



WASHINGTON SUBURBAN SANITARY COMMISSION

COMMISSION SUMMARY

AGENDA CATEGORY: INTERNAL AUDIT OFFICE

ITEM NUMBER: 2


DATE: OCTOBER 16, 2013

SUBJECT	Work session/Approval of the FY 2014 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	October 3, 2013 Distribution to Executive Management October 16, 2013 Commission Meeting
PRIOR STAFF/ COMMITTEE APPROVALS	
RECOMMENDATION TO COMMISSION	
COMMISSION ACTION	Vote

WASHINGTON SUBURBAN SANITARY COMMISSION

Interoffice Memorandum

TO: COMMISSIONERS

FROM: MAXENE M. BARWELL, INTERNAL AUDIT MANAGER 
INTERNAL AUDIT OFFICE

DATE: OCTOBER 9, 2013

SUBJECT: PROPOSED FY 2014 RISK-BASED AUDIT PLAN

I present for your review, the Risk-Based Internal Audit Plan for the 2014 fiscal year (FY'14). 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'14 includes seven internal auditors, one ethics officer, and two administrative assistants. Our related operating budget (including salaries) is \$ 1,171,900.

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. We hired Bazilio Cobb Associates to provide this service for FY'14 and the next four fiscal years. I manage this contract for the Commissioners.

Attachment

**INTERNAL AUDIT
FISCAL YEAR 2014
RISK-BASED AUDIT PLAN**

Activity	Budgeted Hours	% of Avail. Hours
Assurance (Auditing) Services:		
Blue Plains WWTP O&M and Capital Indirect Audit for Fiscal Years '11 & '12	1,860	21
Customer Relations Group Operational Audit	1,000	11
Laboratory Services Group Regulatory Compliance Audit (FY '13 Carryover)	250	3
Consent Decree Compliance Audit – Phase I (FY '13 Carryover)	200	2
Industrial Asset Management Group (IAMG) Inventory Audit (FY '13 Carryover)	500	6
Information Technology Inventory Operational Audit (FY '13 Carryover)	800	9
Internal Quality Assessment (FY '13 Carryover)	400	4
Subtotal	5,010	55
Continuous Auditing:		
Bi-weekly Payroll Reviews	500	6
Accounts Payable Reviews	250	3
Internal Audit Follow-Up	1,000	11
Subtotal	1,750	19
Consulting (Advisory) Services:		
Standard Policies and Procedures Reviews	100	1
Other Various Projects (i.e., Enterprise Content Management, contingency plans, disaster recovery, whse. inventory counts, etc.)	200	2
Subtotal	300	3
SUBTOTAL (Planned Assurance, Consulting, and Continuous Auditing Activities)	7,060	78
Mandatory, FW&A Hotline, and Special Audit Requests:		
System Development Charges Reviews	1,000	11
FW&A Hotline and Special Audits Requests (Incl. Hotline investigations for allegations of fraud, waste, and/or abuse):	1,000	11
Subtotal (Mandatory and Special Request Audits)	2,000	22
TOTAL AVAILABLE HOURS: (Assurance, Consulting, Continuous Auditing, Mandatory, and Special Requests)	9,060	100%
Administrative Projects: Quality Assurance and Improvement Program, Enterprise Risk Management (ERM) guidance, External Audit Contract management, Annual Risk-Based Audit Plan development, etc.	1,108	
TeamRisk Implementation	1,000	
Continuing Education & Professional Development (internal and external)	560	
Board of Ethics Support (Excludes 500 Administrative Assistant Hours)	92	
Subtotal (Other Internal Audit Activities)	3,216	
Vacation, holiday, sick, administrative, and other leave	2,548	
Subtotal (Vacation, holidays, sick leave, and other)	5,764	
TOTAL INTERNAL AUDIT ACTIVITY HOURS:	14,616	

FISCAL YEAR 2014 ANNUAL AUDIT PLAN SUMMARY OF PLANNED ACTIVITIES

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 Years '11 & '12 -- In accordance with the Blue Plains Intermunicipal Agreement of 1985, 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. This fiscal year we will audit FY '11 - FY '12 O&M Billings and Indirect Cost Allocations for Capital Billings. The financial payback from past audits ranks this audit a high priority. **Resources budgeted: 1,860 hours. Percent of available audit hours: 21%.**

Customer Relations Group Operational Audit -- We will perform an operational audit of this Customer Care Team area 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. **Resources budgeted: 1,000 hours. Percent of available audit hours: 11 %.**

