



WASHINGTON SUBURBAN SANITARY COMMISSION

COMMISSION SUMMARY

AGENDA CATEGORY: INTERNAL AUDIT OFFICE

ITEM NUMBER:


DATE: September 16, 2015

SUBJECT	Work session/Approval of the FY 2016 Risk-Based Audit Plan
SUMMARY	According to <i>Standard 2020 "Communication and Approval"</i> from the International Standards for the Professional Practice of Internal Auditing, "the chief audit executive should communicate the internal audit activity's plan and resource requirements, including significant interim changes, to senior management and the board for review and approval."
SPECIAL COMMENTS	
CONTRACT NO./ REFERENCE NO.	N/A
COSTS	N/A
AMENDMENT/ CHANGE ORDER NO. AMOUNT	N/A
MBE PARTICIPATION	N/A
PRIOR STAFF/ COMMITTEE REVIEW	Executive Leadership Team
PRIOR STAFF/ COMMITTEE APPROVALS	
RECOMMENDATION TO COMMISSION	Approval
COMMISSION ACTION	Vote

WASHINGTON SUBURBAN SANITARY COMMISSION

Interoffice Memorandum

TO: COMMISSIONERS

FROM: MAXENE M. BARDWELL, DIRECTOR, INTERNAL AUDIT
INTERNAL AUDIT OFFICE 

DATE: SEPTEMBER 3, 2015

SUBJECT: PROPOSED FY 2016 RISK-BASED AUDIT PLAN

I present for your review, the Risk-Based Internal Audit Plan for the 2016 fiscal year (FY'16). The Internal Audit Office is the independent appraisal entity within WSSC that conducts a comprehensive program of audits as a service to the Commissioners and management. Internal Audit evaluates administrative and financial controls; reliability of data developed within WSSC; adherence to plans, policies, and procedures; and compliance with governmental laws and regulations.

In determining our audits, we evaluate known risks, potential issues of concern and other management perspectives. I am recommending Internal Audit perform the audits per the audit plan as listed in the attachment. We will continue to spend resources to perform audits requested by our clients, and to provide assistance to them. Please note that our current staffing and the potential for unexpected audits will determine our ability to complete the audits listed.

Additionally, the International Standards for the Professional Practice of Internal Auditing, specifically Standard 2020 and its related Practice Advisory 2020-1: Communication and Approval, states the chief audit executive should submit annually to the board for approval, and senior management as appropriate, a summary of the internal audit activity's work schedule, staffing plan, and financial budget. In accordance with those Standards, our staffing plan for FY'16 includes seven internal auditors, one ethics officer, and two administrative assistants. Our related operating budget (including salaries) is \$ 1,231,400.

WSSC is also required to retain the services of an external auditor to "audit the books and accounts of the WSSC" in accordance with Md. Public Utilities Code Ann. § 17-401. BCA Watson Rice LLC is contractually obligated to provide this service for FY'16 and the next two (2) fiscal years. I manage this contract for the Commissioners.

Attachment

**INTERNAL AUDIT
FISCAL YEAR 2016
RISK-BASED AUDIT PLAN**

Activity	Budgeted Hours	% of Available Hours	Assigned Auditor(s)
Assurance (Auditing) Services:			
Blue Plains WWTP O&M and Capital Indirect Audit for Fiscal Years FY '14	600	7.4	
Customer Relations Group Operational Audit (FY '15 Carryover)	80	0.9	
Construction Contracts Change Orders Audit (FY '15 Carryover)	1,100	13.5	
Regulatory Services Group Operational Audit (FY '15 Carryover)	750	9.2	
Payroll Operational Audit	250	3.0	
Cloud Computing Services Compliance Audit	481	5.9	
Subtotal	3,261	40.1	
Continuous Auditing:			
Bi-weekly Payroll Reviews	600	7.4	
Accounts Payable Reviews	600	7.4	
Internal Audit Follow-Up	600	7.4	
Physical Inventory Count Observations/Reviews	40	0.4	
Quarterly P-Card Reviews	600	7.4	
Subtotal	2,440	30.0	
Consulting (Advisory) Services:			
Standard Policies and Procedures Reviews	100	1.2	
Other Various Projects (i.e., Enterprise Content Management, contingency plans, disaster recovery, etc.)	300	3.7	
Subtotal	400	4.9	
SUBTOTAL (Planned Assurance, Consulting, and Continuous Auditing Activities)	6,101	75.0	
Mandatory, FW&A Hotline, and Special Audit Requests:			
System Development Charges Reviews	1,000	12.3	
FW&A Hotline and Special Audits Requests (Incl. Hotline investigations for allegations of fraud, waste, and/or abuse):	500	6.1	
Right to Audit Specified Procurement Contracts	500	6.1	
Technical Services Group Limited Review (FY '15 Carryover)	30	0.4	
Subtotal (Mandatory and Special Request Audits)	2,030	25.0	
TOTAL AVAILABLE HOURS: (Assurance, Consulting, Continuous Auditing, Mandatory, and Special Requests)	8,131	100	
Administrative Projects: Audit Committee, Quality Assurance and Improvement Program, Enterprise Risk Management (ERM) guidance, External Audit Contract management, Annual Risk-Based Audit Plan development, etc.	2,317		
TeamRisk Implementation	500		
Internal Quality Assessment	200		
TeamTEC Implementation	300		
Continuing Education & Professional Development (internal and external)	640		
Board of Ethics Support	120		
Subtotal (Other Internal Audit Activities)	4,077		

