



Audit Department Report for November 2014

Summary

Four reports were issued during the month:

- **Report on Consulting Agreements - Carollo Engineers, Inc., Dudek, and AECOM Technical Services, Inc. Audit Report**
- **Report on Consulting Agreements - CDM Smith, Inc. and MWH Americas, Inc., and Audit Report**
- **Quarterly Board Reports Review**
- **Review of the Colorado River Water Users Association Financial Report for the period April 1, 2013 through March 31, 2014**

Discussion Section

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

Report on Consulting Agreements - Carollo Engineers, Inc., Dudek, and AECOM Technical Services, Inc. Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over three consulting agreements managed by the Engineering Services Group as of June 30, 2014. These include the Carollo Engineers, Inc. (Carollo), Dudek, and AECOM Technical Services, Inc. (AECOM) agreements.

In order to ensure high quality and reliable water supplies, Metropolitan performs studies and inspections along the surface of its pipeline distribution system, which was primarily constructed between the 1930s and 1970s. This system includes approximately 830 miles of pipelines and nearly 5,000 structures. Regular monitoring and inspections can identify and prioritize projects to enhance security and access; address drainage or erosion issues; and resolve property encroachment issues. Moreover, the Engineering Services Group enters into service agreements with consultants to supplement in house resources and provide specialized skills to perform these activities.

Metropolitan developed the Right of Way and Infrastructure Protection Program under its Infrastructure Reliability Protection Program to identify erosion-related improvement work, address site access limitations, enhance security, and resolve rights-of-way issues along the surface of Metropolitan's pipeline. Accordingly, the Board authorized \$7.1MM to conduct detailed reliability investigations on a regional basis, prepare programmatic environmental impact reports and wetland delineations in support of the regional permitting effort, and acquire rights-of-way.

The initial phase of this program included regional assessments and upgrades of the Orange County and the Western San Bernardino County operating regions. Phase II of the program will include site investigations and upgrades of Metropolitan's distribution system within the operating regions of Riverside, San Diego, and Los Angeles counties. Finally, Phase III of the program will encompass pipeline protection work as well as access and security improvements for the remainder of the San Bernardino County region.

Our review focused on three consulting agreements under this program, the first of which involved the pipeline system within the Orange County operating region. Previously conducted field investigations had identified erosion issues which could be addressed by redirecting storm flows or installing drainage control features. Accordingly, in April 2013, the Board authorized a one year agreement with Carollo in an amount not to exceed \$400,000 for the preliminary design of capital improvements related to these erosion concerns. Under this agreement, Carollo conducted preliminary design activities including performing field surveys, developing drawings and final design criteria of needed improvements, initiating permitting activities, conducting right-of-way assessments, and preparing preliminary construction estimates. Payments to Carollo as of April 30, 2014 totaled \$370,000.

The second consulting agreement involved preparation of programmatic environmental documentation for infrastructure protection improvements within the Orange County and Western San Bernardino County operating regions. In June 2012, the Board authorized an agreement with Dudek in an amount not to exceed \$975,000 for preparing two programmatic environmental impact reports (PEIRs) and for performing technical studies related to air quality, traffic and noise for the capital repair and rehabilitation projects in these regions. Payments to Dudek as of June 30, 2014 totaled \$258,000.

The third agreement involved an existing on-call agreement with AECOM to provide general on-call environmental planning services with a maximum amount of \$240,000 per year for three years. In June 2012, Metropolitan's Board authorized a total amount of \$240,000 under this on-call agreement for AECOM to prepare regional permit applications for the Orange County and Western San Bernardino County operating regions in support of the Right of Way and Infrastructure Protection Program. Payments to AECOM for services performed in support of the regional permitting effort, as well as other authorized on-call projects, as of June 30, 2014 totaled \$275,000.

Our review consisted of evaluating the internal controls over the consultant selection process, reviewing the agreement administration and reporting practices, and testing compliance with the terms and conditions of the agreements. In addition, we evaluated the validity and propriety of invoice payments for assurance that the amounts billed were properly calculated and adequately supported.

Opinion

In our opinion, the accounting and administrative procedures over the consulting agreements with Carollo, Dudek, and AECOM 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 March 2011 through June 2014.

Comments and Recommendations

COMPLIANCE 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. Further, compliance with the agreements' terms and conditions ensures that parties fully discharge their duties and obligations and exercise their rights associated with the agreements. Our review of twenty-five consultant invoices totaling \$469,465 (four Carollo invoices totaling \$197,509; seven Dudek invoices totaling \$134,575; and fourteen AECOM invoices totaling \$137,381) revealed:

1. AECOM's actual utilization of Small and/or Disabled Veteran Business Enterprises (SBE/DVBE) of 1.2 percent was significantly less than the on-call agreement's required participation level of 18 percent. The

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agreement administrator indicated that this requirement was not met because the project was delayed such that only a portion of the scope of work planned for the SBE could be accomplished before the agreement expired in April 2014. Since expiration of this agreement, a subsequent on-call agreement with AECOM has been executed, and it is expected that the SBE's remaining scope of work will be completed under this new agreement.

