



- Internal Audit Report for November 2009

## **Summary**

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Three reports were issued during the month:

- **Employee Training and Development Program Audit Report**
- **Consulting Agreements Reams, Seb, MuniFinancial, and PRAG Audit Report**
- **Business Outreach Program Audit Report**

## **Discussion Section**

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This report highlights the significant activities of the Internal Audit Department during November 2009. 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.

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## **Employee Training and Development Program Audit Report**

### **Background**

The Training and Organization Development (TOD) Unit, within the Human Resources Group, is responsible for administering Metropolitan's Employee Training and Development Program governed under Operating Policy J-05. Its main objectives are to provide job-related training and career development and to ensure compliance with applicable training requirements, guidelines, and standards. However, the responsibilities are shared between the employees, their Group Managers, and TOD.

Employees are responsible for holding valid certifications when performing duties that require certification and complying with training requirements and guidelines. Group Managers are responsible for routinely assuring that their staff hold valid current certifications and satisfy training requirements, and for identifying and communicating training needs to TOD. TOD is responsible for supporting training and development needs of employees, coordinating and monitoring the quality of training, and ensuring compliance with training standards and guidelines. From July 2006 through June 2009, TOD had provided 1,130 training sessions (or 24,031 hours) to 8,057 participants and paid \$560,000 to external training instructors.

### **Opinion**

In our opinion, the accounting and administrative procedures over the Employee Training and Development Program 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 1, 2006 through June 30, 2009.

### **Comments and Recommendations**

#### **POLICIES AND PROCEDURES - TRAINING AND DEVELOPMENT**

Operational policies and procedures should be established and documented to provide a framework for achieving Metropolitan goals and objectives properly and adequately. Procedures provide Management with guidelines for consistent performance of daily operations, assist in the training of new employees,

and they provide a source reference for experienced personnel. For the Training and Organizational Development Unit (TOD), formal procedures provide for consistent processes over training requisition and approval, course development and evaluation, and compliance monitoring. During our review, we noted:

1. Training program practices were not formalized by TOD Management. Specifically, we were unable to locate written procedures for obtaining and approving employee training requests; developing, coordinating and evaluating training courses; and monitoring and reporting training activities.
2. Operating Policy J-05 (Training and Development) was last updated in May 2005, and there have been personnel and title changes since that update.
3. Operating Policy J-05 requires the TOD, within the Human Resources Group, to administer Metropolitan's training programs. Our review revealed that the staff within the Water System Operations (WSO) Group also administers environmental, health, and safety training.

We recommend that TOD Management establish a target date for completion of the Training and Development Procedures Manual. We also recommend that TOD Management provide training to staff to ensure that they understand how to perform the tasks indicated in the manual and periodically test to ensure compliance with those procedures. Further, we recommend that TOD and WSO Management work together to identify and resolve any duplication of efforts and update Operating Policy J-05 to reflect any changes.

#### COURSE EVALUATION FORMS AND PROGRAM CURRICULUM

Analyzing data collected from the course evaluation forms are essential in ensuring that Employee Training and Development Program objectives are met. Program Management, as well as the instructors, should review these forms to provide for continuous improvements to classroom instruction. In addition, to ensure adequate monitoring of training program quality, TOD Management should perform periodic evaluation of the program's curriculum, including course descriptions and education materials to ensure that it meets applicable training requirements and standards.

During our review, we noted that completion of the class evaluation forms is voluntary. We found no evidence that these evaluations have been reviewed and analyzed by the TOD. Further, we noted that the contents of various training and development courses and related education materials have not been assessed since they were initially developed.

We recommend that TOD Management and instructors continue to encourage completion of evaluation forms and perform timely reviews and analyses of these forms. Further, we recommend that TOD Management and instructors conduct periodic evaluations of the program's curriculum to ensure program quality, compliance with best practices, and consideration of emerging issues. Lastly, we recommend that TOD develop course evaluation policies and procedures manual and incorporate them into the overall training and development manual.

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## **Consulting Agreements Reams, Seb, MuniFinancial and PRAG Audit Report**

### **Background**

The Office of the Chief Financial Officer (CFO) is responsible for the controller, treasury, debt management, budgeting and financial planning functions at Metropolitan. These efforts include: revenue recognition, financial reporting, accounts receivable, accounts payable, debt/investment management, payroll, planning/budgeting, water pricing, and business continuity. The CFO augments staff resources by utilizing consulting firms for investment, financial, and debt advisory services. Specifically, Metropolitan obtained investment advisory services from Reams and Seb whereas, financial and debt consultation was received from MuniFinancial and PRAG.

