



Audit Department Report for May 2014

Summary

Four reports were issued during the month:

- **Semitropic Water Banking and Exchange Program Audit Report**
- **Joseph Jensen Treatment Plant Improvements Appropriation 15442**
- **Safety and Environmental Services Compliance Review**
- **Official Statement for the Water Revenue Refunding Bonds, 2014 Authorization, Series D**

Discussion Section

This report highlights the significant activities of the Audit Department during May 2014. In addition to presenting background information and opinions expressed in the audit reports, a discussion of findings noted during the examination are also provided.

Semitropic Water Banking and Exchange Program Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the Semitropic Water Banking and Exchange (WBE) Program, as of March 31, 2014. Our review consisted of evaluating the WBE Program's accounting and administrative controls by testing compliance with established policies and procedures, Metropolitan's Administrative Code, and terms and conditions of the WBE Program agreement. We also tested WBE Program invoices by verifying the veracity of groundwater banking delivery charges, energy charges, withdrawal fees, and other related costs. In addition, we evaluated the accounting and reporting of stored and delivered water, and assessed the accuracy of amounts entered to the Water Information System.

In December 1994, Metropolitan entered into the WBE Program agreement with the Semitropic Water Storage District (Semitropic) to access up to 350,000 acre-feet (AF) of storage capacity in Semitropic's groundwater basin. Under the WBE Program agreement, Semitropic stores a portion of Metropolitan's State Water Project entitlement water supplies during wet years, and returns the water at Metropolitan's discretion. The WBE Program agreement allows for withdrawal of up to 107,000 AF of water per year from Semitropic's groundwater basin or by exchange, and is in effect through November 2035. For the period of January 2009 through March 2014, Metropolitan has paid \$43 million to Semitropic. During this period, Metropolitan stored 268,012 AF and withdrew 125,230 AF. As of March 31, 2014, Semitropic had 225,393 AF of Metropolitan's water in storage.

Opinion

In our opinion, the accounting and administrative procedures over the Semitropic WBE 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 of January 1, 2009 through March 31, 2014.

Comments and Recommendations

There were no material findings to report.

Date of Report: May 31, 2014

Joseph Jensen Treatment Plant Improvements - Appropriation 15442

Background

The Audit Department has completed a review of the accounting and administrative controls over the Joseph Jensen Treatment Plant (Jensen) Improvements Appropriation 15442, as of February 28, 2014. Our review consisted of evaluating project administration, reporting practices, change authorizations, and close out processes. We also evaluated the validity and accuracy of invoice payments for assurance that the amounts billed were properly calculated and adequately supported. Lastly, we reviewed the Actual versus Budgeted costs on a project-by-project basis and compared these totals to the appropriated amounts and management reports.

Jensen was placed into service in 1972, with an initial capacity of 400-million gallons per day (mgd) and was expanded in 1995 and 1996 to its current capacity of 750 mgd. In addition, in 2005, a major construction project was completed, which implemented ozone as the primary water treatment process. Jensen receives water exclusively from the State Water Project, treats, and delivers it to the Calleguas Municipal Water District, Las Virgenes Municipal Water District, city of Beverly Hills, city of Burbank, city of San Fernando, city of Santa Monica, and city of Los Angeles member agencies.

In March 2009, the Board authorized the final design of the Filter Surface Wash Upgrades (Upgrades) in Module No. 1 at Jensen to replace the corroded-steel header pipes and appurtenances, which had deteriorated after 40 years of operation. Accordingly, in January 2013, the Board awarded a \$9.9-million contract to J.F. Shea Construction, Incorporated (J.F. Shea) to carry out these Upgrades. The changes to the surface wash system include the use of low-pressure water from Jensen's wash water tanks, and distribution of this water onto the surface of the filter media from nozzles in the pipe grid. These Upgrades rectify the diminished performance of the current filter system, and address the increased frequency of required repairs caused by the deteriorated components of the surface wash system. These changes will make the Jensen plant operating processes consistent with the surface wash systems at the four other water treatment plants.

The Board appropriated \$14.5 million for the Jensen Improvements Appropriation 15442 and as of February 2014 project costs totaled \$10.5 million, and the Improvements Appropriation 15442 was considered 70 percent complete. Within Jensen Improvements Appropriation 15442, \$9.9 million was allocated to the J.F. Shea contract and \$4.5 million has been incurred through February 2014. The project is within budget and on schedule to be completed in fiscal year 2014/15.

Opinion

In our opinion, the accounting and administrative procedures over Jensen Improvements Appropriation 15442 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 2011 through February 2014.

Comments and Recommendations

There were no material findings to report.

Safety and Environmental Services Compliance Review

Background

We have completed a follow-up review of the Safety and Environmental Services (SES) Compliance Audit Report and findings issued on Friday, November 30, 2012. This review was required by Audit Department policies and procedures, which prescribe a follow-up review on audits receiving less than satisfactory audit opinions. We reviewed management's corrective actions addressing internal control weaknesses noted in the audit report, and steps taken to ensure compliance with contractual terms and conditions. We also reviewed the policies and procedures to ensure they were completed and up-to-date. Finally, we examined the tracking and internal reports of spills, releases of hazardous materials, and permit information completeness.

Our testing revealed that Operational Safety and Environmental Services management had implemented an Invoice Checklist (Checklist) to provide a comprehensive invoice review, prior to payment approval. We verified this Checklist is in use, and signoff by agreement administrator is required prior to invoice payment approval. We also noted that management had implemented an enterprise software system (Enviance), to capture information and costs related to chemical spills. Finally, we verified that management has implemented controls over permit tracking to ensure deadlines for permit payments and renewals are met.

Official Statement for the Water Revenue Refunding Bonds, 2014 Authorization, Series D

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2014 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.
