



Internal Audit Report for October 2017

Summary

Two reports were issued during the month:

- 1. Colorado River Water Users Association Financial Report for the period April 1, 2016 through March 31, 2017**
- 2. Consulting Agreements-Black & Veatch Corporation (158748), AECOM (126762) and Stantec (160244)**

Discussion Section

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

Colorado River Water Users Association Financial Report for the period April 1, 2016 through March 31, 2017

At the request of the Metropolitan Water District of Southern California Board of Directors, we examined the Colorado River Water Users Association Financial Report for the period April 1, 2016 through March 31, 2017. The following summarizes the scope of work performed and results obtained:

Scope and Purpose

We performed the following procedures to gain reasonable assurance that information included in the Colorado River Water Users Financial Report for the period April 1, 2016 through March 31, 2017 is accurate and is supported by appropriate documentation:

- a) We agreed the financial information from the Financial Report to source documentation including the bank statements, receipts and other third party provided documents.
- b) We performed analysis and computations, when necessary, and validated 100% of the information contained in the Financial Report to the summary documents.
- c) We examined monthly bank reconciliations and assessed reasonableness of reconciling items and accuracy of balances.

Since our examination was limited in scope, we do not express an opinion on the internal control structure over the Colorado River Water Users Association taken as a whole.

Background

The Colorado River Water Users Association (CRWUA) was founded in 1945 and incorporated in the State of Nevada on December 6, 1968. Its mission is to provide a forum for exchanging ideas and perspectives on Colorado River use and management with the intent of developing and advocating common objectives, initiatives and solutions.

From April 1, 2016 through March 31, 2017, CRWUA reported total receipts of \$480,164 and total disbursements of \$462,822. As of March 31, 2017, CRWUA's total fund available was \$575,553.

Testing results

Our examination did not reveal any material differences between the reported amounts and supporting documentation.

Consulting Agreements-Black & Veatch Corporation (158748), AECOM (126762) and Stantec (160244)

Background

The Engineering Services Group is responsible for ensuring Metropolitan meets its mission of delivering adequate and reliable supplies of high quality water to its 5,200 square mile service area. They provide routine maintenance of Metropolitan's five water treatment plants, nine reservoirs, 16 hydroelectric facilities, and the Colorado River Aqueduct. In addition, they provide oversight of Metropolitan's Capital Investment Plan, which sustains long term reliability of the delivery and treatment system.

The Engineering Services Group advances these goals by providing technical resources and delivering projects that help Metropolitan meet its mission. Specifically, they provide program management, engineering design, construction management, and facility planning services. In addition, they provide oversight of various consulting agreements used to supplement in house resources and provide specialized skills to complete these tasks. Our audit consisted of a review of three such contracts.

The first agreement reviewed resulted from a Request for Qualification (RFQ) issued in February 2013 to establish a pool of qualified firms to support projects related to Metropolitan's conveyance, storage, water treatment, and distribution facilities. This RFQ stipulated that each respondent have design engineering services expertise with water transmission and storage facilities. Accordingly, in January 2015, the Board authorized an agreement with Black & Veatch Corporation to design and rehabilitate the Pre-stressed Concrete Cylinder Pipe (PCCP) portions of the Second Lower Feeder (Appropriation 15471). The scope of work includes field investigations, preparation of drawings and specifications for up to seven construction contracts, development of construction cost estimates and technical assistance during bidding. This agreement is effective from May 2, 2016 through May 30, 2024 for an amount not to exceed \$16

million. As of August 2017, payments to Black & Veatch for the period of September 2016 through August 2017 were \$2.9 million.

The second agreement reviewed was a four-year contract with AECOM (formally URS Corporation) authorized in February 2012 to provide the final design of the Diemer Filter Outlet Seismic Upgrades. This agreement was amended in September 2013 to perform preliminary design of seismic upgrades to the Diemer Washwater Reclamation Plant. This amendment is effective from August 2013 through December 2017 for an amount not to exceed \$1.1 million. As of August 2017, payments made to AECOM for the period June 2012 through August 2017 were \$796,318.

The final agreement reviewed was a six-year agreement with Stantec, (formerly MWH Americas, Inc.) authorized in March 2016 to provide specialized technical support during construction of the advanced water treatment demonstration plant, located on the grounds of the Los Angeles County Sanitation District's (Sanitation Districts) Joint Water Pollution Controls Plant, in Carson. The scope of work includes conceptual studies, final design, construction phase support, testing and monitoring. In addition, the scope includes technical support during construction which includes review of shop drawings, responding to requests for information from the contractor and preparing record drawings. The agreement is effective from March 2016 through June 2021 for an amount not to exceed \$1.5 million. As of August 2017, payments made to Stantec for the period May 2016 through August 2017 were \$1.2 million.

Opinion

In our opinion, the accounting and administrative procedures over the consulting agreements with Black & Veatch Corporation, AECOM, and Stantec 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 control for the period February 21, 2012 through August 31, 2017.

Comments and Recommendations

NON-COMPLIANCE WITH TERMS AND CONDITIONS OF THE AGREEMENTS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting detail, and adequate control over the administration of the agreements. In addition, compliance with the contracts' terms and conditions ensures that parties fully discharge their duties and obligations and exercise their legal rights associated with the agreements.

During our review of six (6) task orders totaling \$3,726,182 we noted:

- Documentation in support of approval of two (2) task orders totaling \$1,354,312 prior to the commencement of the work could not be located. The billings for the two (2) task orders totaled \$11,806 prior to approval. This is in contrast to section 1 of the terms and conditions of the agreement that requires all task orders to be approved and signed by both parties prior to proceeding with services.

During our review of 30 invoices totaling \$3,341,233 we noted:

- Payments were made 8 to 23 days after their due dates for five (5) invoices. This is in contrast to Section 9 of each agreement that requires Metropolitan to make payments within 45 days after receipt of the invoice.

During our review of the comparison of budget to actuals for six (6) task orders we noted:

- One (1) task order exceeded its budget of \$153,542 by \$1,491 or 1%.

We recommend that management remind Agreement Administrators of the importance of compliance with the terms and conditions of the agreement. In addition, we recommend that management conduct periodic reviews to ensure compliance.