



## **Audit Department Report for August 2014**

### **Summary**

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Four reports were issued during the month:

- **Environmental and Safety Management Information System Audit Report**
- **Henry J. Mills Water Treatment Plant - Business Support Activities Audit Report**
- **Personal Computer Replacement Project Audit Report**
- **Official Statement for the Water Revenue Refunding Bonds, 2014 Authorization, Series E, F, and G**

### **Discussion Section**

This report highlights the significant activities of the Audit Department during August 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.

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## **Environmental and Safety Management Information System Audit Report**

### **Background**

The Audit Department has completed a review of the administrative controls over the Environmental and Safety Management Information System (EMIS) database, as of May 31, 2014. Our review consisted of testing data entry and validation controls that ensure completeness and accuracy of input into EMIS. These tests included a review of controls over data imported from the prior EMIS application, to ensure that uploaded data matched source documents. Finally, we assessed the adequacy of the Business Continuity Plan and emergency preparedness for EMIS.

The Safety and Environmental Services (SES) Section of Water System Operations Group is responsible for ensuring that regulatory permits comply with federal, state and, local regulations. These regulations cover areas such as air quality standards, storm and waste water, hazardous materials (e.g., fuel, chemicals), hazardous waste, and health and safety. SES tracks regulatory requirements and permit expiration dates to ensure that renewal fees are paid by a specific due date, preventing fines or penalties from accruing. These permits are issued by various governmental agencies: South Coast Air Quality Management District, California Air Resources Board, State Water Resources Control Board, Department of Toxic Substances Control, California Occupational Safety and Health Administration, and regional water quality control boards.

In October 2011, the Board appropriated \$949,000 to implement EMIS, to manage these regulatory permit requirements. As part of the Board's appropriation, Metropolitan contracted \$236,000 with Enviance Corporation (Enviance) for software licenses and \$475,000 with Trinity Consultants to assist with software implementation including requirement analysis, system design, application configuration, testing, and production implementation. This system is a cloud-based application where Metropolitan's data resides on remote servers managed by Enviance, and delivered to users over the Internet through a browser interface within the application. EMIS includes over 3,000 Tasks to track permit renewals, determine due dates for regulatory fees, complete necessary compliance reporting, and satisfy regulatory compliance objectives. The SES deployed Enviance in September 2013.

### **Opinion**

In our opinion, the general and application control procedures over EMIS 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 controls for the period of September 1, 2013 through May 31, 2014.

### **Comments and Recommendations**

#### **DATA BACKUP AND RECOVERY PROCEDURES**

EMIS is a cloud-based application where Metropolitan's data resides on remote servers managed by Enviance, and delivered to users over the Internet through a browser interface. This system includes over 3,000 Tasks to track permit renewals, determine due dates for regulatory fees, complete necessary compliance reporting, and satisfy regulatory compliance objectives. Prudent data backup and disaster recovery procedures dictate that periodic backups of stored data are made to ensure the timely and successful recovery of database, in the event of a system failure. During the review, we were unable to verify that periodic backups of systems data were completed. Our review of the Service Level Agreement with third-party service provider Enviance, did not evidence transfer risks of a corrupted database to the vendor. We believe that system recovery costs, in the event of a disaster would be borne by Metropolitan.

We recommend the SES Section work with Information Technology Section staff to develop and test backup, and restore procedures for the EMIS. In addition, we recommend management establish procedures to assure timely backup of system datasets.

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## **Henry J. Mills Water Treatment Plant - Business Support Activities Audit Report**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over the Henry J. Mills Water Treatment Plant (Mills) - Business Support Activities, as of June 30, 2014. Our review consisted of evaluating the internal control structure over chemical inventory management, physical security practices, and required employee certifications. We also reviewed the Actual vs. Budgeted costs, and compared budget variances to management reporting. Lastly, we evaluated the propriety of invoice payments for assurance that amounts billed were properly calculated and adequately supported. Mills is located in the city of Riverside, and provides treated water to the Eastern Municipal Water District and Western Municipal Water District of Riverside County. Placed into service in 1978, Mills had an original design capacity of 75 million gallons per day (mgd). In 1996, Metropolitan added two additional modules to Mills increasing its maximum capacity to 220 mgd. Mills operates with 49 full-time employees assigned to the Business Support Team, Control System Team, Electrical Team, Mechanical Team, and Water Treatment Team. During fiscal year 2013/14, operation costs for Mills totaled \$11.6 million, which included \$7.9 million in labor costs and \$1.9 million in water treatment chemical costs.