FISCAL YEAR 2016 ANNUAL AUDIT PLAN SUMMARY OF PLANNED ACTIVITIES

Vacation, holiday, sick, administrative, and other leave	2,408		
Subtotal (Vacation, holidays, sick leave, and other IAO Activities)	6,485		
TOTAL INTERNAL AUDIT ACTIVITY HOURS:	14,616		

Assurance Services: Provide an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. Assurance services add value by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure.

Source: IIA

Blue Plains WWTP Operations & Maintenance and Capital Indirect Billings Audit for Fiscal Year 2014 -- In accordance with the Blue Plains Intermunicipal Agreement, WSSC (as a Party to the Agreement) is authorized to audit, examine, inspect, or reproduce the books, accounts, records, documents, and other evidence supporting Blue Plains operating and maintenance costs and user fees. Bi-annually, we conduct an audit to ascertain whether adjustments are warranted for previously remitted quarterly and year-end adjustment payments from WSSC to the District of Columbia Water and Sewer Authority. An audit of Fiscal Year 2014 O&M Billings and Indirect Cost Allocations for Capital Billings will be conducted. The financial payback from past audits ranks this audit a high priority. **Resources budgeted: 600 hours. Percent of available audit hours: 7.4%.**

Customer Relations Group Operational Audit (FY '15 Carryover) -- We will complete the reporting phase of the operational audit of the Customer Relations Group area that was conducted to evaluate existing process controls for adherence to WSSC policies and procedures, as well as applicable state and federal regulations and laws. The Customer Relations Group consists of the Customer Care Call Center, Correspondence Services, as well as Claims & Account Services. Due to the direct contact/interaction with Washington Suburban Sanitary District Customers and the monetary and cash equivalent related matters handled therein, this area of audit is ranked as high risk. *We are presently in the reporting phase of this audit; therefore, a limited number of hours are desired to complete this process.* **Resources budgeted: 80 hours. Percent of available audit hours: 0.9%.**

Construction Contracts Change Orders Audit (FY '15 Carryover) -- This audit began as a special audit request during FY '14 and is being carried over into FY '16. This audit is being undertaken to assess compliance with WSSC policies and procedures related to the construction contract change order process. **Resources budgeted: 1,100 hours. Percent of available audit hours: 13.5%.**

Regulatory Services Group Operational Audit (FY '15 Carryover) -- An operational audit will be undertaken to assess compliance with WSSC policies and procedures which are designed to enforce/support external rules, laws, and regulations. This Group is responsible for the federally mandated pretreatment program and enforcement of the WSSC Plumbing & Fuel Gas Code. The Group regulates discharges into the sewer system, samples discharges from industrial users, conducts investigations, and responds to spills of hazardous materials entering the sewer system. In addition, the Group inspects the work of plumbers, gas fitters, septic haulers, and cross connection mechanics in the Sanitary District; and manages the fat, oil, and grease program, the cross connection control program, and the mechanical plans review. A preliminary review will identify the specific area of audit scope.

Resources budgeted: 750 hours. Percent of available audit hours: 9.2%.

