



Internal Audit Report for September 2012

Summary

Two reports were issued during the month:

- **Kennedy/Jenks Consultants, Incorporated 115590, MWH Americas, Incorporated 115664, and LSA Associates, Incorporated 101717 Audit Report**
- **Official Statement for the Water Revenue Refunding Bonds, 2012 Authorization, Series F**

Discussion Section

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

Kennedy/Jenks Consultants, Incorporated 115590, MWH Americas, Incorporated 115664, and LSA Associates, Incorporated 101717 Audit Report

Background

In October 2009, Metropolitan issued a Request for Qualification to prequalify engineering firms by area of expertise with the intent to execute on-call service agreements. These agreements allow Metropolitan to issue work on a task-order basis when a need arises in areas such as water treatment design, distribution facility design, and environmental technical support.

In September 2010 and October 2010, Metropolitan entered into three-year on-call service agreements with Kennedy/Jenks Consultants, Incorporated 115590 (Kennedy/Jenks) and MWH Americas, Incorporated 115664 (MWH). The two agreements were effective from October 2010 through September 2013, and capped at \$2 million each per year. Since contract inception through June 2012, Metropolitan has paid \$612,853 to Kennedy/Jenks and \$836,516 to MWH under these agreements.

In 2005, Metropolitan entered into a property exchange and roadway improvement agreement with the California Department of Parks and Recreation to construct a secondary access road to the Robert B. Diemer Treatment (Diemer) Plant. In April 2009, as part of the Diemer Plant North Access Road Project, Metropolitan executed a one-year agreement with LSA Associates, Incorporated 101717 (LSA) in an amount not to exceed \$245,000 to provide environmental mitigation services. This agreement was amended twice to increase the maximum amount payable to \$695,000, and to extend the agreement term to June 2013. Since contract inception through June 2012, Metropolitan has paid \$468,926 to LSA.

Opinion

In our opinion, the accounting and administrative procedures over consulting agreements with Kennedy/Jenks, MWH, and LSA 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 2009 through June 2012.

Comments and Recommendations

NONCOMPLIANCE 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. In addition, compliance with the contracts' terms and conditions ensures that parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreements. We reviewed 20 consultant invoices totaling \$593,152 between July 2009 and June 2012: three Kennedy/Jenks invoices totaling \$200,228; nine MWH invoices totaling \$198,160; and eight LSA invoices totaling \$194,764 and noted:

Kennedy/Jenks Agreement:

1. Kennedy/Jenks provided \$1 million in aggregate insurance coverage for the "professional liability or errors and omissions liability" instead of \$2 million, as required by the agreement. It is important to note that subsequent to our review, the agreement administrator obtained a new "Accord" form with the correct coverage.
2. All three invoices tested were not certified by the consultant, as required by the Billings and Payments Section of the agreement.
3. All three consultant invoices tested were paid late from 21 to 46 days, after the due date. This is in contrast to the Billings and Payments Section of the agreement, which requires payment within 30 days from invoice date. We also noted that the payment terms were inconsistent with the payment terms for most consulting agreements that require payment within 30 days, after invoice receipt. Further, these three invoices were submitted directly to the agreement administrator rather than to Accounts Payable.

MWH Agreement:

1. MWH did not report the Small Business Enterprise Utilization on a monthly basis, as required by the agreement.

We recommend that Engineering management review and revise the payment terms for consulting agreements to ensure prudent fiscal management practices. We also recommend that agreement administrators remind the consultants to comply with the terms and conditions of the agreement, and conduct periodic reviews to ensure compliance.

Official Statement for the Water Revenue Refunding Bonds, 2012 Authorization, Series F

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2012 Authorization, Series F. We performed this review to provide the issuer of the Bonds “comfort” that the Official Statement for the Bonds is complete, consistent with supporting financial records, and accurate in all material respects. We completed our review in accordance with agreed upon procedures specified by the underwriter. We issued letters to the underwriter describing the agreed upon review procedures performed, and the results obtained.
