



Internal Audit Report for April 2016

Summary

Three reports were issued during the month:

- 1. Bay Delta Initiatives Audit Report**
- 2. Conveyance and Distribution Rehabilitation Program Appropriation 15441 Audit Report**
- 3. Quarterly Board Reports Review**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during April 2016. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Bay Delta Initiatives Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over Bay Delta Initiatives (BDI), as of October 31, 2015. Our review consisted of evaluating the requisition process, consultant evaluation, selection process, and Delta Habitat Conservation and Conveyance Program (DHCCP) reporting practices. We also verified the validity and propriety of payments to consultants for compliance with contractual terms and conditions, and for assurance that amounts billed were properly calculated and adequately supported.

Located within the Sacramento-San Joaquin River Delta watersheds, the Delta region has endured years of Delta levees instability, a decline in native fish species, and extended drought conditions. These factors elevated the need to protect the estuary against natural disasters, restore the Delta Ecosystem health, improve water conveyance through the Delta, and manage water quality. The proposed Bay Delta Conservation Plan (BDCP) is a joint state and federal effort that seeks to balance the objectives of improving public safety, fostering environmental stewardship, and ensuring sustainable water resources.

The BDCP supports issuance of Long-Term Incidental Take Permits for water operations, and management activities of the State Water Project and Central Valley Project. The BDCP also encompasses the DHCCP, which involves environmental analysis and documentation, preliminary engineering designs, geotechnical field studies, and other feasibility studies for a new water conveyance system.

In June 2007, the Board approved the Delta Action Plan that includes Immediate and Near-Term Action (BDNTA) projects such as emergency response, operational actions, habitat restoration, and management. The Delta Action Plan also includes Long-Term (BDLTA) projects to provide for a more reliable, sustainable water supply, and reduce conflicts between water conveyance, and aquatic species and resources protection.

The estimated total cost of BDCP and DHCCP is \$253.5 million. Of this amount, the Department of Water Resources has expended \$251.1 million through October 31, 2015. The costs would be equally shared between the State Water Project and Central Valley Project contractors, and collected through the State Water Project Annual Statement of Charges. Metropolitan's commitment for the BDCP - DHCCP Planning Phase is \$63 million, and has paid \$58 million.

If the BDCP is approved by the public to proceed with construction of new facilities, the Department of Water Resources intends to reimburse Metropolitan for these advanced funds. If the BDCP is not approved, no reimbursements will occur. To advance its BDI, Metropolitan executed 55 consulting contracts with experts in the areas of:

1. Biology.
2. Ecological dynamics.
3. Ecosystem restoration planning and implementation.
4. Emergency preparedness.
5. Hydrologic and Hydrodynamic modeling.
6. Nutrient and food chain modeling.
7. Permitting and regulatory matters.

Under the contract terms, consultants are required to provide technical writing support for scientific journal articles, briefing materials, presentations, and analysis related to water supply, water quality, ecology, and fisheries.

We examined 21 of 55 contracts executed over the past five years. Twenty of these contracts had a three-year term, with a maximum amount payable of less than \$250,000 for each contract year. The remaining contract has a five-year term, with a maximum amount payable of \$2 million. The effective terminating dates for these contracts varied from March 2011 through October 2018. Consulting fees of \$6.7 million have been paid for 21 contracts through October 31, 2015. The total Operations & Maintenance expenditures of \$47.6 million, including consulting fees have been charged from July 1, 2010 through October 31, 2015.

Opinion

In our opinion, the accounting and administrative procedures over the Bay Delta Initiatives 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, 2010 through October 31, 2015.

Comments and Recommendations

POLICIES AND PROCEDURES

Policies and procedures should be established and documented to provide a framework for achieving Metropolitan's goals and objectives. Procedures provide management with guidelines for consistent performance of daily operations, assist management in the training of new employees, and provide a source of reference for experienced personnel. The Administrative Code and Purchasing and Professional Services Contracting Procedures Manual, provide guidance for contracting professional services. Our review of BDI activity noted the following:

1. Annually, up to six projects are established to account for DHCCP activities and expenses. However, we noted that project descriptions for these services were identical from one fiscal year to the next. Professional services provided in these contracts consisted of continuation of work completed in the previous fiscal year.

The effect of these actions is the perception that multiyear projects are being split into annual contracts, and approved within authorized limits. We understand this practice was initiated early on to facilitate the fact that project tasks (Example: biological and environmental research) spanned multiple fiscal years, evolved in an incremental manner, and did not have definitive deadlines or intuitive deliverables.

2. Closeout procedures for 19 inactive projects initiated prior to FY 2015/16, had not been completed through October 31, 2015.

