Internal Audit Report for October 2015

Summary

Two reports were issued during the month:
- **Robert A. Skinner Treatment Plant – Facility Maintenance Program Audit Report**
- **Audit Quality Assurance - Annual Self-Assessment Review**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during October 2015. In addition to presenting background information and the opinions expressed in the audit reports, a discussion of findings noted during the examination is also provided.

Robert A. Skinner Treatment Plant – Facility Maintenance Program Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the Robert A. Skinner Treatment Plant (Skinner) – Facility Maintenance Program, as of April 30, 2015.

Our review consisted of evaluating the recordation of preventive, corrective, and emergency maintenance activities in the MAXIMO Maintenance Management (MAXIMO) system. Further, we analyzed MAXIMO reports to ensure that Work Order records documented compliance with local, state, and federal regulatory standards for inspection and maintenance of equipment. We also tested invoice payments related to maintenance expenses (e.g., landscape and janitorial services) for assurance that amounts billed were properly calculated, and adequately supported. Finally, we evaluated the propriety and accuracy of reported maintenance costs, and reviewed Work Order documentation for completeness.

Skinner is located in the city of Winchester, and was placed into service in 1976 to supply raw and treated water to Riverside and San Diego Counties. Skinner is one of three blend plants that treat a blend of State Project and Colorado River water. Member agencies receiving water from Skinner include Eastern Municipal Water District, Western Municipal Water District of Riverside County, and San Diego County Water Authority.

Although Skinner is equipped with many automated systems to aid in the treatment and delivery of water, Skinner operators must monitor and adjust systems to ensure effective and efficient plant operations. The Skinner workforce consists of one unit manager, four team managers, seven electricians, seven mechanics, two plant specialists, seven instrument and control technicians, and six apprentices.

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Opinion

In our opinion, the accounting and administrative procedures over the Skinner Facility Maintenance Program 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 2012 through April 2015.

Comments and Recommendations

POLICY AND PROCEDURES

Operational policies and procedures are established to provide the framework for achieving organizational goals and objectives. Procedures provide management with guidelines for consistent performance of daily operations, assist in the training of new employees, and provide a source of reference for experienced personnel.

1. MAXIMO: The Water System Operations Group uses MAXIMO to schedule, track, and report maintenance activities. Asset purchases and retirements should be recorded into MAXIMO, in accordance with operating procedures. The installation date, manufacturer, model, serial number, type, year of make, and asset size are recorded into MAXIMO for all purchases. MAXIMO then generates a maintenance plan and Work Orders, and tracks them for timely completion. For asset retirements, procedures dictate the asset status be changed from operating to decommissioned or salvaged.

   a. During our review of 41 assets, we noted:

      ▪ Data input was incomplete or inaccurate. Specifically, we noted the manufacturer name field was left blank for all 41 assets tested. The year of make field was entered for two assets, and the model name and serial number fields were entered for four assets.

      ▪ It is important to note that 37 of the 41 assets tested, were purchased and placed in service between June 2012 and November 2014.

   b. During our review of 310 regulatory required Preventive Maintenance (PM) records, we noted:

      ▪ Data input of the last maintenance performance date field for seven PM records, and next maintenance due date fields for 14 PM records were left blank. It should be noted these assets were shown as active, and still in operation.

      ▪ Three assets were removed from service, but their status remained as operating.

      ▪ Three PM records were erroneously created twice in MAXIMO. We understand these duplications have been corrected.

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c. During our review of 20 nonregulatory PM records, we noted:

▪ Fourteen assets showed as operating status. However, the related PM records indicated inactive status, and their last maintenance completion dates ranged from 2008 to 2012. Moreover, none of these PM records showed the next maintenance due date.

d. During our review of 18 assets selected for verification, we noted:

▪ We could not locate Asset 197631 at the location indicated in MAXIMO. Upon further review, we verified this asset was on-site at a different location. Management has updated MAXIMO.

2. Oracle Asset Tracking (OAT) System: The OAT system is used as the repository for equipment purchases, and provides for data input to MAXIMO to ensure a Preventive Maintenance Plan (Plan) is established. Asset purchases and retirements should be recorded in the OAT system, in accordance to operating procedures.

a. During our review of 18 asset additions, we noted:

▪ Asset records for two assets from the OAT system could not be identified in MAXIMO, and a Plan could not be located. Specifically, OAT assets A041972 and A041978 were placed in service in October 2013 and November 2013. However, the Plans could not be located.

▪ Six additional instances of OAT assets placed in service in 2013 and recorded in the OAT system could not be traced to MAXIMO and Plans could not be located.

