

- **Internal Audit Report for August 2006**

Summary

Two audit reports were issued during the month:

- **Lake Skinner Lease with County of Riverside Audit Report – Generally Satisfactory**
 - **Contract 1588 with Kiewit Pacific Company Audit Report – Generally Satisfactory**
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Discussion Section

This report highlights the significant activities of the Internal Audit Department during August 2006. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is presented.

Lake Skinner Lease with County of Riverside Audit Report

Background

Lake Skinner is located 10 miles north of Temecula. It consists of 6,040 acres of land and lake, with a lake surface of 1,170 acres. It provides recreational activities; specifically camping, RV-ing, fishing, swimming, biking, hiking, boating, kayaking, canoeing, horseback riding, and picnicking. It offers 300 developed campsites, a children's playground, a swimming pool, shade structures, barbecues, showers, restrooms, and a lake store. In addition, it hosts the annual Temecula Valley Balloon & Wine Festival and Metropolitan's Solar Cup events. For the period July 1, 2004 through April 30, 2006, Lake Skinner reported \$1,474,800 in revenues and \$1,905,100 in expenses.

Opinion

In our opinion, the accounting and administrative procedures over the Lease Agreement with the County of Riverside for Recreational Development of Lake Skinner (R.L. 295) include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period June 1, 2004 through April 30, 2006.

Comments and Recommendations

During our review, we noted comments relating to compliance with established policies and procedures, which are presented in detail.

COMPLIANCE WITH ESTABLISHED POLICIES AND PROCEDURES

During our review of the Fifth Amendment to the lease dated January 2, 2005, we noted:

- Section 9 states, "For a ten-year period commencing on January 2, 2005, and terminating on January 1, 2015, Metropolitan shall credit the Eastern Municipal Water District (EMWD) up

to \$100,000 for water used by the County at the Lake Skinner recreation area and purchased from EMWD.” This provision does not specifically indicate whether the \$100,000 is aggregate or annual.

Further, Section 9 states, "Metropolitan agrees to investigate and evaluate the possibility of pumping water from Lake Skinner, or to permit County to install and operate a well for use by County at cost for landscape irrigation and recreation purposes at the Lake Skinner recreation area and to advise County of its findings within 18 months after the execution of the Lease." We noted that Metropolitan has not advised the County of its findings as of July 31, 2006.

- Section 19 indicates, "County may apply appropriate overhead charges not to exceed 19% of direct costs of operating; appropriate charges include insurance, accounting services, human resources services, purchasing services, information technology services, and planning services (“Overhead”).” However, we noted expenses totaling \$6,000 for sponsoring two high schools in Riverside County to participate in Metropolitan Water District's Solar Cup event were included in the “Overhead” calculation for fiscal year ended 2004/05. These expenses were not direct cost that qualify for “Overhead” and should have been excluded in the calculation. It should be noted that Riverside County Regional Park and Open-Space District staff (county staff) has corrected this error by excluding the sponsoring expense when calculating “Overhead” expense for fiscal year 2004/05.
- In addition, we noted that vehicle ID#90285, which is not used at Lake Skinner, is included in Lake Skinner's car pool expenses. Consequently, county staff has been reversing these expenses monthly. However, we noted expenses for seven months totaling \$1,634 was not properly reversed during the review period. It should be noted that the amount was reversed in July 2006.

We recommend that Management review the Amendment and make appropriate revisions to ensure terms, conditions, and intent are clear and precise; emphasize the importance of complying with terms and conditions of the agreement; and continue to work with Riverside County Regional Park and Open Space District to ensure compliance with terms and conditions of the agreement.

Contract 1588 with Kiewit Pacific Company Audit Report

Background

The Diemer Treatment Plant Sedimentation Basin Spillway Program was established to comply with the California Department of Health Services requirements. The project will eliminate potential mixing of unfiltered and filtered water at the Diemer Treatment Plant in case of an overflow condition. As part of the development of the Diemer Treatment Plant Sedimentation Basin Spillway Program, Metropolitan awarded a construction contract for \$3.7 million to Kiewit Pacific Company for Diemer Basin No. 8 Spillway Conduit effective October 27, 2004. The project consists of constructing an 84-inch diameter fabricated steel spillway conduit, an overflow structure, an energy dissipater, a 15-foot wide by 44-foot long bridge; relocating and installing

pipelines, asphalt concrete paving, native landscaping, landscape maintenance, and other associated work. As of May 31, 2006, this project is 99% completed and approximately \$3.6 million has been paid to Kiewit Pacific Company.

Opinion

In our opinion, the accounting and administrative procedures over the Kiewit Pacific Company contract include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control during the period from contract inception of October 27, 2004 through May 31, 2006.

Comments and Recommendations

Our audit revealed concerns over the monitoring, tracking, and recording of cash advances and expenses.

COMPLIANCE WITH TERMS AND CONDITIONS OF AGREEMENT

During our review of Contract No. 1588 with Kiewit Pacific Company, as stipulated in the Specification No. 1468, we noted:

- Section 00700-36 of the specification requires Metropolitan to file a Notice of the Completion of all work covered by the contract in the Office of the County Recorder within 10 calendar days, after the date of completion. In addition, within 60 days of the date of completion, Metropolitan is required to pay the contractor the remaining contractual amount including retention payments. Any money withheld beyond the allowable amount or prescribed time will accrue interest at a rate of 2% per month, until such time that said money is released to the contractor. However, we noted that a Notice of Completion for this contract was filed in the Office of the County Recorder on May 9, 2006, although landscape maintenance work covered by the contract had not been completed. It should be noted that retention payments have not been released to the contractor and the contractor agreed to complete the landscape maintenance work before release of retention payments.
- Section 00700-35(b) of the specification requires Metropolitan to make partial payment to the contractor within 30 days after receipt of an undisputed and properly submitted payment request from the contractor. However, we noted that one of the eight progress payments tested was paid 12 days past the 30-day requirement. In addition, we also noted that a monthly progress payment was paid on July 27, 2005. However, the 10% holdback (retention payment) was not released into an escrow bank account until August 11, 2005.

We recommend Engineering Services management remind staff of the importance of complying with contractual terms and procedures and conduct periodic reviews to ensure compliance.