

# Report

Office of the General Auditor

September 30, 2010



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

## • Internal Audit Report for September 2010

### Summary

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Four reports were issued during the month:

- **Kiewit Pacific Corporation Audit Report**
- **RBF Consulting and Sanborn Map Audit Report**
- **Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2**
- **Official Statement for the Waterworks General Obligation Refunding Bonds, 2010 Authorization, Series A**

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### Discussion Section

This report highlights the significant activities of the Internal Audit Department during September 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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## Kiewit Pacific Corporation Audit Report

### Background

The Robert B. Diemer Water Treatment Plant (Diemer Plant) was placed into service in 1963 to supply a blend of treated State Water Project and Colorado River water to Orange County, and to the Central Pool portion of the distribution system. Diemer Plant had an initial treatment capacity of 200 million gallons per day (mgd), and was expanded to its present capacity of 520 mgd in 1969.

In June 2004, the Board authorized the Robert B. Diemer Oxidation Retrofit Program (Diemer ORP), which is one of four oxidation retrofit projects implemented by Metropolitan. These projects provide the treatment plants with an alternative disinfectant process (i.e., ozone) that removes blend restrictions and substantially lowers the disinfection by-product levels for compliance, with both Stage 1 and Stage 2 of the United States Environmental Protection Agency's Disinfectant/Disinfection By-Products (D/DBP) Rule. This is particularly important, as Metropolitan must begin monitoring and reporting compliance with Stage 2 of the D/DBP Rule by April 2012.

In preparation for construction of the Diemer ORP facilities, Metropolitan entered into a \$70.5-million contract with Kiewit Pacific Corporation in April 2006 to prepare the site, and to stabilize Diemer Plant's south-facing slope. The project included the excavation of approximately 400,000 cubic yards of the south-facing slope, and placing approximately 190,000 cubic yards of roller-compacted concrete to stabilize the foundation for the Ozone Generation Building.

The project also enhanced the reliability of Diemer Plant by relocating a portion of Diemer Plant's 12-foot diameter Lower Feeder inlet conduit into a new alignment, with firmer bedding. This project was completed in June 2008, and Metropolitan paid \$71.8 million (including extra work orders of \$1.3 million) to the Kiewit Pacific Corporation for this contract.

To offset the costs for site preparation, design, and construction, Metropolitan has pursued state grants for additional funding for the oxidation retrofit projects. Metropolitan received a Proposition 50 Grant of \$20 million, through the California Department of Health Services, to provide partial funding for the Diemer ORP projects. Proposition 50, "The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002" was passed by the California voters in 2002 for the purpose of providing funds to improve water quality and reliability. As of October 2008, Metropolitan has used the full \$20 million in grant funds for the Diemer ORP projects.

### **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 April 2006 through June 2008.

### **Comments and Recommendations**

There were no material findings to report.

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## **RBF Consulting and Sanborn Map Audit Report**

### **Background**

In January 2006, Metropolitan entered into five-year engineering design support service agreement with RBF Consulting and Sanborn Map in an amount not to exceed \$2 million per year each. These consultants were retained to perform aerial photography to assist planners, designers, engineers, and management by producing electronic computer models showing terrain features and topographic elevation used to create graphics and construction drawings.

These services also enable surveyors and contractors to accurately locate facilities and property boundaries. Under the agreement terms, the consultants were to provide on-call aerial photography services via task orders, as project needs arose. There have been no amendments to the agreements and payments to the consultants under the agreements totaled \$905,785, as of March 2010.

### **Opinion**

In our opinion, the accounting and administrative procedures over Consulting Contracts with RBF Consulting and Sanborn Map 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 January 2, 2006 through March 31, 2010.

### **Comments and Recommendations**

There were no material findings to report.

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## **Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2**

The Audit Department has completed a review of the Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-2. This review was undertaken to provide the remarketers of the Bonds “comfort” that the Remarketing 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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## **Official Statement for the Waterworks General Obligation Refunding Bonds, 2010 Authorization, Series A**

The Audit Department has completed a review of the Official Statement for the Waterworks General Obligation Refunding Bonds, 2010 Authorization, Series A. 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 underwriters of the Bonds.

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