



## **Internal Audit Report for May 2013**

### **Summary**

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Three reports were issued during the month:

- **Fleet Management and Maintenance Audit Report**
- **Quarterly Consulting Contracts Report Review**
- **Official Statement for the Water Revenue Refunding Bonds, 2013 Authorization, Series D**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during May 2013. 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.

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## **Fleet Management and Maintenance Audit Report**

### **Background**

The Fleet Services Unit within the Water System Operations (WSO) Group is responsible for the administration of Metropolitan-owned vehicles. This unit oversees the Vehicle Maintenance Program and ensures compliance with Metropolitan's policies, procedures, and applicable regulatory requirements governing fleet operations. They are also responsible for the input of pool vehicle use and mileage data to Fleet Management's access-based system. Further, the Fleet Services Unit uses the Maximo system to schedule and document preventive and corrective maintenance and track Transportation Orders.

As of March 2013, Metropolitan's on-road vehicles recorded in the Oracle and Maximo systems totaled 944 units, with original cost and remaining netbook value totaling \$30.6 million and \$4.9 million. Of these 944 vehicles, 766 were the subject of this review: 102 pool fleet vehicles, 72 long-term vehicles, and 592 work group vehicles. The other 176 vehicles included heavy-duty trucks over one ton, and other heavy specialized vehicles not included in this review.

### **Opinion**

In our opinion, the administrative controls over Fleet Management and Maintenance 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 2010 through March 2013.

Although this opinion is an acceptable rating, we do express concern over the completeness and accuracy of records for on-road vehicle use. That is, application limitations resulted in system information being incomplete, as to critical data elements such as driver license numbers and expiration dates. Moreover, approvals could not always be located for transportation orders issued for pool fleet vehicles and long-term vehicle assignments.

We also express concern over incomplete Vehicle Inspection Reports, apparent delays in completing required non-safety related vehicle maintenance and undocumented operating procedures for work group vehicles. It should be noted that management has initiated remedial actions in response to our concern and we will assist in the evaluation of solutions addressing this internal control structure concern, while meeting operational needs.

### **Comments and Recommendations**

#### **COMPLETENESS AND ACCURACY OF DATA**

The Transportation Order Reservations (TOR) system is used as the data repository for transportation requests to use Metropolitan vehicles. Data elements in this system are populated as employees complete the Transportation Order Reservation (EForm 2432) or the Long-term Vehicle Assignment Authorization (EForm 915), which are used as the source documentation for the authentication and approval of single-purpose, intermediate, limited-use vehicle, or long-term assignment vehicle requests.

For automated input processes, input validation tests should be established to ensure that the TOR Program operates on complete, proper, and meaningful data. These tests use routines often called validation rules, which check for completeness and accuracy of data elements. These routines often designate mandatory field rules and perform logic checks to ensure that all required fields are populated, and that calendar date related entries satisfy explicit TOR Program validation logic.

During our review of the TOR reports, we noted that Metropolitan issued 5,240 Transportation Orders (TOs) in calendar year 2012. Our analysis of this data disclosed that 27 percent (1,412) of the TOs were missing required information such as driver license numbers, expiration dates, defensive driver classes, and retraining dates. Further review revealed that the TOR system did not include these data fields as being mandatory filled, nor did the TOR system perform logic checks on dates entered to validate the propriety of these fields.

Failure to obtain driver license number/expiration date could result in an employee being assigned a Metropolitan vehicle without a valid California or Arizona license. Failure to capture defensive driver information could result in noncompliance with the Driver Safety policies.

We understand that modifications to the TOR system have been made to address these control weaknesses. We recommend that management confirm these new rules and establish procedures to ensure compliance.

#### **OPERATIONAL COMPLIANCE**

Compliance with established procedures and regulatory requirements is necessary to provide accurate accounting records, proper supporting detail, and adequate control over Metropolitan-owned vehicles. Moreover, vehicle usage policies provide assurance that company vehicles are operated in a safe and professional manner in compliance with company policies, laws, and regulations. Compliance with the Department of Motor Vehicles regulatory requirements is necessary to ensure that all drivers have a valid driver license issued by the individual's state of residence (California or Arizona).