We also reviewed BDI Initiatives expenditures for FY 2010/11 through October 31, 2015 of FY 2015/16, and noted:

1. Professional Service costs totaling \$4.1 million incurred for Task PS06 - Delta Science and Modeling were recorded to BDNTA or BDLTA projects, in an inconsistent manner. Specifically, consultant charges for six of 24 vendors were recorded to BDNTA and BDLTA projects, and 18 vendor charges were recorded to BDNTA or BDLTA projects. The six vendors include:
 - a. 34 North Incorporated charged \$813,525.42.
 - b. Deepblu Studios Incorporated charged \$356,179.19.
 - c. Moffat Incorporated charged \$214,968.60.
 - d. MWH Americas Incorporated charged \$195,894.45.
 - e. Resource Management Associates Incorporated charged \$677,960.64.
 - f. Western Ecosystems Technology Incorporated charged \$164,631.78.

2. Professional Service costs totaling \$2.7 million incurred for Task PS02 – Delta Conservation Plan and Ecosystem were recorded to BDNTA or BDLTA projects, in an inconsistent manner. Specifically, consultant charges for five of 31 vendors were recorded to BDNTA and BDLTA projects, and 26 vendor charges were recorded to BDNTA or BDLTA projects. The five vendors include:
 - a. Cardno Entrix charged \$73,515.56.
 - b. CH2M Hill Incorporated charged \$84,005.24.
 - c. Hydrofocus Incorporated charged \$364,002.06.
 - d. Ja Spezia Consulting charged \$476,948.93.
 - e. Jones & Stokes Associates Incorporated charged \$23,721.80.
3. Labor, travel, and various expenditures totaling \$6.9 million incurred for Task ESG PM01 - Engineering Program Management were recorded to the DHCCP - Engineering Services or to Bay Delta Management Program.
4. Potential reimbursable expenditures totaling \$1.4 million incurred for the BDCP and DHCCP tasks were recorded to BDNTA and BDLTA projects, rather than to a separate reimbursable project. We understand that once reimbursable agreements are executed, Delta Initiatives management will initiate a Cost Transfer Request to appropriate reimbursable projects in accordance with ongoing discussions with the Controller's Office.

We understand that the Metropolitan Board is scheduled to vote on the BDCP during the calendar year. We recommend that if the BDCP is approved, that BDI management recraft the consulting contracts as fixed-price multiple-year agreements. We also recommend that BDI management resolve the noted inconsistencies for expenditures recorded to BDNTA, BDLTA, DHCCP and Bay Delta management projects.

COMPLIANCE WITH CONTRACT TERMS AND CONDITIONS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over administration of the agreements. Furthermore, compliance with contract terms and conditions ensures that parties fully discharge their duties and obligations, and exercise their legal rights associated with the agreements. We reviewed 40 invoices totaling \$1.5 million paid from July 2012 through September 2015, and noted the following:

1. Thirteen invoices were paid two to 88 days, after invoice due date. This is in contrast to the agreement Billing and Payment Section requiring payment within 45 days, after invoice date.
2. Sixteen invoices include billing periods of two to 18 months. This is in contrast to the agreement Billing and Payment Section requiring submission of invoices on a monthly basis.
3. Two invoices did not identify the beginning dates of the billing period, as required by the agreement Billing and Payment Section.

4. Four invoices did not include titles, classifications, or corresponding labor rates for labor charges billed. In addition, subconsultant charges on two invoices were billed as Consultant Direct charges. This is in contrast to the agreement Billing and Payment Section.
5. URS Invoice 60655803 dated November 5, 2014 totaling \$51,843.65 for the billing period of August 1, 2014 through September 30, 2014, included labor charges outside the billing period in October 2014 for \$110.34.
6. Consultants for two agreements reviewed did not meet the 18 percent Small Business Enterprises participation level requirements, through their termination dates. Specifically, Tetra Tech Incorporated Contract 118155 had a zero percent participation level through February 2014, and CH2M Hill Contract 120045 had a 12.1 percent participation level through March 2014.

We recommend that agreement administrators remind consultants to comply with the terms and conditions of their agreements. Further, we recommend that management continue to conduct periodic reviews to ensure compliance with contractual terms and conditions.

Conveyance and Distribution Rehabilitation Program Appropriation 15441 Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over Infrastructure Reliability - Conveyance and Distribution System (System) - Rehabilitation Program Appropriation 15441 (Rehabilitation Program), as of December 31, 2015. Our review consisted of evaluating administration and reporting practices, and reviewing project authorization and closeout processes. We further evaluated the validity and accuracy of invoice payments for assurance that amounts billed were properly calculated, and adequately supported. Finally, we reviewed the Actual versus Budgeted costs on a project-by-project basis, and compared these totals to the appropriated amounts and management reports.

Metropolitan's Conveyance and Distribution System consists of hundreds of miles of pipelines, tunnels, canals, reservoirs, pressure-control structures, and hydroelectric power plants. The Conveyance and Distribution System brings State Project and Colorado River water from various portals to Metropolitan's five treatment plants. The Distribution System, on the other hand, delivers potable water from the treatment plants to member agency service connections. Major portions of the Conveyance and Distribution System were initially constructed in the 1940s, and have been in continuous service since. As a result, portions of the system are exhibiting signs of normal wear and tear.

