



Internal Audit Report for May 2016

Summary

Three reports were issued during the month:

- 1. Power Tech Engineers Incorporated 125206 and GGS CA Incorporated 126790 Audit Report**
- 2. F.E. Weymouth Treatment Plant Oxidation Retrofit Program 15392 Audit Report**
- 3. Security and Emergency Management at Union Station and Diamond Valley Lake Audit Report**

Discussion Section

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

Power Tech Engineers Incorporated 125206 and GGS CA Incorporated 126790 Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the consulting agreements with Power Tech Engineers Incorporated 125206 (Power Tech) and GGS CA Incorporated 126790 (GGS), as of December 31, 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 agreement. In addition, we evaluated the validity and propriety of invoice payments for assurance that amounts billed were properly calculated and adequately supported.

The Hiram W. Wadsworth (Wadsworth) Pumping/Hydro-generating Facility was built in early 2000, and is located on the West end of Diamond Valley Lake (DVL) near the city of Hemet. Wadsworth Pumping/Hydro-generating Facility is a major control structure, and renewable energy producer for water coming from State project water through DVL.

Before arriving at the Wadsworth Pumping/Hydro-generating Facility, DVL water has flowed south from the State project water into the reservoir via the Inland Feeder Pipeline and Eastside Pipeline. These supplies are eventually released to the Conveyance and Distribution System. DVL's Inlet/Outlet Tower is utilized to fill or release water from the reservoir, and has valves at nine different depths providing operators with the flexibility to select the best quality water.

Water flows from DVL through a 2,300-foot long-pressure tunnel to Wadsworth, and sent through as many as nine electrical generators producing up to 3.3 megawatts each. From there, water is released to the San Diego Canal (Canal), flowing to Lake Skinner and Robert A. Skinner Treatment Plant, and other water facilities in Southwestern Riverside and San Diego Counties. Up to 30 million kilowatt-hours a year is produced by the Wadsworth generator units, and can be sold by Metropolitan as renewable energy.

The water pressures and flows between DVL, Inland Feeder, and the Canal are managed by Wadsworth pressure control, monitoring, and the Electrical Protection system. These systems include pressure control valves, programmable logic controllers, Data and Control Communications System, Vibration Monitoring System, and pump/generator power control components.

An initial investigation of these systems in 2010 revealed that the components were failing due to its outdated technology, and that rehabilitation of the systems was promptly needed. As a result, the Metropolitan board authorized the upgrade to the systems under Appropriation No. 15467.

Metropolitan entered into a one-year agreement with GGS, as the prime consultant to provide the preliminary and final designs for the Wadsworth Control and Protection System upgrade. The GGS agreement was effective from April 1, 2012 through March 31, 2013, with a fixed price of \$1.1 million for the preliminary design. There were three amendments to this agreement:

1. Extend contract period until November 2016.
2. Increase maximum amount payable to \$7 million.
3. Add the final design to the Scope of Work.

Payments to GGS from contract inception through December 2015, totaled \$4.6 million. We also reviewed the Power Tech agreement entered to provide technical oversight, third party review of drawings, software programs, documentation, and other deliverables produced by GGS. The Power Tech agreement was entered in April 2012, and has been amended four times to extend the time period and increase maximum amount payable. The Power Tech agreement is valid until December 2016, and the maximum amount payable is \$1.34 million. As of December 2016, payments to Power Tech totaled \$762,205.

Opinion

In our opinion, the accounting and administrative procedures over Power Tech and GGS 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 April 2012 through December 2015.

Comments and Recommendations

COMPLIANCE WITH THE AGREEMENT TERMS AND CONDITIONS

POWER TECH

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over agreement administration. Compliance with agreement terms and conditions of the agreement ensures that parties fully discharge their duties and obligations, and exercise their rights associated with the agreements. During our review of 10 Power Tech invoices totaling \$364,921, we noted:

1. The Individual Confidentiality and Security Agreement Document which acknowledges Power Tech's responsibility to maintain confidentiality of Metropolitan's confidential information was not signed.
2. The Task Order for one invoice totaling \$10,125 was approved, after completion of services by Power Tech. This is in contrast to Section (1)(b) of the Power Tech agreement, which requires a Task Order be completed and signed prior to proceeding with services.
3. Invoice MWD036 totaling \$11,250 included billed amounts from September 2014 through December 2014. This is in contrast to Section 9 of Power Tech agreement, which stipulates monthly billings.
4. Payments for Invoice MWD045 Release 30 and Invoice MWD037 Release 22 were made 19 to 20 days, after invoice date.