2. Six of twenty-five invoices tested (one Carollo invoice, one Dudek invoice, and four AECOM invoices) were paid between 10 to 53 days after the due date. This is in contrast to the Billing and Payment section of the agreements that require payment within a specified number of days after receipt of the invoice.

We recommend that management remind Agreement Administrators of the need to monitor compliance with the terms and conditions of the agreements. Further, in instances where it appears that the SBE/DVBE participation requirement will not be met, we recommend that the Agreement Administrator work with Business Outreach to modify the goal and obtain an agreement amendment.

Report on Consulting Agreements - CDM Smith, Inc. and MWH Americas, Inc. Audit Report

The Audit Department has completed a review of the accounting and administrative controls over three consulting agreements as of July 31, 2014. One agreement with CDM Smith, Inc. (CDM) and two with MWH Americas, Inc. (MWH).

In October 2009, Metropolitan issued a Request for Qualifications (RFQ 927) to pre-qualify engineering firms by area of expertise with the intent to execute on-call service contracts. These agreements allow Metropolitan to issue work on a task-order basis when a need arises to provide various engineering services. The scope of work for this RFQ included conceptual, preliminary and final design services for new facilities and rehabilitation or expansion of existing facilities relating to the conveyance, storage, treatment and distribution of water. It is important to note that prequalification does not guarantee a consultant an agreement. That is, Metropolitan reserves the right to enter or not to enter into an agreement with one or more consultants based upon project needs. Proposals were received from 16 firms, of which nine were prequalified. CDM and MWH received the highest scores of the 16 respondents to the RFQ.

Accordingly, Metropolitan entered into a three-year agreement with CDM to provide on-call engineering services including technical analysis, cost estimation, and engineering support during bid advertisement and construction. This agreement is effective July 1, 2012 through June 30, 2015, with a maximum amount payable of \$1,000,000 per agreement year. As of October 2014, payments to CDM totaled \$901,158.

In addition, Metropolitan entered into an agreement with MWH to prepare final designs of the replacement wastewater systems at the Hinds, Eagle, Iron Mountain, and Gene Pumping Plants. Wastewater system replacement at these plants includes installation of new mainline collection pipes and building laterals, new manholes and cleanouts, and new septic tanks and leach lines. This agreement is effective February 1, 2013 through June 30, 2015, with a maximum amount payable of \$900,000. As of October 2014, payments to MWH totaled \$614,116.

Lastly, in May 2013, Metropolitan entered into an agreement with MWH to provide preliminary and final design for the Weymouth Filter Rehabilitation project. The specific process elements to be modified include filter media, surface wash system, under drains, troughs, and gullet walls structural improvements. This

agreement is effective June 10, 2013 through June 9, 2016, with a maximum amount payable of \$1,275,000. As of October 2014, payments to MWH totaled \$726,367.

Our review consisted of evaluating the internal controls over the consultant selection process, reviewing agreement administration and reporting practices, and testing compliance with the terms and conditions of the agreements. In addition, we evaluated the validity and propriety of invoice payments for assurance that the amounts billed were properly calculated and adequately supported.

In our opinion, the accounting and administrative procedures over the consulting agreements with CDM and MWH 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 July 2012 through July 2014.

Comments and Recommendations

There were no material findings to report.

Quarterly Board Reports Review

We reviewed the reports for consulting and routine services contracts for the period ending June 30, 2014 issued by the Business Technology Group. This review included the Annual Report of Professional Services Agreements (Professional Services) for FY 2013/14 and the Report of Contracts for Equipment, Materials, Supplies and Routine Services of \$250,000 or Above (Contracts) for the quarter ended June 30, 2014. The purpose of this review is to gain reasonable assurance that information included in these reports is accurate, complete, and in compliance with the Metropolitan Water District Administrative Code.

Professional Services Agreements Report

Background

Administrative Code Section 2720(a)(2) 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. The Administrative Code also requires that the Professional Services Report indicate when a consultant is a former Metropolitan employee.

Further, Administrative Code Sections 2721-2723 require the General Counsel, General Auditor and Ethics Officer to report quarterly to their respective committees concerning any professional service agreements executed pursuant to their authority under the Administrative Code. Finally, the Professional Services Report is prepared on a quarterly and annual basis to comply with Administrative Code requirements and identifies those contracts administered by the General Manager, General Counsel, General Auditor, and Ethics Officer.

