



## **Internal Audit Report for January 2016**

### **Summary**

Four reports were issued during the month:

- **Water Quality Compliance Reporting Audit Report**
- **ABSG Consulting, Incorporated 125738, Lee & Ro, Incorporated 130945, and MWH Americas, Incorporated 140025 Audit Report**
- **Quarterly Board Reports Review**
- **Macias Gini O'Connell, LLP Single Audit Report for Year Ended June 30, 2015**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during January 2016. 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.

## **Water Quality Compliance Reporting Audit Report**

### **Background**

The Audit Department has completed a review of the controls over Water Quality (WQ) Compliance Reporting, as of August 31, 2015. Our review consisted of testing report preparation and distribution processes. We traced reported data to source documentation, tested spreadsheet formulas used for propriety, reviewed data access controls, and examined report preparation procedures for efficiency and effectiveness. Lastly, we evaluated the adequacy of Disaster Recovery Plans.

The Water System Operations Group, WQ Section is responsible for conducting chemical, microbiological, and physical analysis of water to ensure that water quality complies with drinking water standards set by regulatory agencies. In this capacity, the WQ Section prepares 38 reports based on laboratory analysis and operational performance measurements.

Data values for these reports are extracted from applications including the Nautilus Laboratory Information System, Lab Sheet System, Interim Enhanced Surface Water Treatment Rule (IESWTR) Invalidation Module, Disinfectant /Disinfection By-Product (D/DBP) Centralized Reporting Databases, and the Supervisory Control and Data Acquisition System. Moreover, the WQ Section prepares four regulatory compliance reports for the State Water Resource Control Board, Division of Drinking Water Programs of the State of California, and Metropolitan member agencies. These reports are:

1. Quarterly D/DBP - This report discloses disinfectant and disinfectant by-product levels including chlorine residual, trihalomethanes, haloacetic acids, and bromate.

2. Monthly Fluoride - This report discloses fluoride levels at water treatment plants, and throughout the distribution system.
3. Monthly IESWTR - This report details combined filter effluent and individual filter turbidity, flow, Contact Time Ratio, disinfectant residual, and discloses water quality complaints.
4. Annual WQ Compliance to Member Agencies - This report summarizes water quality and monitoring data from water treatment plant effluents, and distribution systems. The form of this report is that of a table listing all data resulting from year-round monitoring of water quality constituents.

### **Opinion**

In our opinion, the application controls and administrative procedures over WQ Compliance Reporting 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 January 1, 2013 and August 31, 2015.

### **Comments and Recommendations**

#### **REVIEW AND APPROVAL**

Review and approval controls are designed to verify the accuracy of calculations used in the preparation of reports to management, regulators, and member agencies; confirm compliance with regulations; and ensure that follow-up procedures exist for exception processing. For WQ Compliance reporting, authorized personnel perform a Quality Assurance Review of compliance reports for accuracy and completeness, and examine reports for propriety. Our review revealed two instances of spreadsheet formula errors, coded in the worksheets for the IESWTR Report. In addition, we could not locate report preparation procedures for the Annual Member Agency Report. It should be noted that management immediately corrected the formulas during the course of review, and the errors did not result in a compliance violation.

We recommend that management remind employees of the importance of compliance to established procedures, and conduct periodic tests to ensure compliance.

#### **SUCCESSION PLANNING**

Succession Planning establishes a process that recruits employees, develops their skills and abilities, and prepares them for advancement or future roles. Succession Planning also includes identifying critical positions throughout the organization, determining workforce trends and developmental needs, and formulates a strategy to ensure that goals and objectives can be realized. These efforts also serve to ensure that the separation of one or more employees will not adversely affect the internal control structure.

During our review, we noted that responsibility for developing, maintaining, and updating data base and application systems used for regulatory reporting is the responsibility of three budgeted full-time employees in the Data Management Organization within the WQ Section. We also could not locate evidence of a Succession Plan in place for these job functions.

We recommend management identify core competencies for these positions, and develop a Succession Plan for management.

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## **ABSG Consulting, Incorporated 125738, Lee & Ro, Incorporated 130945, and MWH Americas, Incorporated 140025 Audit Report**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over consulting agreements with ABSG Consulting, Incorporated 125738 (ABSG), Lee & Ro, Incorporated 130945 (Lee & Ro) and MWH Americas, Incorporated 140025 (MWH), as of September 30, 2015.

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 amounts billed were properly calculated and adequately supported.

In order to ensure reliable high-quality water supplies, Metropolitan performs ongoing studies and inspections of its conveyance and distribution systems, treatment plants, and other operational facilities. These studies can affect the repair and maintenance schedule, and often results in changes to the Capital Investment Plan.

The Engineering Services Group enters into professional service agreements with consultants to supplement in-house resources, and provide specialized skills to complete these tasks. Our review consisted of three separate consulting agreements.

The first agreement involved the Metropolitan Headquarters Building at Union Station (Headquarters). In December 2011, the Board authorized an agreement with ABSG to provide structural analysis and preliminary designs of seismic modifications to Headquarters. This agreement was effective January 9, 2012 through January 8, 2015, for an amount not to exceed \$500,000. In May 2014, the Board authorized a \$1.8 million increase to the agreement not to exceed \$2.3 million to provide final design of seismic upgrades to Headquarters, and extended the effective agreement date through December 31, 2018. Payments made to ABSG from January 2012 through September 2015 totaled \$1.2 million.

The second agreement reviewed was a Lee & Ro contract the Board authorized in May 2012, to provide on-call general design services to support projects related to conveyance, storage, water treatment, and distribution facilities. The Scope of Work for this agreement 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. This agreement was effective October 1, 2012 through September 30, 2015 for an amount not to exceed \$1 million annually. Payments made to Lee & Ro from January 2012 through September 2015 totaled \$1.8 million.

