



Internal Audit Report for January 2017

Summary

Two reports were issued during the month:

- 1. Sepulveda PCCP Rehabilitation Program**
- 2. Quarterly Board Reports Review**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during January 2017. 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.

Sepulveda PCCP Rehabilitation Program

Background

Metropolitan's water delivery system includes approximately 830 miles of pipelines, of which 163 miles are pre-stressed concrete cylinder pipe (PCCP) lines. Metropolitan installed these lines between 1965 and 1985 in both dense urban areas and remote regions. These lines range between 54 and 201 inches in diameter. However, during the 1990s water systems throughout the country experienced an increasing number of PCCP failures. These incidents compelled PCCP owners to develop inspection, monitoring, and repair programs to ensure the reliability of such pipelines. These efforts aided in the accurate identification of the condition and stability of the PCCP along with the characterization of their true service life.

Metropolitan developed the PCCP Inspection Plan under its Infrastructure Reliability Protection Program in response to concerns over the reliability of the lines. Accordingly, the Board authorized a capital program in December 1996 to assess the condition of Metropolitan's pipelines. After assessing the 163 miles of PCCP lines, management ranked the pipelines most in need of repair. Moreover, the Engineering Services Group (ESG) initiated a comprehensive program in September 2011 to inspect, monitor, repair and rehabilitate its PCCP lines. Five PCCP lines were identified for repairs: (1) the Second Lower Feeder, (2) the Sepulveda Feeder, (3) the Rialto Pipeline, (4) the Calabasas Feeder and (5) Allen-McColloch Pipeline.

The Sepulveda Feeder delivers treated water from the Joseph Jensen Water Treatment Plant in Granada Hills to an interconnection with the Second Lower Feeder in Torrance. The feeder was constructed in the early 1970s and is 42 miles long. Approximately 37 miles of the line is comprised of 96-inch diameter PCCP. The remainder of the line is constructed of 96-inch diameter welded steel pipe. The Sepulveda Feeder operates at pressures up to 250 pounds per square inch and passes

through areas with highly corrosive soils. There are numerous underground utility lines, natural gas lines and oil lines within the vicinity, which expose the feeder to significant stray current interference. In addition, its route follows major public streets as it extends through a highly urbanized area. The feeder crosses several freeways, flood control channels and a municipal airport. The Sepulveda Feeder has six service connections that deliver treated water to the cities of Los Angeles, Santa Monica and Torrance and to the West Basin Municipal Water District.

In October 2015, Engineering Services (Engineering) conducted an electromagnetic inspection on approximately 10 miles of PCCP lines on the Sepulveda Feeder. This inspection identified 12 pipe segments with significant increases in pre-stressing wire breaks since the last inspection in 2008. Engineering evaluated the potential impact of the wire breaks, and concluded that the distressed PCCP segments should be repaired as expeditiously as possible. Repairs began at two sites during the April 2016 Sepulveda shutdown. The on-going work includes lining the existing PCCP segments with a steel liner designed as a stand-alone pipeline that can accommodate full internal and external pressures on the line and filling the annular space between the steel liner and the existing PCCP segments with concrete grout. As of October 31, 2016, Metropolitan has spent \$13.5 million out of \$15.4 million appropriated. The program is within budget and expected to be completed in June 2017 on schedule.

Opinion

In our opinion, the accounting and administrative procedures over the Sepulveda PCCP Rehabilitation Program 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 of May 1, 2016 through October 31, 2016.

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 2016/17, issued 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 September 2016, the Professional Services Report disclosed that \$31.8 million was paid for consulting and professional services. We compared the amounts expended on professional services during this quarter against the prior fiscal year's first quarter and noted a decrease of \$34.8 million. The Electric & Gas Industries Association Agreement 129415 under the Water Resource Management Group for Metropolitan's Regional Conservation Rebate Program accounted for \$31.9 million of the total decrease in expenditures amount.

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.

For the quarter ending September 2016, 42 of 381 agreements were sole-source agreements totaling \$871,796 (or 3% of total fiscal year-to-date expenditures). We also noted that 89 of 381 agreements were small purchases of less than \$24,999, totaling \$209,418 (or 1% of total fiscal year-to-date expenditures at September 30, 2016). See tables below for details:

Fiscal Year-to-Date Q1	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$31,679,365	\$601,376	\$119,994	\$0
Active Agreements	355	88	1	2
Agreements Terminated	22	3	1	0

Governmental Agencies	RFP	RFQ	Small Purchases	Sole - Source	Total*
\$159,645	\$25,708,492	\$4,850,007	\$209,418	\$871,796	31,799,358
11	40	199	89	42	381
1%	81%	15%	1%	3%	100%

*Note: Total shown does not include General Counsel's Expenditures

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 the reported amounts and supporting documentation. Finally, we noted the Professional Services Report was issued to the Board on December 13, 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 September 30, 2016, the Contracts Report disclosed four contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$5.1 million. Three of these four contracts were awarded as a result of competitive bidding, whereas the remaining one was sole-source contract 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 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 sole source agreements are in place. Finally, we noted the Contracts Report was issued to the Board on December 13, 2016.