During FY 2013/14, the Professional Services Report disclosed that \$62.1 million was paid for consulting and professional services. We compared amounts expended on professional services during this fiscal year against the prior fiscal year and noted an increase of \$19.5 million.

It should be noted that totals reported under the General Counsel's authority exclude payments related to the San Diego County Water Authority litigation, which is accounted for under the Self-Insurance Retention Fund.

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FY 2013/14	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$60,272,814	\$1,396,240	\$351,383	\$38,844
Active Agreements	377	47*	1	4
Agreements Terminated	94	1	1	1

* Agreements with transactions during the current fiscal year.

Testing Procedures Performed

Our procedures included a cursory review of the reasonableness of the professional services expenditures and an analysis of consultants with multiple active agreements to determine whether an agreement was split into smaller contract amounts to circumvent established approval limits. We also evaluated whether statistics in the report were adequately supported. Finally, we assessed the timeliness of board reporting.

Testing results

Our review did not reveal any agreements that appeared to be unreasonable or split to override established approval limits. In addition, our review did not reveal any material differences between the reported amounts and supporting documentation. We noted, however, that the Professional Services Report neglected to disclose that one consultant was a former employee of Metropolitan, contrary to Administrative Code reporting requirements. Finally, we noted that this annual report was issued to the board on 9/9/2014.

Quarterly Contracts for Equipment, Materials, Supplies and Routine Services Report

Background

Administrative Code Section 2720(b)(2) requires that the General Manager report to the Finance and Insurance Committee on the execution of any contract authorized under Section 8122(g), Contracts for Equipment, Materials, Supplies and Routine Services. This section states that the General Manager may execute contracts for the purchase of materials, supplies, and other consumable items, such as fuels and water treatment chemicals, which are generally identified in the budget, regardless of dollar value, provided that sufficient funds are available within the adopted budget for such purchases.

The Contracts Report is prepared on a quarterly basis to report on contracts that comply with these Administrative Code requirements. During the quarter ended June 30, 2014, the Contracts Report disclosed six contracts that fit these criteria. We noted that the total maximum amount payable for these contracts is \$5.1 million. Two of these contracts were awarded as a result of competitive bidding, and four were sole-source contracts authorized under Administrative Code Section 8140.

Testing Procedures Performed

Our procedures included a cursory review of the reasonableness of expenditures. They also included verifying that all contracts of \$250,000 or more for the specified items were included in the Contracts Report and were adequately supported. Further, we reviewed sole-source agreements for justification and approval. Finally, we assessed the timeliness of board reporting.

Testing results

Our review did not reveal any discrepancies between the number of contracts and amounts shown in the Contracts Report and supporting documentation. Further, we noted that policies and procedures for competitive bidding, cooperative agreements and awarding sole source agreements are in place. Finally, we noted that the quarterly report was issued to the board on 9/9/2014.

Review of the Colorado River Water Users Association Financial Report for the period April 1, 2013 through March 31, 2014

We have completed a review of the Colorado River Water Users Association Financial Report for the period April 1, 2013 through March 31, 2014. The following summarizes the scope of work performed and results obtained:

Scope and Purpose of Review

We performed a limited review of the Colorado River Water Users Association Financial Report (Financial Report) for the period April 1, 2013 through March 31, 2014. The purpose of this review is to gain reasonable assurance that information included on the Financial Report is accurate and is supported by appropriate documentation. Since our review was limited in scope, we do not express an opinion on the internal control structure over the Colorado River Water Users Association as a whole.

Background

The Colorado River Water Users Association (CRWUA) was founded in 1945 and incorporated in the State of Nevada on December 6, 1968. Its mission is to provide a forum for exchanging ideas and perspectives on Colorado River use and management with the intent of developing and advocating common objectives, initiatives and solutions. From April 1, 2013 through March 31, 2014, CRWUA reported total receipts of \$387,405 and total disbursements of \$335,161. As of March 31, 2014, CRWUA's total fund available was \$658,721.

Testing Procedures Performed

- a) We agreed the financial information from the Financial Report to source documentation including bank statements, check registers, receipts and other third party provided documents.
- b) We performed analysis and computations, when necessary, and validated 100% of the information contained in the Financial Report to the summary documents.
- c) We reviewed monthly bank reconciliations and assessed reasonableness of reconciling items and accuracy of balances.

Testing results

Our review did not reveal any material differences between the reported amounts and supporting documentation. However, we noted:

1. We were unable to locate a receipt for a reimbursement totaling \$4,625 for a video production of *Ten Tribes Partnership on the Colorado River*.
2. One speaker reimbursement of \$804.64 exceeded supporting receipts by \$10.

Recommendations

We recommend that CRWUA management resolve the noted discrepancies and ensure accurate travel reimbursements.