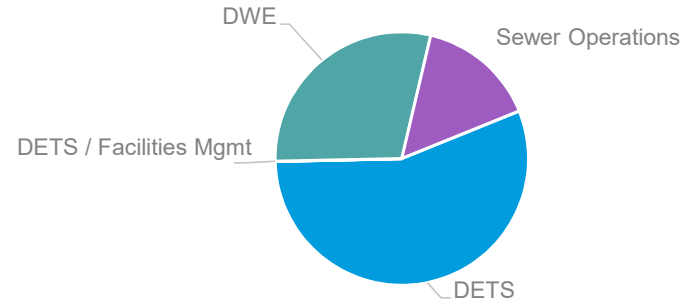
## Background (continued)

For the period of January 1, 2020 – December 31, 2020, there were a total of 22 goods and services contracts with a total contract value of \$28,440,064.20. In the same period, there were a total of 12 capital program contracts with a total contract value of \$105,245,820.50.

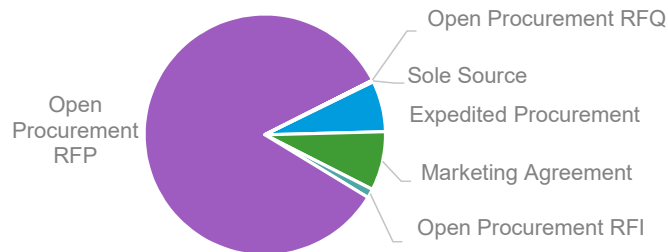
Goods & Services - Contract Value by Department



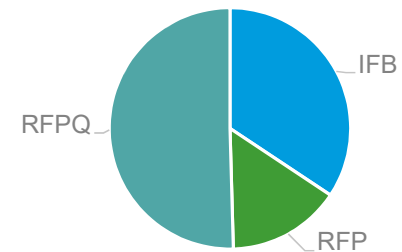
Capital Programs - Contract Value by Department



Goods & Services - Contract Value by Procurement Type



Capital Programs - Contract Value by Procurement Type



## Approach

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### PROCUREMENT TESTING

- Conducted walkthroughs with Procurement Department staff to understand the standard operating procedures related to pre-award and selection of vendor contracts.
- Selected a representative sample of contracts for testing over operating effectiveness of controls
- Evaluated controls outlined in the Procurement Manual for the respective procurement method used (i.e. micro-purchase, small purchase, sealed bid, competitive proposal, multi-step, expedited purchase, limited competition, joint, General Services Administration schedule purchase, rider)
- Evaluated controls as outlined in the Procurement Manual for the types of procurements that do not require competition (i.e. sole source, emergency, categorical exemption)
- Identified potential opportunities for process improvement or control gaps and underlying root causes.
- Worked with management to validate discrepancies and develop action plans to remediate identified control gaps.

Reporting: At the conclusion of this audit, we summarized our observations related to the procurement selection and pre-award function. We have reviewed the results of our testing with management.

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# OBSERVATIONS AND RECOMMENDED ACTION

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## Observation 1: Contract Execution Delays

**Risk Rating: High**

### **Observation:**

Internal Audit tested a sample of 10 contracts (6 goods and services; 4 capital programs). For 3 of the 6 goods and services contracts, Internal Audit noted the contracts were signed by the Contractor and DC Water Contracting Officer after the period of performance start date. The delay between the period of performance start date and contract execution for the 3 samples ranged between 3 days to 76 days. The scope of the 3 contracts were as followed:

- Contract #1 – Board and Leadership Team Workshop and Strategy Review (*50 day delay*)
- Contract #2 – Instrumentation Maintenance and Repair of Electrical Control Equipment (*3 day delay*)
- Contract #3 – Rolling Owner Controlled Insurance Program (ROCIP) V – Safety Services (*76 day delay*)

### Root Cause Analysis:

Oftentimes a contract award is determined months prior to Board approval, however, the contract negotiation process does not begin until after Board approval, allowing limited time to address any potential concerns or exceptions raised by the awardee. When exceptions are raised by the vendor, Legal involvement is then required prior to contract execution, which may take several weeks to resolve.

