

- **Internal Audit Report for December 2006**

## Summary

---

Three reports were issued during the month:

- **PeopleSoft/WorkTech Timekeeping Applications Audit Report – Generally Satisfactory**
  - **Brutoco Engineering & Construction, Inc. Audit Report – Generally Satisfactory**
  - **Ameron International Audit Report – Generally Satisfactory**
- 

## Discussion Section

This report highlights the significant activities of the Internal Audit Department during December 2006. In addition to presenting background information and the opinions expressed in the audit reports, a discussion of findings noted during the examination are also provided.

---

## PeopleSoft/WorkTech Timekeeping Applications Audit Report

### Background

PeopleSoft is the administrative software application used for Human Resource management, employee timekeeping, and payroll. The WorkTech Time software application is the time and attendance system used for entering and approving employees' attendance. Employees input their work attendance information into the WorkTech Time system for review and approval by their designated supervisory personnel. The WorkTech Time system then interfaces and automatically transfers information into the PeopleSoft system for posting to its Time and Labor module for record keeping and payroll processing.

### Opinion

In our opinion, the operating and administrative procedures over PeopleSoft/WorkTech timekeeping applications include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period January 1, 2006 through July 1, 2006.

### Comments and Recommendations

Our audit revealed the following concerns.

#### TIME ENTRY APPROVAL

Employees utilize the WorkTech Time software application to enter the hours worked during each pay period. Supervisory personnel then review and approve these hours for payment by the Payroll/Accounts Payable Team ("Payroll") of the Controller's Section. This review and approval process is described in the WorkTech Timekeeping Business Rules Manual and consists of two distinct functions – Approver and Timekeeper. Approvers are supervisory personnel designated by

a Group Manager to approve employee time entries. Timekeepers, on the other hand, ensure that employees enter their time accurately and on a timely basis. The Timekeeping Business Rules Manual requires that employees' recorded time is approved prior to its posting to the PeopleSoft Time and Labor modules.

During our review of timekeeping records for the 1,936 active employees during the period January 1 through July 1, 2006, we noted that the documentation supporting the payment of non-premium pay time (mainly straight pay time) for 60 employees on an average basis per pay cycle could not be located. We did note after a pay cycle is closed, it is often necessary for Payroll to post corrective entries in PeopleSoft. However, we could not locate approving documentation for these items.

We recommend that the Payroll procedures be updated to generate a list of timekeeping data corrections done by Payroll for Approvers' review and approval.

#### WORKTECH INTERFACE TO OTHER APPLICATIONS

WorkTech Time data is used to populate reports for the Systems Maintenance Management (Maximo) application, the Apprenticeship Program Application (APA) and the Information Technology Metrics (ITM) System. These management reports should be reviewed for accuracy and completeness for both the WorkTech and PeopleSoft applications.

As noted in the previous comment, it is often necessary for the Payroll/Accounts Payable Team to post corrective entries to the PeopleSoft application after a pay cycle is closed. However, we understand that current procedures do not require that these corrections also be posted to the WorkTech application on a "post closing" basis. Accordingly, this may result in selective data elements in PeopleSoft to be different than those in the WorkTech application. We also noted that since management reports created in Maximo, APA, and ITM are populated by data from the WorkTech application, staff should perform an analysis of PeopleSoft and WorkTech to reconcile any data discrepancies. However, we could not locate such reconciliations.

We recommend that Payroll/Accounts Payable Team management establish procedures to ensure data integrity by checking the timekeeping data for accuracy and completeness before it is used for generating management reports.

#### ACCESS TO TIMEKEEPING DATA

Employees' access to the WorkTech and PeopleSoft Time and Labor data is maintained by IT Security Team and should be based upon employee job responsibilities. Payroll should periodically review employees' access for appropriate permissions. Furthermore, this access to modify data elements should include a mechanism to retain a history of changes to enable a review or reconstruction of the changes.

During our review we noted data access concerns regarding permissions to modify production data in WorkTech and PeopleSoft. In addition, we noted that a history of the changes to certain access records could not be located.

We recommend that Payroll:

- Perform periodic reviews of the employees' access authorization to WorkTech data in production.
- Retain permissions to modify the "Timekeeping Group" table information only in one application.
- Maintain a history (audit trail) of changes to "Timekeeping Group" table.

---

## **Brutoco Engineering & Construction, Inc. Audit Report**

### **Background**

The Weymouth Water Treatment Plant Improvement Program was established to implement multiple projects to ensure plant reliability and compliance with water quality and environmental regulations. As part of the program, Metropolitan awarded a construction contract effective May 19, 2005 to Brutoco for \$3,136,400 in April 2005. In this contract, Brutoco agreed to replace the existing filter surface wash system in Filter Building No. 1. As of September 30, 2006, this project was completed and \$2,895,885 was paid to Brutoco.

### **Opinion**

In our opinion, the accounting and administrative procedures over the Brutoco 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 May 19, 2005 through September 30, 2006.

### **Comments and Recommendations**

During our review, we noted comments relating to timely issuance of extra work orders.