The third agreement reviewed was a MWH contract the Board authorized in August 2013 to provide on-call general design services to support projects related to conveyance, storage, water treatment, and distribution facilities. The Scope of Work for this agreement included conceptual, preliminary, final design services for new facilities, and rehabilitation or expansion of existing facilities relating to conveyance, storage, treatment, and distribution of water. This agreement is effective October 18, 2013 through October 17, 2018 for an amount not to exceed \$2 million annually. Payments made to MWH from January 2012 through September 2015 totaled \$1.4 million.

### **Opinion**

In our opinion, the accounting and administrative procedures over the consulting agreements with ABSG, Lee & Ro, and MWH 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 January 2012 through September 2015.

### **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 controls over the administration of the agreements. In addition, compliance with agreement terms and conditions ensure that parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreements. We reviewed 30 consultant invoices totaling \$1,786,324, paid between January 2012 and September 2015:

1. 10 ABSG invoices totaling \$597,979.
2. 10 Lee & Ro invoices totaling \$572,308.
3. 10 MWH invoices totaling \$616,037.

We noted that ten invoices were not certified by the consultant, as required by the Billing and Payment Section of the agreement

We recommend that Agreement Administrators remind consultants to comply with the terms and conditions of agreements, and conduct periodic reviews to ensure compliance.

## Quarterly Board Reports Review

We reviewed the Report of Professional Services Agreements (Professional Services Report) and the Report of Contracts for Equipment, Materials, Supplies, and Routine Services of \$250,000 or Above Contracts (Contracts Report) for the First Quarter of fiscal year 2015/16, published by the Business Technology Group, Administrative Services. The purpose of this review is to gain reasonable assurance that information included in these reports is accurate, complete, timely, and in compliance with the Metropolitan Water District Administrative Code.

### PROFESSIONAL SERVICES AGREEMENTS REPORT

#### **Background**

Administrative Code Section 2720(e)(2) requires that the General Manager report to the Organization, Personnel, and Technology 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 the Professional Services Report indicates when a consultant is a former Metropolitan employee.

Administrative Code Sections 2721-2723 require the General Counsel, General Auditor, and Ethics Officer report quarterly to their respective committee concerning any expert or professional service agreements executed pursuant to their authority under the Administrative Code.

The Professional Services Report is prepared on a quarterly and annual basis to comply with these Administrative Code requirements and identify those contracts administered by the General Manager, General Counsel, General Auditor, and Ethics Officer.

During the quarter ending September 2015, the Professional Services Report disclosed that \$66.62 million was paid for consulting and professional services. We compared the amounts expended on professional services during this quarter against the prior fiscal year first quarter, and noted a decrease of \$11.76 million.

It should be noted that totals reported under the General Counsel's authority excluded payments related to the San Diego County Water Authority litigation, which is accounted for under the Self-Insurance Retention Fund. We also noted that for fiscal year 2015/16, 62 of 369 agreements were sole-source agreements totaling \$741,834. This is 1.1 percent of total fiscal year-to-date expenditures totaling \$66.62 million in fiscal year 2015/16.

We also noted that 65 of 369 agreements were small purchases of less than \$24,999, totaling \$81,721 of total fiscal year-to-date expenditures in fiscal year 2015/16. See table below for details.

FY 2015/16	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$66,501,829	\$209,715	\$116,958	\$0
Active Agreements	344	101	3	3
Terminated Agreements	18	5	0	1

### **Testing Procedures Performed**

Our procedures included a cursory review of the reasonableness of the professional service expenditures and 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 Professional Services Report were adequately supported, and 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 reported amounts and supporting documentation. However, we recommend management consider labeling sole-source agreements with a unique identifier for easy reference. Finally, we noted the Professional Services Report was issued to the Board on December 8, 2015.

## **CONTRACTS FOR EQUIPMENT, MATERIALS, SUPPLIES, AND ROUTINE SERVICES OF \$250,000 OR ABOVE REPORT**

### **Background**

Administrative Code Section 2720(e)(2) requires that the General Manager report to the Organization, Personnel, and Technology Committee on the execution of any contract authorized under Section 8122(g) – Contracts for Equipment, Materials, Supplies, and Routine Services. This code 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 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 ending September 30, 2015, the Contracts Report disclosed 10 contracts fitting these criteria. We noted the total maximum amount payable for these contracts was \$9.76 million. Four of these contracts were awarded as a result of competitive bidding, and six were sole-source contracts authorized under Administrative Code Section 8140 – Competitive Procurement.

### **Testing Procedures Performed**

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

### **Testing results**

Our review did not reveal any discrepancies between contracts and amounts shown in the Contracts Report, and supporting documentation. We also noted that the policies and procedures for competitive bidding, cooperative agreements, and awarding sole-source agreements are in place. Finally, we noted the Contracts Report was issued to the Board on December 8, 2015.

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## **Macias Gini O'Connell, LLP Single Audit Report for Year Ended June 30, 2015**

The Federal Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, requires state or local government units that expend \$500,000 or more of federal financial assistance in any one year to have an audit conducted for that year. In the event a Single Audit report is required of Metropolitan for the year, the cost of such an audit is included as part of the required audit services provided by Macias Gini & O'Connell, LLP (MGO) under its agreement with Metropolitan. Due to the magnitude of federal source monies expended during the fiscal year ending June 30, 2015, Metropolitan was required to have a Single Audit performed. MGO performed the necessary auditing procedures, and issued the following required audit reports:

1. Report of Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards.
  2. Report on Compliance for each major program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.
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