Laboratory Services Group Regulatory Compliance Audit (FY '13 Carryover) -- Due to multiple concerns raised throughout fiscal year 2012 and prior, as well as the installation of a new system, we will perform a compliance audit to evaluate existing process controls for data submitted to regulatory agencies. It is essential that accurate data is transmitted to ensure the WSSC is meeting and/or exceeding water quality standards. This is a high risk audit due to external reporting requirements. *We are presently in the reporting phase of this audit, therefore, a limited number of hours is desired to complete this process, which includes developing the report draft, Internal Audit management's review of draft report content, obtaining management's responses and action plans, an exit conference, General Manager/CEO review, and audit report finalization and distribution.* **Resources budgeted: 250 hours. Percent of available audit hours: 3%.**

Consent Decree Compliance Audit – Phase I (FY '13 Carryover) -- On or about December 7, 2005, the Washington Suburban Sanitary Commission (WSSC) entered into a Consent Decree in the United States, with the State of Maryland, Anacostia Watershed Society, Audubon Naturalist Society of the Central Atlantic States, Inc., Friends of Sligo Creek, and Natural Resources Defense Council. In accordance with the Consent Decree, the WSSC is required to carry out injunctive relief or remedial measures that are designed to eliminate Sanitary Sewer Overflows (SSOs).

The express purposes of the Parties entering into this Consent Decree are for the WSSC to take necessary steps to comply with the Clean Water Act (CWA), Maryland's Environment Article, Title 9, Subtitle 3, the regulations promulgated under those laws, and WSSC's National Pollutant Discharge Elimination System (NPDES) Permits effective on the Date of Lodging, and any subsequent renewals of such permits that occur before the Termination of this Consent Decree, and to resolve the claims for civil penalties and injunctive relief alleged in the United States', the State of Maryland's, and the Citizens Groups' Complaints against WSSC.

Notwithstanding any other provisions contained within the Consent Decree, all remedial measures undertaken by the WSSC shall be completed no later than 14 years from the Date of Entry of the Consent Decree. We will conduct a compliance audit to ascertain whether or not the WSSC is on target to meet or exceed certain obligations required by the 2005 Consent Decree. *We are presently in the reporting phase of this audit, therefore, a limited number of hours is desired to complete this process, which includes developing the report draft, Internal Audit management's review of draft report content, obtaining management's responses and action plans, an exit conference, General Manager/CEO review, and audit report finalization and distribution.* **Resources budgeted: 200 hours. Percent of available audit hours: 2%.**

Industrial Asset Management Group (IAMG) (FY '13 Carryover) -- Annually, a physical inventory count occurs at specified plants and depots, which includes limited participation from internal and external auditors. While this verified inventory accounts for approximately 70% of all Commission inventory and is valued at \$9.8 million, the remaining 30% valued at approximately \$5 million has not undergone routine audit verification. The inventory that is not independently verified falls under the Facilities Maintenance Division (FMD), but is reportedly under the custodianship of the Industrial Asset Management Group (IAMG). Therefore, this fiscal year we will verify completeness and accuracy of inventory data housed in the Compass System data for the materials maintained by the IAMG. **Resources budgeted: 500 hours. Percent of available audit hours: 6%.**

Information Technology Inventory Operational Audit (FY '13 Carryover) – An audit of the inventory process utilized by the Information Technology (IT) Team will be conducted to ascertain the handling of new, obsolete, and surplus IT inventory. We will also review the handling of IT tools and equipment assigned to Commission employees during the on-boarding and out-boarding processes. **Resources budgeted: 800 hours. Percent of available audit hours: 9%.**

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*. **Resources budgeted: 400 hours. Percent of available audit hours: 6%.**

Continuous Auditing: Continuous auditing involves performing control and risk assessments on a frequent basis, if not virtually in real-time. Recently, 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 subject matter within a much shorter timeframe than under the traditional model. In the internal audit world, 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. The two areas designated for continuous auditing (biweekly payroll reviews and accounts payable) are deemed to be high risk 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: 550 hours. Percent of available audit hours: 6%.**

Sources: IIA, ISACA

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

Consulting Services:

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: 300 hours. Percent of available audit hours: 3%.**

Mandatory 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: 11%.**

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 is 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 request. 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: 1,000 hours. Percent of available audit hours: 11%.**

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. **Resources budgeted: 1,108 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: 1,000 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. **Resources budgeted: 560 hours.**

Board of Ethics Support:

Hours allocated are approximately 92, excluding the estimated 500 hours for the office administrative assistant and annual support hours provided by the General Counsel's Office. These hours have been drastically reduced due to the hiring of an Ethics Officer. However, the Internal Audit Office Team continues to be responsible for overseeing and assisting with the management the WSSC Ethics Program and providing administrative staff support to the Board of Ethics (BOE), which entails, but is not limited to: acting as 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; and compiling the Commission's Annual Report on conflicts of interest issues.

Resources budgeted: 92 hours.