



- **Internal Audit Report for May 2008**

Summary

Two reports were issued during the month:

- **Helix Environmental Planning, Jones & Stokes Associates, Jacobs Associates, Martinez Architects, and United Inspection & Testing Audit Report**
 - **Hazardous Waste Management Program Follow-up Audit Report**
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Discussion Section

This report highlights the significant activities of the Internal Audit Department during May 2008. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

- **Helix Environmental Planning, Jones & Stokes Associates, Jacobs Associates, Martinez Architects, and United Inspection & Testing Audit Report**

Background

Administrative Code Section 8121(c) grants authority to the General Manager to execute professional and technical agreements without prior Board approval provided that the amount payable during any one agreement year does not exceed \$250,000. Prior to agreement execution, consultants are pre-qualified through the Request for Qualifications (RFQ) or Request for Proposal (RFP) process. During this process, consultant submittals are reviewed and evaluated by an Evaluation Committee to determine compliance with requirements and qualifications set out in the RFQ or RFP. However, a pre-qualified consultant is not guaranteed an agreement and Metropolitan reserves the right to enter into agreements with one or more, or none of the pre-qualified consultants, based upon its project needs. As projects and work opportunities are identified, Metropolitan selects the consultants directly from the list of pre-qualified consultants and executes roll-over agreements for up to five years with a maximum amount payable per agreement year.

Metropolitan entered into separate three-year professional agreements with Helix Environmental Planning, Incorporated (Helix) and Jones & Stokes Associates, Incorporated (Jones), effective January 2007, in an amount not to exceed \$245,000 each. Helix and Jones were retained to provide on-call environmental and technical services. In addition, in March 2007, Metropolitan entered into separate three-year professional agreements with Jacobs Associates (Jacobs) and Martinez Architects, Incorporated (Martinez) in amounts not to exceed \$244,000 and \$225,000, respectively. Jacobs was retained to provide on-call tunnel design engineering services and Martinez, to provide on-call architectural services.

Finally, in August 2006, Metropolitan entered into a three-year professional agreement with United Inspection & Testing, Incorporated (United) in an amount not to exceed \$245,000. United was retained to provide soil and concrete inspection services. As of March 2008, payments to the consultants under the five agreements reviewed totaled \$781,600.

Opinion

In our opinion, the accounting and administrative procedures over the agreements 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 August 2006 through March 2008.

Comments and Recommendations

COMPLIANCE WITH TERMS AND CONDITIONS OF THE AGREEMENTS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting detail, and adequate control over the administration of the agreements. Compliance with the contractual terms also ensures that parties fully discharge their obligations and exercise their rights. The terms and conditions of the consulting agreements stipulate billing and payment requirements and identify documentation required to properly administer the agreements. Our review of sixteen selected consultant invoices (\$372,163) paid under the five agreements reviewed revealed:

1. Two invoices from Martinez (Agreement 84099) were overbilled by \$1,168. This overbilling was due to use of an incorrect billing rate of \$76.50 an hour versus \$72 an hour (per Fee Schedule) used for labor classification "CADD Drafting."
2. Billed amounts for Fundament & Associates (sub-consultant for Martinez) for \$15,795 did not agree to the supporting documentation. These discrepancies (totaling about \$100) were due to the difference between the billed amounts and the reported charges per the sub-consultant's documentation. The billed amounts were calculated based on the percent of work completed; whereas, the sub-consultant's charges were calculated by multiplying the actual hours worked by the employees' hourly rates.
3. Supporting documentation (time records) for invoiced labor charges by Fundament & Associates could not be located. This is in contrast to Section 21 (Audit) of the agreement that requires the consultant to maintain source documentation for invoice.
4. Finally, billing and payment requirements for Jacobs (Agreement 82817) were not consistent with that of the other agreements. That is, the Jacobs agreement does not require monthly invoicing and, accordingly, Jacobs bills Metropolitan on an irregular basis.

We recommend that the Agreement Administrator request reimbursement from Martinez for the \$1,168 overbilling. Furthermore, we recommend that the Agreement Administrator obtain supporting time sheets or time records for sub-consultant labor billings (Fundament & Associates), and ensure the billed amounts agree with the supporting documentation. We also recommend that the Agreement Administrator assess the need to amend the Jacobs agreement to require monthly invoicing.

Finally, we recommend that the Agreement Administrators for the listed agreements conduct periodic reviews to ensure compliance.

Hazardous Waste Management Program Follow-up Audit Report

Background

The Audit Department has completed a follow-up review of audit recommendations contained in the Hazardous Waste Management Program audit report issued on June 30, 2005. The prior audit was rated as “Less Than Satisfactory” and included recommendations in the area of review and approval of transactions and compliance with policies and procedures.

Our follow-up procedures consisted of verifying that Management’s corrective action plans were implemented and functioning effectively. Accordingly, we evaluated revised procedures and retested selected controls. Revised procedures were deemed adequate and appropriate; however, we did note opportunities for improvements in “Waste-Tracking” procedures. In addition, current period testing also revealed differences between outside rental fees and contractor pricing schedule. We did note that these differences were reasonable to ensure operational efficiency. Management concurs with our finding and recommendations and will revise the applicable procedures.

KPMG Quarterly Review – as of May 31, 2008

Provided audit assistance to KPMG to complete the 2007/08 Second Quarter review of financial activity of Metropolitan. This assistance consisted of approximately 175 hours of Internal Audit staff time.

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. We also reviewed the procedures designed to dispose of salvaged equipment to ensure the safeguarding of assets and the propriety of the processes. 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 consulted with the Chief Financial Officer, IFP

Management, or General Counsel's office to evaluate the magnitude of potential loss to Metropolitan. It should be noted that the IFP Project Manager reports on contractors' claims currently in litigation and other potential claim issues to the Board monthly.

Internal Controls over Financial Reporting

We continued our assistance to the Controller's Section in the completion of an assessment of the internal controls over financial reporting. This assessment is based on the COSO internal control framework and includes identification of general ledger accounts and business processes to be included in the project, documentation and testing of the business processes/control activities, evaluation of operating effectiveness, and communication of any internal control deficiencies.