3. Retired Assets: The Disposal of Surplus Personal Property (Disposal) Manual provides guidance for identification, and disposal of surplus equipment and personal property. These procedures require the Asset Custodian to submit a request on an Internal Shipment Packing (Shipment) List, and obtain approval prior to disposing of an item.

a. During our review of 22 assets salvaged, we noted:

▪ Two salvaged assets were disposed; however, the Shipment List showing approval of disposed items, or reasons assets were declared excess to Metropolitan could not be located. We understand these items were scraped on-site due to safety reasons. It should be noted these assets belonged to the Skinner Conveyance and Distribution Unit.

▪ We could not locate seven of 22 salvaged items. These salvaged items were cannibalized for parts to repair other equipment, although we could not locate documentation to support this disposition.

▪ Procedures for processing salvaged assets in MAXIMO could not be located.

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We recommend Skinner Facility Maintenance Program management correct the noted discrepancies. We also recommend management remind staff of the importance of compliance with established policies and procedures, and conduct periodic reviews to ensure compliance. Lastly, we recommend that Operations Support Services complete the MAXIMO Procedure Manual.

Audit Quality Assurance - Annual Self-Assessment Review

Background

In order to ensure the Audit Department (Department) continues to contribute to Metropolitan's risk management control and governance activities, we implemented a Quality Assurance and Improvement (QA&I) Program in 2007. The principles behind this QA&I Program are set forth by The Institute of Internal Auditors (IIA) in the International Standards for the Professional Practice of Internal Auditing *(Standards)*. Compliance with these mandatory guidelines which include the Definition of Internal Auditing, Code of Ethics, and detailed IIA *Standard,* ensures the Department provides independent, professional, and objective audits and reviews that help Metropolitan achieve its objectives.

This QA&I Program is comprehensive and thorough. It covers all types of audit processes such as staff supervision and development, preparation and execution of the Annual Audit Plan, and internal and external reporting. Individual elements of the QA&I Program include conducting training and improvement activities, performing annual internal self-assessments, and contracting for an external Audit Assessment every five years according to IIA *Standards*. The most recent external Quality Assurance Review was performed by IIA in June 2012, with the Department being judged to be in overall general compliance with IIA *Standards*; the highest rating possible.

This review covers the recently completed FY 2014/15 Internal Quality Self-Assessment, utilizing IIA's assessment methodology. The broad objectives of this review were to examine our conformity to IIA's mandatory guidance and Department procedures; evaluate our effectiveness in carrying out the Department's mission, as set forth in the Department Charter; and identify opportunities to strengthen the Department's value to Metropolitan.

We reviewed audit communications with the Board and management, evaluated risk assessment and audit planning processes, examined audit policies and procedures, and analyzed audit performance and staff management processes. We also surveyed clients and Department staff to obtain feedback, and identify strengths and areas of improvement. Finally, central to our assessment was a review of selected audit workpapers in comparison with IIA *Standards*.

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Conclusion

It is our overall opinion that the Department generally conforms to the Definition of Internal Auditing, Code of Ethics, and IIA *Standards*. This rating means the Department's Charter, policies and procedures, and processes are judged to be in conformance with IIA S*tandards*. However, we noted opportunities for improvement related to IIA Practice Advisories, or best practices. These observations are related to the Department's compliance with policies and procedures, and methods to enhance effectiveness.

COMPLIANCE WITH POLICIES AND PROCEDURES

In order to ensure high quality and professional audit work, auditors should conform to established Department policies and procedures. These procedures ensure audit work is properly documented and supervised so that project objectives are achieved, compliance with IIA *Standards* is accomplished, and staff is provided with feedback on audit techniques.

Our review of a sample of audit workpapers indicated workpaper documentation and evidence of audit supervision, such as electronic work paper sign off could be improved. Some audit reports were issued without evidence of supervisory approval of all workpapers. We have developed actions to strengthen compliance with Department policies and procedures. We will remind auditors of current procedures related to reviewing, and approving workpapers

As part of our self-assessment, we requested anonymous feedback from audit clients regarding recent audits, relationships with Department staff, and perception of value added of audits. Our clients provided high marks in promoting customer orientation by providing quality work and audit professionalism. However, survey results indicated they were not satisfied that internal audit staff members keep up-to-date with changes in Metropolitan's business, the industry and relevant regulatory issues.

Additionally, we noted that many Department staff members did not obtain the amount of Continuing Professional Education (CPE) required by Department training policies. CPE completion improved over the past year and the entire professional staff attended a two-day, IIA training seminar in October 2015. Department management will reemphasize the need to obtain required professional education, and develop annual training plans for each auditor.

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