



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Internal Audit Report for May 2012

Summary

Two reports were issued during the month:

- **Zusser Company, Incorporated Agreement 1701 Audit Report**
- **Colorado River Aqueduct Program Audit Report**
- **Water Inventory and Costs Audit Report**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during May 2012. In addition to presenting background information and the opinion expressed in the audit reports, a discussion of findings noted during the examinations is also provided.

Zusser Company, Incorporated Agreement 1701 Audit Report

Background

The Robert B. Diemer Treatment Plant (Plant) was placed into service in 1963, with an initial capacity of 200 million gallons per day (mgd). In 1969, the Plant was expanded to its current capacity of 520 mgd. Since then, the construction of several facilities such as the Solids Dewatering Building, Vehicle Maintenance Center, Plant Maintenance Building, chemical tank farm upgrades, and the ozonation facilities have added demands to the existing fire protection and potable water systems. As a result, Metropolitan's Board awarded a \$5-million contract to Zusser Company, Incorporated (Zusser) in June of 2010 for the construction of a new fire and potable water pump station.

The increased capacity of the new pump station meets the added demands of potable water, and complies with the current fire codes required by the Orange County Fire Authority. This contract with Zusser consists of installation of furnished pumps and construction of a fire and potable water pump station, along with associated piping and appurtenances. As of May 2012, Zusser has completed approximately 99 percent of the work and Metropolitan has paid \$4,965,894, including \$42,644 in approved extra work orders to Zusser under this agreement.

Opinion

In our opinion, the accounting and administrative procedures over Zusser Company, Incorporated (Agreement 1701) 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 June 2010 through March 2012.

Comments and Recommendations

There were no material findings to report.

Colorado River Aqueduct Program Audit Report

Background

The Colorado River Aqueduct (CRA) is a 242-mile-long conveyance system which transports water from Lake Havasu to Lake Mathews. Major portions of the system were initially constructed in the 1930s as part of a phased build-out, and have been in continuous service since 1939. In order to maintain the system, Metropolitan performs periodic shutdowns of the CRA during the “shutdown season” from October to February, when water demand is down and the risk of heat related damage to the aqueduct is minimal.

During a shutdown, pumping on the aqueduct is ceased and the system is drained of water to allow repairs and maintenance work to be performed. The Water System Operations (WSO) Group has developed extensive procedures to minimize CRA downtime, meet safety standards, and ensure that Metropolitan is in compliance with applicable regulations.

Planning for these shutdowns generally begins in the first part of the fiscal year, with pre-shutdown preparation activities being completed up to three months prior to any work being performed on the aqueduct. Pre-shutdown activities include obtaining environmental permits, informing affected member agencies of the timing and impact of these activities, and obtaining necessary materials and equipment.

In October 2011, the WSO Group began the longest shutdown of the CRA to date. The 30-day shutdown allowed Metropolitan to perform maintenance work on the system to ensure that the maximum capacity of an eight-pump flow was maintained. The principal activities included cleaning and inspecting approximately eight miles of tunnels, repairing pipes, testing and maintenance work on electrical transformers, inspecting for quagga mussel infestations, and installing canal curbing to preclude intermittent splashing or overflows. The total cost for the fall 2011 shutdown was \$640,000.

Opinion

In our opinion, the administrative procedures over Colorado River Aqueduct Program 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 September 2011 to December 2011.

Comments and Recommendations

There were no material findings to report.

Water Inventory and Costs Audit Report

Background

Metropolitan Water District of Southern California supplies Southern California with reliable and high quality water from the Colorado River and Northern California to supplement local supplies. In order to ensure reliability, Metropolitan stores water at seven reservoirs throughout the region (Lake Mathews, Lake Skinner, Diamond Valley Lake, Live Oak, Garvey, Palos Verdes and Orange County) as well as the Hayfield Basin. In addition, Metropolitan has entered into exchange and storage agreements with other agencies to guarantee access to water during dry years.

The Controller's Section is responsible for maintaining and reporting the cost of water sold and the value of water inventory stored on a monthly basis. The Controller performs these calculations based on data from the Water System Operations (WSO) Group and the Water Resource Management (WRM) Group. For fiscal year 2011/12, to date as of April 30, 2012, the cost of water sold was \$334,185,902, and 1,237,077 acre-feet of water were sold. As of April 30, 2012, Metropolitan had 1,012,434 million acre-feet of water in storage, with a total value of \$93,127,193.

Opinion

In our opinion, the accounting and administrative procedures over Water Inventory and Cost of Water 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 2011 through December 2011.

Comments and Recommendations

GENE DISPATCH AND EAGLE ROCK OPERATIONS CENTER PROCEDURES

Written procedures should be established and documented to provide a framework for achieving district 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 Metropolitan personnel. During our review, we noted the following:

- a. We could not locate written procedures for the Desert Region Unit's Gene Dispatch operation. Specifically, we noted the lack of written guidelines for monitoring, tracking, and reporting of Colorado River water deliveries; updating the daily and monthly "Pump Plant Operating Summaries" and the monthly "Desert Weather and Reservoir Elevation Reports"; and calculating gain from rainfall and water use and losses. Additionally, we noted that related personnel roles and responsibilities have not been documented.
- b. We could not locate written guidelines for preparing the Eagle Rock Control Center's "Distribution System Daily Report". The Eagle Rock Control Center staff obtains the contents (i.e., water elevation level and corresponding acre-feet available in the reservoir) of

this report from various sources. These contents are used by the Accounting Operations for financial reporting purposes.

We recommend that WSO Group management establish a target date for the completion of the Policies and Procedures manual for the Gene Dispatch operations and for the preparation of the Eagle Rock Control Center's "Distribution System Daily Report". This manual should identify control procedures and purpose for the procedures. Additionally, we recommend that management provide training to employees to ensure that they understand how to perform the tasks indicated in the manual and periodically test to ensure compliance with those procedures.
