



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Report

December 31, 2008

Office of the General Auditor

- **Internal Audit Report for December 2008**

Summary

Three reports were issued during the month:

- **Infrastructure Reliability Program - P&D Consultants, Incorporated Audit Report**
 - **Infrastructure Reliability Program - Carollo Engineers Audit Report**
 - **J.R. Filanc Construction Contract Audit Report**
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Discussion Section

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

Infrastructure Reliability Program - P&D Consultants, Incorporated Audit Report

Background

Metropolitan's Infrastructure Reliability and Protection Plan (Plan) was initiated to evaluate risks and vulnerabilities to Metropolitan facilities, and to identify cost-effective options to address those risks through rehabilitation, repair, or replacement. As part of this Plan, staff conducted assessments of Metropolitan's treatment plants and desert conveyance system. These assessments have resulted in several rehabilitation projects on the Colorado River Aqueduct and individual improvement programs at each of Metropolitan's five filtration plants.

Accordingly, Metropolitan entered into an eight-year contract with P&D Consultants, Incorporated effective through June 2013, in an amount not to exceed \$1.5 million to provide environmental mitigation monitoring services for the Robert B. Diemer Filtration Plant Improvements Program. This contract was amended once to increase the maximum amount payable to \$1.8 million. As of August 2008, Metropolitan has paid \$707,000 to P&D Consultants, Incorporated under this agreement.

Opinion

In our opinion, the accounting and administrative procedures over the Infrastructure Reliability Program Agreement with P&D Consultants, Incorporated 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 July 2005 through August 2008.

Comments and Recommendations

COMPLIANCE TO 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 and conditions also ensures that parties fully discharge their duties and obligations and exercise their legal rights associated with the agreements. We reviewed five P&D Consultants, Incorporated invoices totaling \$179,000 and noted:

1. All invoices tested were paid late, from 4 to 281 days after their due dates. This is in contrast to the Billing and Payment Section of the agreement that requires payment within 30 days after receipt of the invoice. It should be noted that Environmental Planning has initiated remedial actions to correct these instances and they have continued their efforts to pay invoices within the 30-day standard.
2. All invoices tested were submitted without the required Small Business Enterprise (SBE) Utilization Reports. This is in contrast to the Business Outreach Program Section of the agreement that requires submission with each invoice a SBE Utilization Report indicating either the amount paid to each SBE sub-consulting firm or no activity for the invoice period.

We recommend the Agreement Administrator resolve the noted differences. We also recommend that the Agreement Administrator establish procedures to ensure compliance to the terms of the agreement and conduct periodic reviews to ensure compliance.

Infrastructure Reliability Program - Carollo Engineers Audit Report

Background

Metropolitan's Infrastructure Reliability and Protection Plan (Plan) was initiated to evaluate risks and vulnerabilities to Metropolitan facilities and to identify cost-effective options to address those risks through rehabilitation, repair, or replacement. As part of this Plan, staff conducted assessments of Metropolitan's treatment plants and desert conveyance system. These assessments have resulted in several rehabilitation projects on the Colorado River Aqueduct and individual improvement programs at each of Metropolitan's five filtration plants.

Accordingly, Metropolitan entered into a five-year contract with Carollo Engineers, effective through July 2008, in an amount not to exceed \$2 million per contract year to provide water treatment plant support engineering services for its filtration plants and other treatment-related facilities, on an as-needed basis. As of August 2008, Metropolitan has paid Carollo Engineers \$2.4 million under this agreement.

Opinion

In our opinion, the accounting and administrative procedures over Infrastructure Reliability Program Agreement with Carollo Engineers 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 2005 through August 2008.

J.R. Filanc Construction Contract Audit Report

Background

The Robert A. Skinner Treatment Plant (Skinner Plant) was placed into service in 1976 to supply treated water to Riverside and San Diego Counties. From its opening, increased Member Agency demands have resulted in multiple plant expansion projects. Through 2003, these projects resulted in an expansion of the facility to six treatment modules operated as two distinct plants (Plants 1 and 2), with capacities of 240 million gallons per day (mgd) and 280 mgd, respectively.

However, Member Agency demands continued to increase and the Metropolitan Board authorized a fourth expansion of the Skinner Plant in 2003. This expansion consisted of a 110 mgd treatment module (Skinner Module No. 7), a 34 mgd Washwater Reclamation Plant No. 3, and a Reclaimed Washwater Pumping Station. These projects were all completed in June 2007 and the plant now has a treatment capacity of 630 mgd.

As part of this expansion, Metropolitan entered into a \$76.4-million contract in November 2004 with J.R. Filanc Construction (Filanc) to construct Skinner Module No. 7 (\$70.8 million) and the Potable and Fire Water System (\$5.5 million) required for the Skinner Oxidation Retrofit Project. Work under this contract included site work, yard piping, and the construction of flocculation and sedimentation basins, filters, solids collection system, used wash water return system, potable and fire water pumping station, and electrical switchgear building. As of July 2008, Metropolitan has paid \$83.7 million to Filanc. This included \$7.3 million in extra work orders.

Opinion

In our opinion, the accounting and administrative procedures over the 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 for the period November 2004 through July 2008.

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 Inland Feeder Project Manager reports on contractors' claims currently in litigation and other potential claim issues to the Board monthly.