In September 2006, management established the Infrastructure Reliability - Conveyance and Distribution System Rehabilitation Program (Appropriation 15441) to implement repair and rehabilitation projects. The purpose of this program is to increase service reliability to member agencies, and reduce the risk of service disruptions within the Conveyance and Distribution System.

In September 2006, management established the System Rehabilitation Program to implement repair and rehabilitation projects. The purpose of the program was to increase service reliability to member agencies, and reduce the risk of service disruptions within the system.

As of December 2015, this Program consisted of 26 completed and 22 ongoing projects, with project costs totaling \$59 million compared to \$69 million in appropriations. This Program is within budget, and on schedule to be completed in 2020. Below is the list of completed and ongoing projects with their corresponding cumulative costs, as of December 2015.

COMPLETED PROJECTS			
ITEM	PROJECT	DESCRIPTION	AMOUNT
1	103794	Rialto Feeder Repair - Station 3662+23	\$793,319
2	103795	Santiago Lateral Access Road Repair	414,442
3	103797	Palos Verdes Reservoir – Spillway Energy Dissipater Structure Modifications	437,945
4	103800	Upper Feeder Cathodic Protection System	748,595
5	103803	Garvey Reservoir Automated Data Acquisition System (ADAS) Replacement	653,679
6	103804	West Valley Feeder #2 Cathodic Protection System	649,657
7	103908	Sepulveda Feeder Repair at Station 1099	3,989,318
8	103918	San Gabriel Tower Slide Gate Rehabilitation – Final Design	275,339
9	103919	Eagle Rock Tower and Puddingstone Spillway Gates Rehabilitation	4,684,775
10	103946	San Diego Pipeline Repair at Two Locations	1,357,997
11	104002	Olinda Pressure Control Facility Pavement Rehab	124,919
12	104004	Temescal Power Plant Access Road Paving	244,511
13	104025	OC-71 Service Connection Repairs	257,703
14	104027	Magazine Canyon – Valve Replacement for San Fernando Tunnel (Station 778+80)	1,448,974
15	104053	OC-44 Service Connection Repairs	216,873
16	104101	Lake Skinner Outlet Conduit Refurbishment	1,898,550
17	104151	Sepulveda Feeder Cathodic Protection System	1,844,447
18	104152	Second Lower Feeder Cathodic Protection System	1,752,162
19	104153	Calabasas Feeder Stray Current Drain Station	174,981
20	104196	Calabasas Feeder Stage 1 and 2 Repairs	3,778,411
21	104209	Bixby Valve Replacement	1,409,909
22	104211	Upper Feeder Service Connection, P-1, FM-1, and SMR-1 Rehabilitation	1,709,863
23	104327	Monterey Valve Replacement	711,876
24	104369	Sepulveda Feeder South Cathodic Protection System	1,218,999
25	104371	Corona Power Plant Standby Generator	(531)
26	104413	Lake Skinner Bypass No.2 Cathodic Protection	116,426
		Total	\$30,913,139

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Opinion

In our opinion, the accounting and administrative procedures over the Infrastructure Reliability – Conveyance and Distribution System Rehabilitation 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 September 2013 through December 2015.

Comments and Recommendations

PROJECT COMPLETION AND CLOSEOUT

Project management involves planning, organizing, and managing resources to bring about the successful completion of project goals and objectives. It involves monitoring and controlling activities from project initiation, to project closeout. Projects should be closed after all contractual requirements have been met, all invoices have been accrued and paid, and Metropolitan has discharged all obligations. Our review of five completed and 10 ongoing projects revealed:

A. Ongoing Projects

1. Projects 103884, 104226, 104323, 104335, and 104445 were estimated to have been completed between 2014 and 2015. However, these projects remained open as of February 2016. Further review revealed that the staging and priority for these projects have changed. In addition, our review revealed that Project Authorization Request, New Project Request, and Change of Scope Request Form (EForm 540) were not submitted by project management to update the project estimated completion dates.

B. Completed Projects

1. Project 103797 was completed in January 2013, but not closed until April 2014.
2. Project 104370 was completed in September 2013, but remained open as of February 2016.

We recommend that System Rehabilitation Program management remind staff of the importance of compliance with established procedures, 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 Second 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 indicate 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 December 2015, the Professional Services Report disclosed that \$68.7 million was paid for consulting and professional services. We compared the amounts expended on professional services during this quarter against the prior fiscal year second quarter, and noted an increase of \$17.2 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, 58 of 374 agreements were sole-source agreements totaling \$1.9 million. This is one percent of total fiscal year-to-date expenditures totaling \$135.2 million in fiscal year 2015/16.

We also noted that 66 of 374 agreements were small purchases of less than \$24,999, totaling \$167,986 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	\$134,282,664	\$387,118	\$290,161.46	\$0
Active Agreements	328	89	2	4
Terminated Agreements	39	13	1	0

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 March 8, 2016.

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 December 31, 2015, the Contracts Report disclosed six contracts fitting these criteria. We noted the total maximum amount payable for these contracts was \$9 million. All six contracts were awarded as a result of competitive bidding 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 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 March 8, 2016.
