



- **Internal Audit Report for October 2008**

Summary

Two reports were issued during the month:

- **Agency Temporary Agreements Apollo 68853, Helpmates 68202, On Assignment 68194, and Stockmar 24449 Audit Report**
 - **Stores Inventory Audit Report**
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Discussion Section

This report highlights the significant activities of the Internal Audit Department during October 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.

Agency Temporary Agreements Apollo 68853, Helpmates 68202, On Assignment 68194, and Stockmar 24449 Audit Report**Background**

Agency Temporary workers are utilized to manage peak workloads, complete special assignments, or provide coverage for employees that are on extended leave. These workers are engaged for a limited period of time and can vary from administrative support or hourly labor to professional, technical, or specialized services. The Human Resources Group (HR) and the Corporate Resources Professional Services Contract Team are responsible for negotiating the Temporary Agency agreements. Furthermore, HR is responsible for administering the agreements and ensuring that they are in compliance with Metropolitan policies and regulatory requirements. Line Managers, on the other hand, are responsible for managing the Agency Temporary workers.

Metropolitan's use of temporary workers has varied from \$923,800 in fiscal year 2006, to \$485,000 in fiscal year 2007, to \$619,000 in fiscal year 2008. For fiscal year 2008/09, Metropolitan has six active Agency Temporary agreements.

Opinion

In our opinion, the accounting and administrative procedures over the agreements include those practices usually necessary to provide for a general satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period from March 2006 (agreement inception) through July 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 Agency Temporary agreements. Compliance with the contractual terms and conditions ensures that parties fully discharge their obligations and exercise their rights. The terms and conditions of the Agency Temporary agreements stipulate insurance, billing, and payment requirements and identify documentation required to properly support the business activity.

Our review revealed nine instances of non-compliance with Metropolitan's insurance coverage requirements. For instance, we could not locate documentation to support crime/dishonest bond coverage for Apollo, Helpmates and Stockmar and the Accord insurance certificates for Stockmar for certain contract periods.

We recommend Corporate Resources Management remind the Contracting Team and the HR Agreement Administrator of the importance of complying with the terms and conditions of the contract. Furthermore, we recommend that Corporate Resources Management conduct periodic reviews to ensure compliance.

REVIEW AND APPROVAL OF TEMPORARY AGENCY INVOICE PAYMENTS

Review and approval controls serve to ensure compliance with the terms and conditions of the agreements, evaluate the timeliness and quality of deliverables, test the propriety of vendor billings and verify the adequacy of supporting documentation.

We tested 26 invoices processed from March 1, 2006 through July 30, 2008 from Apollo, Helpmates, On Assignment, and Stockmar. Our review revealed that agency invoices lacked support and documentation stipulated in the agreement (e.g., maximum amount payable, labor classification, and timesheets). Additionally, invoices were often paid late ranging from 2-126 days.

We recommend that Management require temporary agencies to submit supporting documentation in accordance with the terms and conditions of the agreements. Furthermore, we recommend that Management establish procedures to ensure prompt payments to temporary agencies and perform periodic review of activities to ensure compliance with contractual requirements.

POLICIES AND PROCEDURES

Policies and procedures should be established and documented to provide a framework for achieving Metropolitan goals and objectives. Procedures provide Management with guidelines for consistent performance of daily operations, assist in the training of new employees, and provide a source of reference for experienced personnel.

During our review, we noted that the Temporary Labor Manual was not consistent with the Temporary Workers Operating Policy H-08 (June 2005) with respect to the six-month assignment time limitation on the use of agency temporary workers. We also noted that draft policies and procedures for the selection, utilization, and management of temporary labor have not been implemented. Additionally, we could not locate written procedures for the review and approval of agency invoice payments. Finally, we noted that two terminated agency temporary workers were still active in the security database with access to Metropolitan applications, and one individual was also listed in the Outlook Address Book. Management has subsequently addressed these deficiencies.

We recommend that Management establish target dates for the completion, approval and distribution of the Temporary Labor Manual. We also recommend that Management conduct periodic reviews to ensure compliance with the need to establish and update procedures.

Stores Inventory Audit Report

Background

Stores inventory are materials and supplies held as replenishable stock items at each of the eight warehouse locations. The Oracle's Inventory Module tracks inventory unit and cost data for purchases, receiving, and issuance. Oracle's Min-Max ordering process is utilized for ordering commonly used items, whereas, special requests or immediate need materials and supplies are purchased via Purchase Cards (P-Cards).

Metropolitan inventory control standards require that cycle counts be completed three times a week at each warehouse location. For 2008, these counts are planned such that items \$50 or more per unit are counted at least twice a year, items \$3-\$50 per unit are counted once a year, and items less than \$3 per unit are not counted. In addition, the Accounting Operations Unit performs a quarterly, surprise cycle count at two warehouse locations. The Accounting Operations Unit is responsible for reconciling the Central Stores Stock general ledger account to the Oracle system on a monthly basis. As of June 2008, the Central Stores Stock general ledger account balance is \$8.7 million, including \$1.58 million in chemical inventory. The scope of this audit, however, does not include chemical inventory.

Opinion

In our opinion, the internal controls over management of stores inventory 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 for the period July 1, 2007 through June 30, 2008.

Comments and Recommendations

REVIEW AND APPROVAL

Review and approval controls serve to protect against unauthorized, inaccurate, or duplicate transactions/requests.

During our review, we noted two instances where inventory was incorrectly input into the Oracle system (totaling \$125). Additionally, we could not locate evidence of Management review and approval for one adjustment item of \$583.

We recommend Management remind personnel of the importance of compliance to established procedures and conduct periodic reviews to ensure compliance.

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. These meetings included extensive discussions on the progress of obtaining pipe hauling permits from the City of San Bernardino and the impact that these efforts have on project costs. 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.

KPMG Fiscal Year 2007/08 Financial Statement Audit

The Audit department provided assistance to KPMG to complete the fiscal 2007/08 review of financial activity of Metropolitan. This assistance consisted of 349 hours of Internal Audit staff time between September 24, 2008 and November 5, 2008.