



• **Internal Audit Report for March 2010**

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**Summary**

Five reports were issued during the month:

- **Transit Reimbursement Program Audit Report**
- **Tax Revenue Audit Report**
- **Consulting Agreements on Hayfield Extraction Project Audit Report**
- **F.E. Weymouth Treatment Plant Coagulant Tank Farm Modifications Audit Report**
- **Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1**

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**Discussion Section**

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

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**Transit Reimbursement Program Audit Report**

**Background**

The Transit Reimbursement Program was launched in 1989 to encourage employees to utilize more energy efficient commuting alternatives. Management provides financial incentives for the use of public transit (bus, commuter train, or light rail) by employees for their daily work commute. Participants meeting the minimum public transit usage requirements (three days a week or twelve days a month) are eligible for a transit voucher of up to \$125 a month.

These vouchers are accepted by Metrolink, Metropolitan Transit Authority, and Amtrak for the purchase of bus or train passes. The Business Services Section within the Corporate Resources Group administers the Transit Reimbursement Program. During the period under review, an average of 450 employees per month filed for transit vouchers and Metropolitan averaged \$42,000 per month (\$504,000 annualized) in expenditures.

**Opinion**

In our opinion, the accounting and administrative procedures over the Transit Reimbursement 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 January 2008 through November 2009.

**Comments and Recommendations**

**COMPLIANCE WITH ESTABLISHED PROCEDURES**

Operational policies and procedures are established to provide a framework for achieving Metropolitan's goals and objectives. Procedures provide guidelines for consistent performance of daily operations, assist in the training of new employees, and provide a source of reference for experienced personnel.

Compliance with established procedures is necessary to provide for accurate and complete accounting records, proper supporting detail, and adequate control over Metropolitan's financial transactions. The Transit Reimbursement Program requires that a "Rideshare Transit Agreement" be completed for days traveled using public transportation and signed by the Rideshare participant to be eligible for the next month's voucher. The Transit Reimbursement Program requires that participants receiving transit vouchers must use public transportation "3 days per week or 12 days per month."

Our review of transit agreements for 30 participants revealed that the reported days traveled using public transit was not always verified against the participant's time sheet. In addition, we discovered one of the transit agreements was not signed by the participant, as required. It should be noted that Rideshare Services began performing such signature verification in December 2009.

We recommend that Rideshare Services develop procedures to ensure the days traveled using public transportation are consistent with the actual days worked by the participant, and ensure that transit agreements are completed and signed.

#### TRANSIT VOUCHER RECONCILIATION

Accounting control is achieved, in part, by performing periodic reviews and reconciliations of the accounting records. These procedures provide assurance as to the propriety of the transactions affecting the accounts, identify potential erroneous entries, and describe follow-up procedures for exceptions. For the Transit Reimbursement Program, Program Management should perform a periodic review of transit vouchers purchased and disbursed. In addition, a reconciliation between vouchers purchased, disbursed, and the physical inventory on hand should be completed to validate the propriety of transactions and ensure vouchers are properly accounted for and safeguarded.

During our review we noted that periodic reconciliations of the Transit Voucher inventory were not completed for the period of January 2008 to November 2009. Management has since established procedures to ensure periodic reconciliation and we note that such reconciliations have taken place since that time.

We recommend that Program Management continue to perform periodic review and reconciliation of transit vouchers.

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## **Tax Revenue Audit Report**

### **Background**

Metropolitan is authorized under the Metropolitan Water District Act (Act) to levy and collect taxes on all taxable property, within its boundaries, for the purpose of carrying on its operations and paying its obligations subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes levied by Metropolitan are billed and collected by the counties in its service area, and are remitted to Metropolitan throughout the year. This tax revenue is used to pay for general obligation bond debt service and a portion of the obligations under the State Water Contract.