### Impact Analysis:

The risk associated with delayed execution of contracts vary depending on the nature of contracts, however, it can cause a delay in contract activity resulting in DC Water not being able to receive critical services or goods in a timely manner. For example, the scope of ROCIP safety services (Contract #3 above) includes safety and loss prevention oversight for all ROCIP projects. A lapse in the ROCIP safety service contract leaves DC Water without adequate safety professional services to satisfy insurance program requirements.

## Observation 1: Contract Execution Delays (continued)

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### **Recommendation:**

Internal Audit recommends the following to the Procurement department:

- Initiate the contract negotiation process immediately after contract award (prior to Board approval).
- Confirm that any agreed upon exceptions have been incorporated into the draft contract prior to providing initial draft to awardee.

Note that Oracle was implemented during our audit testing period. As a result of the Oracle implementation, vendors now receive a sample contract during the solicitation process, which may alleviate some need for negotiations after award.

## Observation 1: Contract Execution Delays (continued)

### Management Action Plan:

#### Response:

- **Contract #1**– Board and Leadership Team Workshop and Strategy Review: In this case, an arbitrary contract start date was added as a placeholder in the contract draft at the start of contract negotiation, but the date was not updated before the contract was executed. The contractor did not begin work until the contract was fully executed, and DC Water’s program proceeded as planned and on schedule.
  - **Management Action:** Make sure the contract variables are properly updated in the final executable document.
- **Contract #2**– Instrumentation Maintenance: This delay was caused when Procurement leadership made a last-minute change in the contract value, requiring some documentation to be revised. No work under the contract was at risk during the three-day period between start date and execution.
  - **Management Action:** Remind Sourcing Specialists to be mindful of the impact of last-minute changes and to raise the issue to management as appropriate.
- **Contract #3**– ROCIP: The delay between contract start date and execution was caused by a lapse in project management. The contractor continued to work during this period.
  - **Management Action:** The contract negotiation begins after the supplier selection is approved by Procurement leadership and completed prior to the Board approval. Unexpected contract changes were requested by the vendor and had to be negotiated after the Board approval and took some time to complete before executing the contract. In the future, the contract will be submitted for the Board action after the contract is fully agreed by both parties. To avoid any potential delay, Procurement will start the solicitation sooner to accommodate a sufficient contract negotiation time and to avoid the lapse in the contracts.

Responsible Party: VP Procurement & Compliance

Target Date: May 31, 2021

## Observation 2: Contract File Review

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### **Risk Rating: Low**

### **Observation:**

Internal Audit tested a sample of 10 contracts (6 goods and services; 4 capital programs). Of the 6 goods and service contracts tested, Internal Audit noted the following:

- For 1 contract, one technical evaluator signed Conflict of Interest form was missing from the contract file;
- For 1 contract, the Sourcing Specialist failed to request signed Conflict of Interests forms from the technical evaluators;
- For 1 contract, there was no evidence to confirm a funds availability check was performed prior to contract award.

### Root Cause Analysis:

The root cause of the missing documentation noted above is the lack of final review of procurement files before contract award.

### Impact Analysis:

The risk associated with a lack of final procurement file review prior to contract award varies depending on which process steps are missed. DC Water runs the risk of not having adequate documentation to support award decisions.

### **Recommendation:**

During the course of this audit, the Procurement Department created a Goods and Services Solicitation Contract Checklist. The checklist outlines solicitation process steps, fields to enter completion dates, and record/document locations. Internal Audit recommends that the checklist be required for all goods and services procurements, reviewed before contract award, and stored in the contract file. Additionally, we recommend Procurement consider incorporating this checklist into an Oracle workflow.



## Observation 2: Contract File Review (continued)

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### Management Action Plan:

Response:

- **Missing Conflict of Interest Forms:** Collecting signed Conflict of Interest forms from technical evaluators is a known part of the solicitation process and the Sourcing Specialists for the relevant contracts did not perform this step to completion.
- **Funds Availability Check:** Confirming available funding is a known part of the solicitation process and the Sourcing Specialist for the relevant contract did not perform this step.
- **Management Action:** As noted by RSM, a documentation checklist has already been created for Goods & Services sourcing projects. The checklist will be edited to eliminate duplication with the Oracle process (some steps must be processed in Oracle in order to proceed). Use of the checklist and review by management will be mandatory until management judges otherwise.

Responsible Party: VP Procurement & Compliance

Target Date: May 31, 2021

# APPENDIX



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# Rating Definitions

RSM defined observations based on the following risk rating definitions:

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within <b>12 months</b> (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within <b>nine months</b> (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed <b>six months</b> (if related to external financial reporting, must mitigate financial risk within two months).