Payroll Operational Audit -- A limited operational audit of the Payroll Unit will be conducted to ascertain whether operating procedures are functioning with respect to their effectiveness and efficiency in meeting stated objectives. **Resources budgeted: 250 hours. Percent of available audit hours: 3.0%.**

FISCAL YEAR 2016 ANNUAL AUDIT PLAN SUMMARY OF PLANNED ACTIVITIES

Cloud Computing Services Compliance Audit – Cloud computing enables convenient, on-demand network access to a shared pool of configurable computing resources that can be rapidly provisioned and released with minimal management effort or service provider interaction. An audit of the Commission's numerous cloud computing services contracts will be conducted to ascertain vendor compliance and the protection of WSSC data assets. **Resources budgeted: 481 hours. Percent of available audit hours: 5.9%.**

Continuous Auditing: Continuous auditing involves performing control and risk assessments on a frequent basis, if not virtually in real-time. The need to accelerate audit activities has led to the increased adoption of continuous auditing as a vital monitoring tool. Continuous auditing is therefore designed to enable auditors to report on a subject matter within a much shorter timeframe than under the traditional model. The ability to provide management with real-time auditing on the functioning of controls and on financial transactions can enhance significantly management's ability to make key business decisions. Sources: IIA & ISACA

The areas designated for continuous auditing (biweekly payroll reviews, accounts payable, P-Cards, and Physical Inventory Counts) are highly susceptible areas for fraudulent activities. Additionally, this fiscal year we will continue to follow-up on all agreed upon audit recommendations. Special emphasis will be given to recommendations that, according to management, have been implemented and are pending audit verification/examination. **Resources budgeted: 2,440 hours. Percent of available audit hours: 30.0%.**

Consulting Services: Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training. Consulting services add value by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure.

Source: IIA

A considerable number of audit hours have been allocated to provide assistance to management as advisors. Our informal consulting engagements consist of limited-life projects, ad hoc meetings, routine information exchange, and review of standard policies, procedures, manual, and guidelines. Special consulting engagements involve our participation in system conversions and other IT projects. We also participate in emergency consulting engagements for recovery or maintenance of operations after a disaster or other extraordinary business event. **Resources budgeted: 400 hours. Percent of available audit hours: 4.9%.**

Mandatory, Hotline, and Special Request Audits:

System Development Charges

As required by Public Utilities Article, Section 25-405(d), we will review and approve the costs incurred by developers who help build WSSC's infrastructure. We currently have fourteen (14) outstanding SDC audits which are expected to be initiated and/or completed in FY'13. However, these audit requests are ongoing and this number is expected to increase throughout this fiscal year. **Resources budgeted: 1,000 hours. Percent of available audit hours: 12.3%.**

FISCAL YEAR 2016 ANNUAL AUDIT PLAN SUMMARY OF PLANNED ACTIVITIES

Fraud, Waste and Abuse Hotline Investigations and Special Request Audits

The WSSC's Fraud, Waste and Abuse Hotline was implemented in the fall of 2011. Since its implementation, a dedicated number of hours are needed to conduct investigations of allegations. In addition to requests from the Commissioners, the department receives requests for audit work from other Teams and Offices. These should be performed whenever time permits. Objectivity and audit standards will be used. A report will be released to the Commissioners upon the completion of each special request audit. The General Manager will receive a copy of the report through normal distribution methods. Certain special requests from other individuals are carefully considered. If they require a material amount of resources, the Commissioners, who have direct authority over the IAO, must approve them. **Resources budgeted: 500 hours. Percent of available audit hours: 6.1%.**

Special Audit Request – Right to Audit Specified Procurement Contracts

An audit of select procurement contracts will be undertaken to determine contractor/vendor compliance. **Resources budgeted: 500 hours. Percent of available audit hours: 6.1%.**

Special Audit Request -- Technical Services Group (TSG) Limited Review

This Group provides project support services by developing construction contract specifications, bid and other cost estimates for asset construction. The Group is also responsible for in-house design & valuation for process-systems, plant modifications and other retrofit engineering support and special projects. Part of the Technical Services Group mandate is to also maintain WSSC's Surveying and Property Acquisition operations, including geodetic control. *We are presently in the reporting phase of this audit; therefore, a limited number of hours are desired to complete this process.* **Resources budgeted: 30 hours. Percent of available audit hours: 0.4%.**

Other Internal Audit Activities:

Quality Assurance and Improvement Program & Administrative Projects

In addition to allocating time to conduct office administration and audit planning, our administrative projects include assisting with the facilitation of workshops on enterprise risk management (ERM), as well as updating/creating standard Internal Audit operating procedures. Additionally, time is allocated to support Audit Committee oversight of the Internal Audit Function. **Resources budgeted: 2,317 hours.**

TeamRisk Implementation

During this fiscal year we plan to continue our implementation of TeamMate audit management software modules and develop associated procedures. This software technology continues to enhance our audit time tracking systems, enable us to better track issues for follow-up, transition from a chiefly manual audit process to an automated audit process, and better monitor our audit performance measures. A considerable amount of time will also be spent populating the TeamRisk module in order to establish a continuous internal audit risk assessment process. In our effort to provide audit coverage to the WSSC that maximizes exposure of the audit function and provides balanced coverage, our audit plan priorities are based on the results of our annual risk assessment survey and questionnaire, which are balanced with other concerns and desires.