#### **TIMELY ISSUANCE OF EXTRA WORK ORDERS**

Extra Work Order (EWO) is a written change order issued after the execution of a construction contract to authorize a change in the work (scope, method, materials, and equipment) that typically involves additional cost and/or time. EWOs should be processed on a timely basis and signed by engineering management and the contractor to ensure only contractually authorized work is performed and to ensure prompt contract payments.

During our review, we noted that an EWO was not processed on a timely basis. Specifically, we noted that the EWO was executed in September 2006 although actual work was completed in April 2006 and a "provisional" (advance) payment was made in May 2006. Furthermore, a notice of completion of the construction work was filed in the Office of County Recorder on July 24,

2006. Due to the late process of the EWO, the final payment to the contractor could not be released within 60 days of the date of completion. It should be noted that Specifications No. 1506A requires Metropolitan to pay the contractor the remaining contractual amount including retention payments within 60 days of the date of completion, otherwise, interest will be accrued at a rate of 2% per month.

We recommend that Engineering management remind staff of the importance of processing contract documentation on a timely basis to ensure compliance with contractual terms and conditions.

---

## **Ameron International Audit Report**

### **Background**

Metropolitan's Board authorized final design of the Skinner Oxidation Retrofit Program (Skinner ORP) and the Skinner Expansion No. 4 in July 2003. The addition of ozone at the Skinner plant will remove blend restrictions and lower disinfection by-product levels for compliance with Stage 1 and Stage 2 of the U.S. Environmental Protection Agency's Disinfectants/Disinfection By-Products Rule. The Skinner ORP facilities are being constructed under multiple phased contracts. To meet Skinner ORP scheduled on-line by January 2009, Metropolitan awarded a \$8.545 million procurement contract to Ameron to custom make steel pipes and install them underground before another contractor can commence work on the ozone contactors and related facilities. As of September 30, 2006, the Ameron contract is approximately 74% complete and \$6.346 million has been paid to Ameron.

### **Opinion**

In our opinion, the accounting and administrative procedures regarding our review over the Ameron contract include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control during the period from contract inception of March 22, 2005 through September 30, 2006.

### **Comments and Recommendations**

During our review, we noted comments relating to compliance with contractual terms and conditions, which are presented in detail.

#### **COMPLIANCE WITH CONTRACTUAL TERMS AND CONDITIONS**

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting detail, and adequate control over the administration of the agreement. Compliance with contractual terms also ensures that parties fully discharge their obligations and exercise their rights. For the Ameron contract, Specifications No. 1519 identifies criteria to properly administer the contract.

During our review, we noted that Section 1010-1.02 A of the Specifications states, "The Contractor shall work immediately after receipt by the Contractor the Notice to Proceed (NTP), and shall complete all the work and deliver all fabricated pipe, fittings and appurtenances included in the contract within one year after NTP." In the letter dated April 12, 2005, Ameron indicated that all work and delivery would be completed by March 17, 2006. However, as of September 30, 2006, approximately 74% of the total bid amount was delivered and Ameron indicated that the steel pipes would not be completely installed until August 2007. It should be noted that Metropolitan and the Contractor are working together to minimize the impact of this delay. Metropolitan's staff estimated that the delay would result in an additional cost of approximately \$200,000, which has been withheld from Ameron's total earnings.

We recommend that Engineering management and staff continue to work closely with Ameron to complete this contract; minimize the impact of its delay on the Skinner ORP delivery date and overall program costs. In addition, we recommend that management recoup additional costs incurred due to the late delivery of the Ameron contract from the Contractor.

---

## Continuous Audit Activities (monthly reviews)

### **Inland Feeder Project**

Our review included agreeing actual costs reported to the Board to source documentation, including the general ledger, the Inland Feeder Project (IFP) Monthly Report, and selected contract payments; reviewing estimated costs at completion; analyzing changes in various cost components; and attending on-site meetings held to review actual costs and discuss current problems. Our review did not reveal any material differences between reported amounts and supporting documentation.

In addition, our ongoing review procedures for potential claims, liability exposures, and other pending issues have been designed to track such items in accordance with applicable reporting requirements under Financial Accounting Standards #5 (Accounting for Contingencies). Accordingly, for all pending legal claims, we consult with the Chief Financial Officer, IFP management, or General Counsel's office to evaluate the magnitude of potential losses to Metropolitan. It should be noted that the IFP Manager reports on contractors' claims currently in litigation and other potential claim issues to the E & O Committee monthly.

We also met with IFP management to discuss the procedures utilized to review the Shea/Kenney invoices under the terms of the new agreement. Specifically, we discussed the review procedures for:

- 1) Detailed transaction analysis (Navigant consultant),
- 2) Field Office review of non-labor charges (Hatch Mott consultant), and
- 3) Construction Contract Administration (Met staff) review responsibilities.

### **Center for Water Education**

Reviewed the monthly financial statements and attended monthly Board of Directors meeting. In addition, participated in discussions with the Center for Water Education Work Group on Center concerns.