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# DC WATER

## Succession Planning Assessment



April 2021

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- Executive Summary and Objectives
- Background
- Approach
- Observations and Recommended Action
- Process Improvement Opportunities
- Appendices
  - A Risk Ratings

# EXECUTIVE SUMMARY, BACKGROUND AND APPROACH

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# Executive Summary and Objectives

## Objective and Scope

The purpose of this review was to obtain an understanding of how the succession planning function is managed and monitored at the Authority, and evaluate the design and operating effectiveness of the related internal controls. Our procedures were performed in accordance with the internal audit scope and approach set forth in our audit notification letter, dated January 15, 2021, and were limited to those procedures described therein. The scope was based upon the following objectives:

- Validate that critical positions are identified and defined, and appropriate backfill positions are established and approved by leadership;
- Evaluate how succession planning is managed at the Authority-level and Department-level, including the documentation, monitoring, and reporting of assigned requirements / initiatives;
- Evaluate how succession planning is monitored for ongoing changes to personnel, including terminations, new hires, and planned or unplanned leave;
- Determine how succession planning is communicated and reported to management and the Board of Directors; and
- Identify process improvement opportunities and recommend internal control enhancements to improve the overall monitoring of succession planning.

Fieldwork was performed January 2021 through February 2021.

## Overall Summary and Highlights

There is one moderate risk observation to report. The observation identified during our assessment is outlined on pages **12-13**:

1. Formalized succession plan not yet deployed

This observation is described in the detailed observations section of the report. We assigned relative risk or value factors to the observation. Risk ratings are the evaluation of the projected severity of the concern and the potential impact on the operations of each item. Observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

Process improvement opportunities have also been included in the report for management's consideration. Only observations will require management action plans with estimated completion dates that will be included in the routine follow up of internal audit observations.

### Summary of Observation Ratings

(See Appendix for risk rating definitions)

Number of Observations by Risk Rating

High	Moderate	Low
-	1	-

We thank all DC Water team members who assisted us throughout this review.

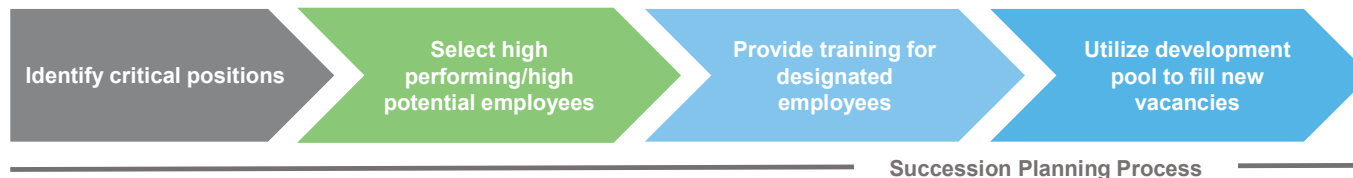


## Background

Succession Planning refers to the framework that a corporation puts into place to prepare for employee departures, voluntary and involuntary. In order to build out a succession planning framework, the company must first identify positions that are critical to the daily operations and successes of the organization. At DC Water, several considerations are used when determining the criticality level of a position. Data regarding the position's impact, vacancy risk, and overall recruitment difficulty all factor into the overall criticality rating. Once these positions are identified, the next step is to determine which individuals can be developed to assume these key positions in the event an employee departs. Individuals who are adequately skilled to step into positions in the event of a departure are typically regarded as individuals with high potential who have expressed an interest in upward mobility at the Authority.

A key tenant of succession planning is identifying employees that can backfill critical positions, as well as developing those individuals to empower them to perform at a higher level when it becomes necessary. For employees that may assume more technically driven roles, this training can be slightly more tailored, but for the population of employees eligible to fill various critical roles in the event of departures, basic leadership training and professional development is appropriate. Even if there seems to be no risk of immediate employee departures, an emergency could arise that leaves a key position vacant, and the ability to quickly and seamlessly fill the position and avoid any bottlenecks is invaluable.

Having this plan in place is crucial to help mitigate the stress placed on the Authority by key employee turnover. When a current employee is already primed to take on additional responsibilities and has become familiar with institutionalized knowledge that is often maintained by company leadership, the transition of responsibilities occurs smoothly as the time dedicated to knowledge transfer is minimized.



