



• **Internal Audit Report for January 2010**

Summary

Two reports were issued during the month:

- **Report on Consulting Agreements Jacobs Associates (84094) and P&D Consultants (62412) Audit Report**
- **Official Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during January 2010. 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.

Report on Consulting Agreements Jacobs Associates (84094) and P&D Consultants (62412) Audit Report

Background

The San Diego Pipeline No. 6 Program is a joint project between Metropolitan and the San Diego County Water Authority. This program includes the construction of a 30-mile, 9- to-10-foot diameter pipeline and tunnel conveyance system to meet supplemental water needs in southern Riverside and San Diego Counties. This program was approved by the Board of Directors in early 1990s and consists of the North Reach (from Lake Skinner to the intersection of Anza and De Portola Roads in Temecula area) and the South Reach (North Reach terminus to San Diego County Water Authority's Twin Oaks Valley Water Treatment Plant).

In October 2002, the Board of Directors authorized implementation of the North Reach portion of San Diego Pipeline No. 6 Project, with a construction contract being awarded in December 2004. The North Reach Project consisted of a 7-mile, 10-foot diameter steel pipeline, appurtenant facilities, connection to the Lake Skinner Outlet Conduit, road and right-of-way restoration, and a service connection to Eastern Municipal Water District (EM-21).

In concert with this project, Metropolitan contracted with P&D Consultants to provide mitigation monitoring and reporting services during the construction and post-construction phases of the North Reach Project. These efforts were needed to ensure that Metropolitan complies with the requirements of the California Environmental Quality Act and other applicable environmental laws. The P&D Consultants contract is effective October 2004 through October 2013, and was for an amount not to exceed \$4 million. This agreement was amended three times to revise the fee schedule and to increase the scope of work, extend the agreement duration, and make other miscellaneous changes to the agreement.

In March 2006, the Board authorized staff to conduct a feasibility study to evaluate alternative alignments for the South Reach portion of the San Diego Pipeline No. 6. Staff initiated this study and identified the need for consulting support to perform specialized investigatory work. Accordingly,

board authority was granted to contract with Jacobs Associates to conduct tunnel feasibility analyses and hydrogeological/geotechnical investigations for the South Reach portion of the project.

Under the terms of this agreement, Jacobs Associates provided tunnel engineering and geotechnical field exploration and testing services in support of tunnel evaluation studies for the project. This agreement is effective February 2007 through January 2011, and was for an amount not to exceed \$1.8 million. This contract was amended four times to increase the scope of work, revise the fee schedule, extend the agreement duration, and to increase the maximum amount payable to \$2.1 million. As of August 2009, Metropolitan has paid \$2.5 million to P&D Consultants and \$2.0 million to Jacobs Associates under their respective agreements.

Opinion

In our opinion, the accounting and administrative procedures over Consulting Agreements with Jacobs Associates and P&D Consultants 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 October 2004 through August 2009.

Comments and Recommendations

COMPLIANCE TO CONTRACT 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 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. Our review of 19 invoices totaling \$1.3 million (6 Jacobs Associates invoices totaling \$613,000 and 13 P&D Consultants invoices totaling \$713,000) revealed:

1. Jacobs Associates subconsultant charges for Lisa Rode (\$1,920) and Ozdemir Engineering (\$9,825) were not specified in the fee schedule. This is in contrast to Compensation Section of the agreement that requires all expenses or other charges be identified in the fee schedule.
2. All six Jacobs Associates invoices and two P&D Consultants invoices were not signed and certified by the consultants. This is in contrast to Billings and Payments Section of the agreements that requires consultant's invoices be signed and certified by the consultant.
3. One Jacobs Associates invoice and three P&D Consultants invoices tested were paid 26 to 147 days after their due dates. This is in contrast to the Billings and Payments Section of the agreements that requires payment within 30 days after receipt of the invoice. The Agreement Administrator stated that the late payment was due to the consultants' failure to submit supporting documentation on a timely basis.
4. P&D Consultant's task order for \$17,060 completed in December 2004 was not approved by Metropolitan until January 2005. This is in contrast to Exhibit A (Scope of Work) of the agreement that requires approval of tasks by Metropolitan prior to commencing any work.

5. Small Business Enterprise (SBE) Utilization reports were not submitted with six P&D Consultants invoices tested. This is in contrast to Business Outreach Program Section of the agreement that requires submission of SBE utilization report with each invoice. It should be noted that starting in June 2009, P&D Consultants has been submitting SBE Utilization reports on-line.

We recommend that the Jacobs Agreement Administrator resolve the noted differences and remind the consultant of the need to comply with the terms and conditions of the agreement. We also recommend that the Jacobs Associates and P&D Consultant Agreement Administrators establish procedures to ensure compliance to the terms of the agreement and conduct periodic reviews to ensure compliance.

Official Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2. This review was undertaken to provide the underwriters of the Water Revenue Refunding Bonds (Bonds) “comfort” that the Official Statement for the Bonds is complete, consistent with supporting financial records, and accurate in all material respects. The review was completed and no exceptions were noted. We issued letters describing the agreed-upon procedures, and the results obtained to the underwriters of the Bonds.