The Budget and Financial Planning Section of the Office of the Chief Financial Officer is responsible for collecting information of property assessed valuations from the counties, within Metropolitan's service

area. The Budget and Financial Planning Section works with the Controller to calculate the property tax rates based on these assessed valuations, and Metropolitan's general obligation bond and State Water Contract debts.

Finally, the Controller's Section is responsible for recording tax accruals, tax collections and write-off of uncollectible tax receivables. The tax levy and collections (excluding annexations) for the two selected fiscal years are shown below:

	<b><u>Fiscal Year 2007/08</u></b>	<b><u>Fiscal Year 2008/09</u></b>
Tax levy	\$ 105.2 million	\$ 108.9 million
Estimated collection adjustments	(\$14.9) million	(\$17.6) million
Estimated funds to be collected	\$ 90.3 million	\$ 91.3 million
Actual Collected	\$ 97.7 million	\$103.8 million

The adjustments include reductions for allowance for delinquencies and allocations to redevelopment areas, and increases for supplemental tax collections and prior year tax collections.

**Opinion**

In our opinion, the accounting and administrative procedures over Property Tax Revenues 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 from July 2007 through June 2009.

**Comments and Recommendations**

**TAX LEVY ADMINISTRATIVE PROCEDURES HANDBOOK**

Written procedures should be established to provide a framework for achieving Metropolitan goals and objectives. Procedures assist Management in the training of new employees, provide guidance for consistent performance of daily responsibilities, and provide a source of reference for experienced personnel. The Tax Levy Administrative Procedures Handbook establishes policies and practices for the calculation, recordation, collection, and reporting of the ad valorem tax levied by Metropolitan. In addition, the Tax Levy Administrative Procedures Handbook includes guidelines on obtaining tax data information for preparing the Statement of Change of Boundaries and for completing the Statement of Tax Rates.

Our review of the Tax Levy Administrative Procedures Handbook revealed that it has not been revised since 2003. We also noted that the Tax Levy Administrative Procedures Handbook did not establish procedures for calculating tax rates for secured property assessed valuations, nor does it provide guidance for managing delays in obtaining certified assessed valuations from county or government entities.

We recommend the Budget and Financial Planning Section establish a schedule to update and finalize the Tax Levy Administrative Procedures Handbook. We also recommend that Management periodically test to ensure compliance with those procedures.

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## **Consulting Agreements on Hayfield Extraction Project Audit Report**

### **Background**

In June 2000, Metropolitan's Board authorized a feasibility study for storing surplus Colorado River Aqueduct (CRA) water in the Hayfield Valley, which is located in Riverside County adjacent to the Julian Hinds Pumping Plant. As part of this study, CRA water was discharged into the groundwater basin for modeling and investigation of the site as a storage alternative. It is estimated that between 70,000 and 100,000 acre-foot of water is stored in the basin. This is based on spreading activities during the project's study phase and on historical discharges of water from the CRA. The project was discontinued in November 2004, as a result of extended drought conditions on the Colorado River.

In early 2008, a study was initiated to evaluate the feasibility of extracting the water stored in the Hayfield Valley basin. The study consists of four extraction wells and pump stations, two miles of pipelines, associated power, and communication and monitoring systems.

In November 2008, agreements were made with Kennedy/Jenks Consultants, GeoPentech, Incorporated, and Black & Veatch Corporation for a maximum amount not to exceed \$240,000 each. Under the terms of the agreements, Kennedy/Jenks Consultants designed the wells and pump system. GeoPentech, Incorporated provided hydrogeologic technical support for basin modeling, groundwater testing, and monitoring. Finally, Black & Veatch Corporation designed the conveyance system and power facilities. The Black & Veatch Corporation agreement expired in May 2009.

In February 2009, Metropolitan's Board authorized agreements with GeoPentech, Incorporated and Kennedy/Jenks Consultants to provide hydrogeologic investigations of Hayfield Extraction facilities. The GeoPentech, Incorporated agreement was amended to expire in December 2009 and the Kennedy/Jenks Consultants agreement was amended to expire in December 2010. In addition, the Kennedy/Jenks Consultants agreement maximum amount payable was increased to \$1.7 million.