Our test work revealed instances of noncompliance with established policies and procedures for use of pool fleet, long-term assignment, and work group vehicles. Moreover, we also noted instances where policies and procedures should be revised to provide greater guidance for the administration of work group

vehicles. Specifically, our examination of pool fleet, long-term assignment, and work group vehicle assignments revealed:

A. POOL FLEET ASSIGNMENT AND USAGE (102 Vehicles Assigned To This Category)

Pool fleet vehicles are units that are available for assignment from a common pool and are under the day-to-day control of the Fleet Services Unit. A pool fleet vehicle may be assigned for a single purpose use up to 24 hours, intermediate use may be assigned up to 10 days, or limited use may be assigned up to 89 days. The Fleet Services Unit uses the TOR system to track TOs. Pool fleet vehicles are available for use upon proper supervisor approval and verification of required documentation (i.e., valid driver license, completion of the Driver Safety Program). During our review of the TOR reports, we noted that Metropolitan issued 5,240 TOs in calendar year 2012. Our analysis disclosed:

1. Pool fleet vehicles were issued to four employees with long-term vehicle assignments, multiple times during the year. However, we could not locate documentation of the approval from the Assistant General Manager/Chief Operating Officer (COO). This is in contrast to Operating Policy F-13, Long-Term Vehicle Assignments, which states, "Employees receiving long-term vehicle assignments are not eligible for Rideshare Program participation, Pool Fleet vehicle use, Transportation Allowance, or the assignment of another Metropolitan vehicle, unless the COO approves such use."
2. Pool fleet vehicles were issued to three transportation allowance recipients (executive level management) multiple times during the year. We could not locate documentation showing approval from the COO, as required by Operating Policy F-13.
3. One of 20 TOs selected for further review were not approved by appropriate level of management.

B. LONG-TERM VEHICLE ASSIGNMENT AND USAGE (72 Long-Term Assignment Vehicles)

Long-term vehicle assignments are authorized for a specific position, activity, or duration between 90 and 365 days, and are required to be approved by both the Group Manager and the Assistant General Manager/Chief Operating Officer. Our review of 20 long-term vehicle assignments revealed:

1. Two long-term vehicle assignments were incorrectly approved by others at the Assistant General Manager (AGM) level instead of specifically by the AGM/Chief Operating Officer, as required by Operating Policy F-13.
2. Eight long-term vehicle assignment forms were missing required information (requestor, purpose, activity, duration, etc).
3. We could not locate the annual reports for long-term vehicles. Current procedures required that Fleet Services Unit provide these reports to the Group Managers and the Assistant General Manager/Chief Operating Officer for their review by March 31 of each year.
4. Incorrect forms (TOs instead of long-term vehicle forms) were submitted and approved for two long-term vehicle assignments.

### C. WORK GROUP ASSIGNMENT AND USAGE (592 Work Group Vehicles)

Work group vehicles are vehicles that are shared by employees within a specific work group (e.g., Pipeline Maintenance Team), are under the day-to-day control of that group, and are to be returned to the group work location at the end of each workday. Moreover, a custodian is assigned for each work group vehicle. Our detailed review of 60 work group vehicles and 12 work group vehicle drivers revealed:

1. We could not locate written procedures addressing roles and responsibilities (Fleet Services Unit, Work Group management), instructions for the assignment or transfer of work group vehicles between custodians, and guidelines for the use and monitoring of work group vehicles.
2. Five drivers were sole drivers of their work group vehicles for a number of years. Further, review revealed that these drivers were not aware that they were designated as custodians for these vehicles, as well as other vehicles assigned to their team/unit.
3. One driver was neither the driver nor custodian of a work group vehicle; although records indicated that a vehicle was assigned to the employee.

We recommend that management update its Fleet Management Procedures Manual to include guidelines for the use, assignment, transfers, and monitoring of work group vehicles, and roles and responsibilities of Fleet Services Unit and of Work Group management.

Further, we recommend that management remind personnel of the importance of compliance with established procedures and regulatory requirements, and conduct periodic reviews to ensure compliance.