### **Opinion**

In our opinion, the administrative procedures over Mills Plant - Business Support Activities 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 controls from July 1, 2011 through June 30, 2014.

Date of Report: August 31, 2014

## **Comments and Recommendations**

### COMPLIANCE WITH TERMS AND CONDITIONS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over agreement administration. Compliance with contractual terms and conditions also ensures that parties fully discharge their duties and obligations, and exercise their rights associated with the agreement. Our review revealed that six of 20 invoices tested (30 percent) were paid 42 to 106 days after receipt, instead of the required 30 days. Further review revealed that invoices were paid late due to lack of communication between requesters and receivers, resulting in delays between item receipt and invoice payment approval. This is in contrast to the Billing and Payment Section of the agreement, requiring payment within 30 days following invoice receipt.

We recommend management remind staff to comply with agreement terms and conditions, and conduct periodic reviews to ensure compliance.

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## **Personal Computer Replacement Project Audit Report**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over the Personal Computer (PC) Replacement Project, as of May 31, 2014. Our review consisted of evaluating internal controls over the selection process for suppliers of PCs, and reviewing purchase and deployment of these units. We also evaluated the consultant selection process that provided software application services, hardware testing, quality assurance/quality control, and deployment assistance. Finally, we evaluated the validity and propriety of suppliers and consultant payments for compliance with contractual terms, and assurance that amounts billed were properly calculated and adequately supported.

The Information Technology Strategic Plan (ITSP) consists of objectives, principles, and tactics concerning the use of technology within Metropolitan. Such strategies focus on the efficiency of Metropolitan's spending on technology, how people exploit technologies in ways that create value for the organization, and on the full integration of technology-related decisions with company strategies and operating plans.

An essential component of ITSP involves efforts to periodically upgrade and refurbish IT applications and infrastructure, to ensure system reliability and performance. The PC Replacement Project was initiated in early 2012 to replace desktop and laptop workstations throughout Metropolitan. The Board approved an appropriation of \$4.9 million to complete this action over a two-year period, with \$1.4 million and \$3.5 million allocated to fiscal years 2012/13 and 2013/14 budgets.

In August 2012, Metropolitan entered into a two-year agreement with ResourceXperts (131302) to provide assistance to the Quality Assurance/Quality Control (QA/QC) Team, in assessing system and software needs for the PC Replacement Project. The ResourceXperts agreement was effective from August 1, 2012 through July 31, 2014, with a maximum amount payable of \$245,000 per agreement year. Cumulative payments to ResourceXperts under this agreement totaled \$439,000 through May 31, 2014.

In January 2013, Metropolitan entered into a two-year agreement with Sierra Cybernetics, Incorporated (Sierra 134525), to provide assistance to the QA/QC Team to perform software application and hardware testing. The Sierra agreement was effective from January 16, 2013 through January 15, 2015, with a maximum amount payable of \$240,000. Cumulative payments to Sierra under this agreement totaled \$214,000.

In March 2013, Metropolitan entered into Contract 136264 with Hewlett Packard (HP), to purchase computer equipment, software, peripherals, and related services as provided under the Western States Contracting Alliance (WSCA) Cooperative Purchasing Master Price Agreement. Since 1993, WSCA has served as the primary cooperative purchasing arm of the National Association of State Procurement Officials (NASPO). WSCA represents a unified, nationally focused cooperative purchasing program that leverage the collective needs of its eligible entities to help spur innovation, and provide favorable pricing. All authorized governmental entities in any state can use WSCA-NASPO cooperative contracts. Since Metropolitan piggybacked with the WSCA agreement, the HP contract was exempt from competitive bidding as provided for under Administrative Code Section 8140. The HP contract was amended several times to modify purchase requisitions and to increase the maximum amount payable to \$2.5 million, excluding associated sales tax. Payments to HP under this agreement totaled \$2.5 million through May 31, 2014.

In April 2013, Metropolitan entered into a one-year agreement with Argus Associates, Incorporated (Argus), to provide assistance in the recording and tracking of new equipment during distribution and deployment for new PCs. The Argus agreement was effective from April 17, 2013 through April 16, 2014, with a maximum amount payable of \$100,000. The Argus agreement was amended once to increase maximum amount payable to \$210,000. Payments to Argus under this agreement totaled \$168,000 through May 31, 2014.