## Data Analysis – Departures

Aggregated data related to employee departures by fiscal year is shown on the next two pages. DC Water leadership can gain insights and better prepare for future departures at an Authority-wide and department-specific level through analyzing year-over-year trends.

Average Departures Year over Year (10/1/2016 – 1/8/2021)		
Total Departures	Years	Average
408	5	81.6

Annual Departures of Leadership Positions	
Year	# of Leadership Departures
FY 2017	12
FY 2018	16
FY 2019**	23
FY 2020	12
FY 2021 (Partial)	1

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\*Leadership designation for operational departments consisted of General Foreman and above; for other departments, any position above Manager.

\*\*There was a change in leadership (CEO) in FY2019.

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## Data Analysis – Top 11 Departments by Departures

Departures							
Department	FY16*	FY17	FY18	FY19	FY20	FY21*	Total
Engineering & Technical Svcs	4	7	12	7	6	1	37
Wastewater Treatment	5	5	5	11	5	3	34
People and Talent	6	9	8	5	0	0	28
Maintenance Svcs, Mechanical	10	2	4	4	6	0	26
Sewer Services, Inspection	3	8	4	3	3	0	21
Procurement	4	1	4	5	2	1	17
Customer Care	4	4	2	2	2	0	14
DDCS: Operations	4	2	4	2	0	2	14
Facilities	1	4	4	2	3	0	14
Finance Accounting Budget	1	3	3	2	4	0	13
General Counsel	2	1	3	6	1	0	13
All Other Departments	28	39	27	37	37	9	177
<b>Total</b>	<b>72</b>	<b>85</b>	<b>80</b>	<b>86</b>	<b>69</b>	<b>16</b>	<b>408</b>

\*Partial data provided: FY16 - 1/4/16 to 9/30/16 and FY21 – 10/20/20 to 1/8/21

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## Data Analysis – Top 10 Departments per Retirement Age/Retirement Eligible

Having an understanding of the number of department members that are eligible for retirement is key for succession planning, because it provides insight regarding which departments are likely to have open positions in the near future. The chart on the following page shows the percentage of total department count that is eligible for retirement.

### Retirement Eligibility Requirements:

- 55+ years of age with 30+ years of service
- 60+ years of age with 20+ years of service
- 62+ years of age with 5+ years of service
- 65+ years of age



\*Leadership designation for operational departments consisted of General Foreman and above; for other departments, any position above Manager.

\*Number of leadership personnel eligible for retirement is shown in parentheses.



## Data Analysis – Percentage Above Retirement Age

<b>% of Employees Above Retirement Age Per Top 10 Departments by Population (as of January 2021)</b>			
<b>Department</b>	<b>Department Population</b>	<b>Employees Above Retirement Age</b>	<b>Percentage</b>
Facilities	36	5	13.89%
Engineering & Technical Svcs	96	12	12.50%
Finance Accounting Budget	48	6	12.50%
Maintenance Svcs, Mechanical	51	6	11.76%
Wastewater Treatment	117	11	9.40%
Sewer Services, Inspection	44	4	9.09%
Water Services, Distribution	135	5	3.70%
Customer Care	32	1	3.13%
Procurement	37	1	2.70%
Sewer Services, Repair	48	1	2.08%

Note: RSM identified the retirement age being as of 65, per documentation provided by the Authority.

## Approach

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### Succession Planning

- Reviewed policies and procedures and any other key process information available to further our understanding of the work order management process;
- Conducted walkthrough interviews with key personnel to obtain a detailed understanding of Authority's policies and procedures, operating functions, and key performance indicators related to the succession planning process;
- Assessed the overall succession planning process and identified relevant key performance indicators not already captured;
- Identified process improvement opportunities and recommend internal control enhancements to improve the overall process.

*Reporting:* At the conclusion of this audit, we summarized our observations and have reviewed the results of our procedures with management.



# OBSERVATIONS AND RECOMMENDED ACTION

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## Observation 1: Formalized succession plan program not yet deployed

**Risk Rating:** Moderate

### Observation:

The succession planning process at DC Water has been under development over the past several years. The initial process of identifying critical positions, selecting eligible employees, and maintaining a pool of backfill candidates has been performed. Additionally, an employee development framework has been established and refined through the implementation of a pilot program, however, the full program has yet to be finalized and deployed.