During our review of 15 GGS invoices totaling \$1.64 million, we noted:

1. The Task/Deliverable Acceptance Certification document could not be located. This is in contrast with Section 8.b. of GGS agreement, which requires its submission with each invoice payment.

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

F.E. Weymouth Treatment Plant Oxidation Retrofit Program 15392 Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over the F.E. Weymouth Treatment Plant (Weymouth plant) Oxidation Retrofit Program (ORP), Ozonation Facility Construction Project 104459 (Project 104459) and the Hypochlorite and Sulfuric Acid Feed Facility Construction Project 104388 (Project 104388), as of February 29, 2016.

Our review consisted of evaluating administration and reporting practices, and reviewing Projects 104459 and 104388 authorization and closeout processes. We 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, and compared these totals to appropriated amounts and management reports.

The Weymouth plant was placed into service in 1941 to treat water received from the Colorado River. Presently, Weymouth plant has the ability to treat a blend of Colorado River and State project water, and delivers it to the Central Pool portion of the distribution system. Originally sized at a capacity of 100 million gallons per day (mgd), Weymouth plant was expanded to its current capacity of 520 mgd to meet increased demands from member agencies.

In addition to these expansions, Weymouth plant has had facility upgrades and improvements made throughout the years including ongoing ORP Project 104459. The purpose of this improvement is to comply with State I of the U.S. Environmental Protection Agency Disinfectant and Disinfection By-Product Rule, meet drinking water standards, and reduce taste and odor incidents. Weymouth plant is the last of five Metropolitan treatment plants to be retrofitted, as part of the ORP.

In June 2012, the Board appropriated \$140.4 million and awarded Archer Western Contractors LLC (Archer) Agreement 1741 for \$95.5 million to construct the Ozone Generation Building, Ozone Off-Gas Destruct System, Liquid Oxygen Storage Facility, and the Hydrogen Peroxide Storage and Feed Facility. Moreover, Agreement 1741 called for Archer to construct two ozone contactors that provided ozone disinfection for an initial capacity of 260 mgd. In addition, Archer Agreement 1741 included construction of two additional bypass contactors needed for Stage II of Weymouth plant ORP to increase the ozone treatment to full capacity of the plant.

In December 2013, the Board authorized an additional \$18.5 million for construction of Stage II of Weymouth plant ORP to increase the ozone treatment capacity from 260 mgd to 520 mgd. This capacity increase accommodates expected future Weymouth plant treated water demands, eliminates blending restrictions associated with Metropolitan source water, and provides flexibility within the Central Pool when Prestressed Concrete Cylinder Pipe feeders are removed from service for rehabilitation.

As of February 29, 2016, total expenses for Weymouth plant ORP were \$215.7 million, and final costs are estimated to be \$270 million. In addition, \$138.5 million of these expenditures were classified as Ozonation Facilities Construction expenses of which Archer was paid \$111.4 million.

In August 2015, the Board appropriated \$17.7 million and awarded Kiewit Infrastructure West Company (Kiewit) \$10.3 million to build sodium hypochlorite and ammonia feed facilities, construct two covered containment and unloading facilities, install five storage tanks, and relocate piping and electrical panels. The sodium hypochlorite and ammonia feed facility upgrades are scheduled to be completed in 2018. Payments to Kiewit totaled \$1.2 million, as of February 29, 2016.

Opinion

In our opinion, the accounting and administrative procedures over the Weymouth plant ORP Ozonation Facility Construction Project 104459 and the Hypochlorite and Sulfuric Acid Feed Facility Construction Project 104388 include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective controls from April 1, 2015 through February 29, 2016.

Security and Emergency Management at Union Station and Diamond Valley Lake Audit Report

Background

The Audit Department has completed a review of the accounting and administrative controls over Security and Emergency Management - Union Station Headquarters (Headquarters) and Diamond Valley Lake (DVL), as of December 2015. Our review consisted of evaluating physical security controls at Headquarters and DVL. Our tests at DVL included the reservoir, Visitor Center, Diamond Valley Marina, and the Hiram W. Wadsworth Pumping/Hydro-generating Facility (Wadsworth).

We evaluated ground and site patrol procedures, tested access controls, and reviewed incident reporting practices. We also examined the contract with outside security service consultant Securitas USA (Securitas). We tested compliance with the terms and conditions of the Securitas agreement, and reviewed invoices for propriety, accuracy, and timely payment.