As of May 31, 2014, PC Replacement Project costs totaled \$3.7 million. These costs consisted of equipment purchases totaling \$2.3 million, consultant services totaling \$800,000, materials and supplies totaling \$600,000, and other related expenses totaling \$20,000. Internal labor costs of \$1.4 million were also incurred from project inception through May 31, 2014. The budget for internal labor costs was included in the Business Technology organization budget in fiscal years 2011/12, 2012/13, and 2013/14. PC purchases totaled 2,394 units, as of May 31, 2014 with 2,376 having been deployed.

PCs DEPLOYED	2,376
Breakdown By Use:	
Employees	1,506
Instrumentation	330
Guests/Kiosks	201
PC Testing	94
Reserves	64
Temporaries/Consultants	52
Training Rooms	51
PC Loan Program	39
Board of Directors	39
Breakdown By Unit Type:	
Desktops	1,516
Ultrabooks	465
Laptops	395

### **Opinion**

In our opinion, the accounting and administrative procedures over the PC Replacement Project 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 controls for the period July 1, 2012 through May 31, 2014.

Although this opinion is an acceptable rating, we do express concern over the failure to complete installation checklists; incomplete reconciliation of retired equipment; PC deliveries invoiced on shipping date than on receipt date; and supplier invoices submitted to Project management rather than Accounts Payable. It should be noted that Project management has initiated remedial actions in response to our concerns.

### **Comments and Recommendations**

#### **POLICIES AND PROCEDURES**

Policies and procedures should be established and documented to provide the framework for helping accomplish Metropolitan's goals and objectives. Procedures assist management in the training of new employees, cross-training of staff, and provide guidance and reference for consistent performance of related tasks. Metropolitan's operating policies and procedures manual, Disposal of Surplus Personal Property, provides guidance for the identification and disposal of surplus equipment and personal property. Our review of 105 new and old PCs revealed:

1. The procedures for removing sensitive information from hard disks, and destruction and disposal of hard disk drives taken from old PCs were not incorporated in the Operating and Equipment Manual or the Disposal of Surplus Personal Property Manual. We understand these procedures were described in Microsoft OneNote files maintained by the IT Server Team.
2. Technician Checklist of New Equipment was not properly completed for 39 of 50 new PCs reviewed.
3. Five old PCs (two salvaged and three for salvage) could not be located.

We recommend Business Technology management incorporate procedures for removal of sensitive information from hard disks, and the destruction and disposal of hard disk drives in the Operating and Equipment Manual or the Disposal of Surplus Personal Property Manual. We also recommend Project management locate and account for missing old PCs, and ensure that installation checklists are properly completed by technical staff.

#### **COMPLIANCE WITH TERMS AND CONDITIONS OF AGREEMENTS**

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over agreement administration. Compliance with contract terms and conditions also ensures parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreement. Our review of 19 selected invoices, nine consultants and 10 HP revealed:

1. Labor charges were incorrectly billed on two of nine consultant invoices reviewed, resulting in a net underbilling of \$219 by consultant.

2. Under the HP contract terms, all PC purchases were FOB destination. However, we noted that PC deliveries were invoiced by HP on dates shipped from factories in China and Mexico, rather than on receipt dates at Metropolitan. We understand HP acknowledged the invoicing errors in January 2014, and has since reflected the correct dates on subsequent invoices.
3. All 10 HP invoices reviewed were submitted directly to Project management rather than to the Accounts Payable Section, in contrast to agreement Section 7, Payment Terms and Invoicing.
4. Lastly, four of 19 consultant and supplier invoices reviewed were paid four, six, nine, or 62 days late.

We recommend agreement administrators remind suppliers and consultants to submit invoices based on the agreed contract terms and conditions. In addition, we recommend Business Technology management remind agreement administrators of the importance of making timely payments, when products and services are received satisfactorily. Lastly, we recommend that Business Technology management conduct periodic reviews to ensure compliance.

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## **Official Statement for the Water Revenue Refunding Bonds, 2014 Authorization, Series E, F, and G**

### **Background**

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2014 Authorization, Series E, F, and G. 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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