### INSPECTION OF NEW VEHICLES

Metropolitan vehicles are competitively bid and purchased through the Purchasing Unit. Fleet Services Unit performs vehicle inspections prior to Metropolitan's receipt of these vehicles. Fleet Services Unit should ensure that the vehicle received conforms to the bid requirements and specifications. Our review of 11 vehicle acquisitions from July 2010 to December 2012 revealed that the inspection reports prepared by Fleet Services Unit contained vehicle descriptions that were limited, when compared to the detailed bid specifications. As a result, we could not determine whether the vehicles received by Metropolitan were in accord with the bid specifications.

Further, we noted one instance of a vehicle acquisition that was delivered to Metropolitan and later determined to be incomplete. We understand that Fleet Services and Purchasing are in the process of negotiating with the vendor to complete the delivery of missing vehicle items. We also understand that Fleet Services has developed and deployed a new inspection procedure and forms to ensure accurate and complete delivery of vehicle.

We recommend Fleet Services Unit management remind staff to ensure compliance with the new inspection procedures. We also recommend that Fleet Services Unit management perform periodic reviews to ensure compliance.

## FLEET MAINTENANCE WORK ORDERS AND CHARGES

Material (parts and supplies) and labor costs incurred in maintaining vehicles, and charged to Fleet Maintenance work orders should be reviewed in the fleet module of the Maximo system. These efforts serve to ensure control over vendor payments, test the propriety of labor charges by personnel, and verify the adequacy of supporting documentation. In addition to material and labor information, the Fleet Maintenance work order details should also identify the related invoice payments (vendor, invoice number, etc.) for easy reference when reviewing the supporting documentation.

Our detailed review of 30 Preventive and Corrective Maintenance (PCM) work orders issued from July to December 2012 revealed that 6 PCM work orders were 31 to 99 days past their actual start dates. Further, our review of Maximo reports generated for all PCM work orders (totaling 2,480) issued for the same period revealed that 47 PCM work orders were completed 31 to 137 days past their actual start dates.

Finally, our review of Maximo reports generated for all PCM work orders issued in 2012, totaling 1,158 for Los Angeles and La Verne locations revealed that 8 PCM work orders were completed 34 to 163 days past their actual start dates, and that 95 PCM work orders were missed (scheduled but not started), as of December 31, 2012.

We recommend that Fleet Services Unit Management reevaluate its procedures to ensure proper and prompt maintenance of vehicles.

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## Quarterly Consulting Contracts Report Review

### Scope and Purpose of Review

We reviewed the Quarterly Report for Consulting and Professional Service Agreements published by the Professional Services Contracting Team for the third quarter fiscal year 2012/13. The purpose of this review is to gain reasonable assurance that information included on the quarterly report is accurate, complete, timely, and in compliance with the Administrative Code.

### Background

Administrative Code Section 2720(a) requires that the General Manager report to the Engineering and Operations Committee on the employment of any professional and technical consultant, the extension of any professional and technical consulting agreement, and on the exercise of authority under Sections 8121(c) and 8122(h), during the preceding calendar quarter.

During the third quarter of fiscal year 2012/13, the amount paid for consulting and professional services totaled \$26.2 million. This amount includes \$25.9 million paid on agreements administered by the Department of the General Manager, and \$288,500 paid on agreements administered by the Legal Department. The General Manager reported 315 active agreements with 29 terminations and the Legal Department reported 42 active agreements with one termination.

### Testing Procedures Performed

Our procedures included cursory review of the reasonableness of professional services expenditures and consultants with multiple active agreements to determine whether an agreement was split into smaller contract amounts to override the established approval authority limits. Finally, we evaluated whether statistics in the report were adequately supported.

**Testing results**

Our review did not reveal any contracts which appeared to be unreasonable or split to avoid established approval authority limits. In addition, our review did not reveal any material differences between the reported amounts and supporting documentation.

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**Official Statement for the Water Revenue Refunding Bonds, 2013  
Authorization, Series D**

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2013 Authorization, Series D. 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.

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