However, the risk assessment methodology used is based upon both impact and risk type factors. Impact evaluates the effect resulting from a breakdown in the operation's environment, processes, and/or controls. Risk type looks at the risk category. Impact is broken into five (5) evaluation factors and risk type into ten (10) evaluation factors. The total impact score is multiplied by each risk type factor which is given a weight that is based on the overall risk of a process or service. **Resources budgeted: 500 hours.**

FISCAL YEAR 2016 ANNUAL AUDIT PLAN SUMMARY OF PLANNED ACTIVITIES

Internal Quality Assessment

In accordance with The Institute of Internal Audit's (IIA) *Standards*, effective Jan. 1, 2009, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity" (Standard 1300). According to the *Standards*, the quality assessment (QA) process should include internal assessments, which comprise ongoing internal evaluations of the Internal Audit (IA) activity, coupled with periodic self-assessments and/or reviews. This internal assessment will be conducted by person(s) within the organization's IA activity under the direction of the chief audit executive (CAE). Involvement, however, precludes total objectivity. This self-assessment will enable the CAE to better assess the IA activity and its conformance to the IIA *Standards* and prepare for the FY '16 external quality assurance review. **Resources budgeted: 200 hours.**

TeamTEC and TeamSchedule Implementation

This fiscal year we plan to implement the second phase of the TeamTEC module of TeamMate, our audit management software. TeamTEC provides the ability to record, track, and report on time and expenses across audit projects. This module integrates with other TeamMate Suite modules and the functionality builds upon the time scheduling of resources. It enables auditors to track time and expenses and permits audit management to compare actual to budgeted hours and costs on a continuous monitoring basis. TeamSchedule is one of the modules TeamTEC integrates with and it helps to automate the assignment of project resources. TeamSchedule also provides the audit team with a personalized view of their project assignments, facilitates budget forecasting, and enables audit management to better monitor resource utilization. **Resources budgeted: 300 hours.**

Continuing Education and Professional Development

Continuing education and professional development (*in-house and externally*) is essential to help ensure audit staff improves or obtains the most current knowledge, skills, and other competencies needed to perform their individual responsibilities/audit assignments. Training will vary with approved Audit Plans and Commission special project needs. However, five (5) WSSC internal auditors who are CPAs, per position requirement, must maintain active license status in the performance of their responsibilities. In accordance with the State of Maryland Board of Public Accountancy, licensees must certify that they have completed at least 80 hours of continuing education, within the two years before application for renewal. As of October 1, 2006, licensees must report at least 4 hours of continuing professional education (CPE) in professional ethics. Self-study courses are limited to forty (40) hours of CPE within the renewal period. Additionally, all auditors are required to maintain active status for their Certified Fraud Examiner certifications. **Resources budgeted: 640 hours.**

Board of Ethics Support

Hours allocated are approximately 120. These hours have been slightly increased due to the vacant Ethics Officer position. Although an Ethics Officer will be hired this fiscal year, Internal Audit Office staff continues to be responsible for overseeing and assisting with the management of the WSSC Ethics Program and providing administrative staff support to the Board of Ethics (BOE), which could entail providing assistance in the following areas during the absence of the Ethic Officer: supporting contact persons for ethics inquiries; attending specified monthly and special BOE meetings; ensuring relevant BOE information is posted to the Commission's Website; maintaining the databases for Financial Disclosure records; maintaining all confidential files and records of the BOE; overseeing the annual filing period for Financial Disclosure Statements; obtaining Financial Disclosures from required filers upon separation of employment; maintaining the database for Lobbyists information; collecting Lobbyists registration fees; maintaining the Lobbyists quarterly activity reports; assisting with investigations related to WSSC Code of Ethics violation allegations; compiling the Commission's Annual Report on conflicts of interest issues; and providing Code of Ethics training to new hires. **Resources budgeted: 120 hours.**