The Security Management Unit of the Water Systems Operations (WSO) Group is responsible for physical security at Metropolitan facilities. Specific duties include controlling physical access to the facilities, identifying and addressing access irregularities, investigating security incidents, and performing periodic physical security inspections. These responsibilities also include managing the contract with Securitas for guard, patrolling, monitoring, and investigatory support to Metropolitan. At remote facilities such as the DVL reservoir, Visitor Center, Diamond Valley Marina, and Wadsworth, the Security Management Unit is responsible for coordinating physical security and ground patrol efforts. They also coordinate security efforts between Securitas and lessees.

In December 2005, Metropolitan entered into a five-year agreement with Securitas to provide security guard services at Metropolitan facilities. These services included building and ground patrolling of Metropolitan facilities and properties, controlling physical security access, providing emergency response assistance, coordinating activities with public safety and emergency service organizations, and providing general security to staff and visitors.

The agreement was amended twice to revise fee schedule, adjust annual cost of living and performance incentives, and extend the contract term to December 31, 2010. The agreement constituted a time-and-material contract, capped at \$6 million per year. Payments to Securitas since contract inception through termination in December 2010, totaled \$30 million.

In January 2011, Metropolitan entered into a one-year-rollover agreement with Securitas. This agreement was capped at \$6.5 million for the initial year, renewable up to four times, not-to-exceed \$35 million, and terminating December 2015. Payments to Securitas totaled \$15.7 million from January 2013 through December 2015. In September 2015, Metropolitan awarded Securitas a five-year agreement effective January 2016, and not-to-exceed \$38.1 million. The terms and conditions of the agreement and scope of services were similar to that of prior agreements.

Opinion

In our opinion, the accounting and administrative procedures over Security and Emergency Management at Headquarters and DVL 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 2013 through December 2015.

Comments and Recommendations

COMPLIANCE WITH AGREEMENT 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. Compliance with the terms and conditions of the agreement ensures that parties fully discharge their duties and obligations, and exercise their rights associated with the agreement.

A. DVL Lease Agreements:

1. Section 19 of the Western Science Center Agreement and Section 9(g) of the Western Center Community Foundation Settlement and Release Agreement stipulate that lessee is responsible for maintaining appropriate site security at all times, and that Metropolitan assumes no responsibility for security or for maintaining any existing security cameras or other devices. During our site visit, we could not locate evidence that the leased and surrounding areas (museum and archeology/ paleontology center, Charter school) were being secured or monitored by lessees.

B. Securitas Agreement:

1. Exhibit A of Securitas Agreement stipulates that the Security Control Center inside Wadsworth is to be manned 24 hours each day, seven days a week. During our visits to DVL, we noted that the Security Control Center was unoccupied. Further inquiry revealed that Security management had instructed Securitas to provide six hours of manned services at the Security Control Center. We were unable to locate the written memorandum issued to Securitas to modify the Scope of Work for their services.
2. During our review of 20 invoices totaling \$281,443, we noted that charges on 15 invoices totaling \$197,748 were not billed in accordance with Agreement Exhibit B – Fee Schedule, but rather billed per terms listed in the Billing List Side Letter. It is important to note that this change in billings did not result in any overpayments or underpayments to Securitas.

C. Access Controls

1. During our review of access controls for 80 recently separated employees, we noted that badge access was not cancelled on a timely basis. Further review revealed that the Human Resources Group had notified Security staff two through 12 days, after the termination dates for these employees. Badge access was immediately cancelled in seven of these instances. However in one instance, badge access was not cancelled until 163 days after notification.

We recommend Security management remind personnel of the importance of compliance with established procedures, and the terms and conditions of the agreement. We also recommend management conduct periodic reviews to confirm compliance.

SECURITY AWARENESS AND TRAINING

Our review revealed that Security management staff has performed an assessment of risks associated with physical security, and established procedures to address these issues. Moreover, policies have been developed that discuss the impact of access risks on workplace security.

As the central core of this control structure, Security management has mobilized internal staff efforts, along with outside security experts to control physical access to facilities, identify and address access irregularities, investigate security incidents, and perform periodic physical security inspections. The combination of staff turnover, increased awareness of natural disasters, and heightened concern for Homeland Security requires changes in traditional physical security paradigms.

In response to this dynamic, we believe the focus in physical security is shifting from a technology and security professional approach, to a people approach. This change is necessary to acknowledge the fact that physical security has become a function of which all employees and vendors have a responsibility to understand, adhere to, and monitor for compliance.

Accordingly, clearly defined and communicated physical security policies and practices need to be provided to staff. In addition, periodic security primers should be conducted to inform staff of changes in the security profile and current practices. While we believe that Security management has established adequate physical security policies and procedures, we think that changes should be made.

We recommend that Security management develop employee training programs that heighten security awareness, and underscore the importance of the employee and vendor roles in securing Metropolitan facilities.