### Root Cause Analysis:

The succession planning process at DC Water was initially implemented via a pilot program as part of the management response to a prior audit finding, however, following the completion of the pilot, processes were not finalized and the program was not rolled out across the Authority.

### Impact Analysis:

Without developing and maintaining a succession plan for members of the leadership team, DC Water may fail to retain and transfer institutional knowledge and may struggle to replace departing leaders in a timely manner. Additionally, a sudden departure of critical personnel may impact operations, as it can be hard to recruit new employees with the appropriate skill set.

Given DC Water's tiered retirement eligibilities, and the high rates of employee retention, the number of retirement eligible employees has steadily grown and currently 19% (208 employees) of the workforce is eligible for retirement. Of those eligible for retirement, 14% (30 employees) hold leadership roles (General Foreman/Manager and above). While decisions to retire typically involve advanced notice and time for the Authority to train a replacement, employees have no obligation to provide this courtesy. Having a strong succession plan in place will provide additional confidence that in the event of a key employee departing, candidates will be prepared to assume the open role.

Additionally, DC Water has a unique difficulty related to recruiting operational personnel. The technical skills required to operate the state of the art facilities at Blue Plains and elsewhere around the District may limit the hiring pool, causing open positions to remain vacant.



## Observation 1: Formalized succession plan program not yet deployed

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### Recommendation:

The Authority should finalize the development of the succession plan officially deploy the program. As the succession plan is deployed it should be communicated to leadership and the Board. Additionally, documented procedures related to the administration and execution of the plan should be developed, and approved by DC Water management. The procedures should include detail related to the development of the criticality matrix, identification of participants, execution of the plan upon critical employee departure, and overall management of the plan.

Internal audit reviewed the control design of the proposed go-forward Succession Planning process and has provided management with gaps to remediate before the deployment.

### Management Action Plan:

The succession planning program will be fully deployed by 9/30/2020 with the following milestones:

- 4/12/2020: Direct Program will be kicked off and the Succession Planning framework will be introduced to participants.
- 5/15/2020: Talent Development will collaborate with HR Systems, HR Business Partners and Talent Acquisition on the succession planning framework.
- 9/30/2020: The criticality matrix will be refreshed and the succession planning program will be deployed at the end of the Non-Union Performance Cycle.

**Responsible Party:** Talent Development

**Target Date:** 9/30/2020

## Process Improvement Opportunities

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Internal audit identified various areas within the succession planning process in which the control environment could be improved. Specifically, the following was noted:

- There is no review and approval structure in place regarding the Mission Critical Position Listing. Since the Mission Critical Position Listing is used to determine which individuals are selected for the development programs linked to succession planning, it is important to gain leadership approval over this listing in addition to the Criticality Matrix.
- The determination of critical employees currently is created with a lack of collaboration across the HCM Systems and Recruiting teams, even though these teams could provide additional assistance in confirming the accuracy of data inputs.
- In the event a role with a criticality score of “red” is omitted from the final list of critical personnel, no explanation is required. Since the criticality data inputs designated this role as highly important, the Succession Planning team should provide a reasoning for the omission.

Internal audit recommends those responsible for the administration of the succession plan implement the following process steps to address the identified control weaknesses.

- A review and approval of the Mission Critical Position Listing should take place by DC Water leadership prior to the selection of employees for succession planning consideration.
- The HRBP team should collaborate with the HCM Systems and Recruiting teams, as well as department heads, to determine the data points for the creation of the Criticality Matrix. Collaboration across these teams will ensure the accuracy of data as the HCM Systems team can provide input related to the position’s vacancy risk and the Recruiting team can provide historical data related to recruitment difficulty.
- In the event a role receiving a “red” score in the criticality matrix is not included in the critical roles listing, it should be documented as to why it was not included.
- A quarterly review of the development program participants should be conducted to confirm that no unexpected departures and/or promotions occurred. If employees that were previously designated as potential backfills have departed the company or changed roles, the Succession Planning team will need to reevaluate the Mission Critical Position Listing to determine which employee(s) can fill the new empty space(s).

# APPENDIX

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## Appendix A – Rating Definitions

RSM defined observations based on the following risk rating definitions:

Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within <b>12 months</b> (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
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