In March 2010, Metropolitan's Board authorized final design activities to convert the prototype well into a production well and for Kennedy/Jenks Consultants to provide the design services for this conversion. The Kennedy/Jenks Consultants agreement maximum amount payable was increased to \$2.1 million.

As of December 2009, payments to these consultants under the three agreements reviewed totaled \$1.4 million.

### **Opinion**

In our opinion, the accounting and administrative procedures over Consulting Agreements on Hayfield Extraction Project 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 November 1, 2008 through December 31, 2009.

## **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 and conditions also ensures that parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreements.

We reviewed ten selected consultant invoices totaling \$1.0 million (five Kennedy/Jenks Consultants invoices totaling \$912,000; three GeoPentech, Incorporated invoices totaling \$75,000; and two Black & Veatch Corporation invoices totaling \$58,000) and noted that the credit card charges for meal expenses (total \$663) on three invoices tested were not supported with an itemized receipt. These invoices include Kennedy/Jenks Consultants invoices 40946, 42505, and 43032.

We recommend that the Agreement Administrator establish procedures to ensure compliance to the terms of the agreements and conduct periodic reviews to ensure compliance.

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## **F.E. Weymouth Treatment Plant Coagulant Tank Farm Modifications Audit Report**

### **Background**

The F.E. Weymouth Treatment Plant (Plant) was placed into service in 1941 to treat water received from the Colorado River. The Plant currently treats a blend of Colorado River water and the State Project water and delivers it to the Central Pool portion of the distribution system. Originally sized at a capacity of 100 million gallons per day (mgd), the Plant was expanded to its current capacity of 520 mgd in order to meet the increased demands from member agencies. In addition to these expansions, the Plant has also had facility upgrades and improvements made throughout the years.

As part of these upgrades, the Board authorized the construction of additional coagulant storage facilities at the Plant. In order to maximize efficiency and minimize disruption to the Plant operations, the construction of these storage facilities was combined with modifications to the existing coagulant and polymer chemical feed systems. The additional storage facilities will ensure sufficient chemical inventory, from existing 10-day to 14-day supply, to account for maintenance needs, chemical supply-chain breakdowns, or peak chemical use. The modification of the existing coagulant and polymer chemical feed systems was necessary to enable the addition of these chemicals to rapid mix systems at each module. This project, along with the separate modular rapid mix systems project, must be completed prior to construction of the main Oxidation Retrofit Program facility at the Plant.

Metropolitan entered into a \$10.4-million contract (1664) in June 2008 with Orion Construction Corporation to modify the Plant's Coagulant Tank Farm. This project consists of retrofitting the existing coagulant storage and feed facilities, installation of a roof canopy over the tank farm, construction of a new polymer tank farm, modifications to the existing plant coagulant and polymer chemical feed systems, and demolition of abandoned substructures.

The work also includes construction of a temporary unloading pad, temporary containment within the coagulant tank farm, and a temporary polymer feed line so that coagulant and polymer flow to the Plant will be uninterrupted during modifications.

As of December 2009, this project was 61 percent complete. Metropolitan paid \$6.4 million to the Orion Construction Corporation under this contract, including \$121,000 in approved extra work orders. However, there are pending electrical extra work orders currently under negotiation that would require time extension of approximately 45 working days for project to complete, and for an additional cost of \$475,000.

### **Opinion**

In our opinion, the accounting and administrative procedures over Major Construction Projects – F.E. Weymouth Treatment Plant Coagulant Tank Farm Modifications 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 2008 through December 2009.

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## **Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1**

The Audit Department has completed a review of the Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1. This review was undertaken to provide the underwriters of the 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 review procedures performed, and the results obtained to the remarketers of the Bonds.

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