Metropolitan entered into recurring agreements effective May 2002 with Reams and Seb in amounts not to exceed \$324,000 and \$180,000 per year respectively. Reams and Seb provide investment advisory services and manage the government and corporate bond portfolios. These portfolios totaled \$180 million and \$100 million at the time the contract was signed. The Seb agreement was amended to change its name to Hillswick Asset Management LLC and to increase the maximum amount payable to \$225,000 per year.

In addition, a five-year agreement was executed with MuniFinancial in June 2005 to administer Metropolitan's Water Standby Charge Program for an amount not to exceed \$198,000 per year. The Water Standby Charge Program charges are established by Metropolitan's Board each year, assessed by parcel or acre and accepted into the tax rolls for the six counties within Metropolitan's service areas. MuniFinancial maintains the standby charge database, and provides an annual report of proposed and final assessments to Metropolitan. This agreement was amended twice to increase the maximum amount payable to \$203,000 per year and to change the consultant name to Willdan Financial Services.

Lastly, Metropolitan entered into a three-year agreement with PRAG in December 2006 for an amount not to exceed \$240,000 per year. PRAG was retained to provide financial advisory services to assist in financial planning and financing to fund Metropolitan's capital investment program. As of August 2009, payments to the consultants under the four agreements totaled \$2.3 million.

### **Opinion**

In our opinion, the accounting and administrative procedures over Consulting Agreements with Reams, Seb, MuniFinancial and PRAG 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 2006 through August 2009.

### **Comments and Recommendations**

#### **COMPLIANCE WITH THE 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 could not locate proof of insurance coverage for Commercial General Liability, Automobile Liability, Workers Compensation and Professional Liability for Reams and Professional Liability for Seb since contract inception in May 2002. Both agreements require submission of proof of insurance coverage during the term of the agreement.

We recommend that the Agreement Administrator obtain proof of adequate insurance coverage for the above consultants. We also recommend that Management establish procedures to ensure compliance with contractual requirements and conduct periodic reviews to ensure compliance.

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## **Business Outreach Program Audit Report**

### **Background**

Metropolitan encourages participation by individuals and businesses in the solicitation for construction and professional service contracts and for the procurement of equipment, materials and supplies. These efforts are intended to advance participation by, but are not limited to small businesses, locally-owned businesses, women, minorities, and economically disadvantaged business enterprises.

Board directives were established that led to the issuance of Administrative Code Sections 8300 and 8301 and ultimately to the formation of the Business Outreach Program in August 2001. This program is designed to ensure that small businesses have an equitable opportunity to compete for business opportunities, and that they share in the resulting contract awards. Metropolitan's Small Business Enterprises participation goal was initially set at 18 percent; however, as of June 2009, Metropolitan's Small Business Enterprises participation level was 28 percent.

### **Opinion**

In our opinion, the operating and administrative procedures over the Business Outreach Program 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 July 1, 2006 through June 30, 2009.

### **Comments and Recommendations**

#### **MANAGEMENT REPORTS – SMALL BUSINESS ENTERPRISES UTILIZATION**

Management reports are designed to combine information into a meaningful form to aid in assessing operations and to develop meaningful goals and effective strategic plans. Management reports allow for analysis and tracking to take place without daily involvement, and provide Line Management with feedback on their operations. These reports can be informative (e.g., measurement of volume/ business activity) or analytical (e.g., exception listings or items processed outside of predetermined parameters).

The Business Outreach Program Office (BOPO) completes periodic analysis of Small Business Enterprises (SBE) vendors and prepares monthly, quarterly, and annual Management reports. Monthly reports summarize SBE utilization statistics; whereas, quarterly and annual reports disclose year-to-date statistics,

include a detailed analysis of participating vendors, and report on community and business outreach efforts within the Met service area. During our review, we could not locate the SBE reports for 3 of 13 vendors.

<b>Agreement Number</b>	<b>Project Name</b>	<b>Consultant</b>	<b>Contract Amount</b>	<b>SBE Ratio</b>	<b>SBE \$ Value</b>	<b>Status</b>
54415	Arch Svc ORP	RNL	2,745,000	15%	411,750	(1)
65052	Information	DHI	2,100,000	12%	252,000	(1)
77325	On Call Engineering	MWH	6,000,000	18%	1,080,000	(1)

(1) This contract is open and has not provided SBE utilization reports to Metropolitan

Our review of the BOPO Report revealed reporting discrepancies in the BOPO Annual Reports for the 2006 through 2009 period. Specifically, we noted that qualified SBE professional services vendors often did not submit SBE Utilization Reports and were, therefore, not included in the Management reports. This has resulted in inaccurate Management reports (underreporting) of Metropolitan’s SBE participation.

We recommend that Management establish procedures to ensure that Management reports are accurate and complete. In addition, we recommend that Management conduct periodic reviews to ensure compliance.