



Internal Audit Report for November 2017

Summary

Two reports were issued during the month:

- 1. Accounts Payable and Disbursements**
- 2. Follow-up on Review of Regional Turf Removal Program**

Discussion Section

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

Accounts Payable and Disbursements

Background

The Accounts Payable Team is responsible for verifying the veracity and accuracy of liabilities presented for payment. Moreover, they ensure that all discounts are applied and process payment requests into the Oracle system in order to ensure that all liabilities are discharged on a timely basis. From July 1, 2011 through February 28, 2017, Accounts Payable processed more than 247,000 disbursements totaling approximately \$10.6 billion.

Opinion

In our opinion, the accounting and administrative procedures over Accounts Payable and Disbursements 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 July 1, 2011 through February 28, 2017.

Comments and Recommendations

SYSTEM ACCESS

Effective system access controls help protect against unauthorized destruction, disclosure, or modification of computerized data by limiting access to essential individuals in accordance with their roles and responsibilities.

Our review revealed that authority to approve purchase orders and purchase order releases in Oracle has not been removed for four former Metropolitan employees.

Failure to review and update access controls could result in financial loss to Metropolitan due to unauthorized transactions.

We recommend that Contracting Services Unit management remove access for the identified individuals and establish procedures for periodic review of system access.

VENDOR MASTER FILE DATA

The Vendor Master File is a foundational element of the Procurement and Accounts Payable processes. It is the repository for essential information about vendors and facilitates their engagement in transactions with the District for the procurement of goods and services. Accordingly, it is essential to effectively maintain this data in order to avoid unauthorized or inappropriate activity, duplicate payments, and inefficiencies.

Moreover, these controls should support the assertion that only valid vendors exist on the master file that provide quality goods and services at competitive prices in a timely manner in order to meet the stated business objectives of the District. Effective controls ensure proper segregation of duties, validation of the propriety of cash disbursements, and compliance with tax reporting requirements.

Our review of the Vendor Master File of February 28, 2017 noted 10,940 active vendors. Further review revealed that 2,267 of these had not been used for four years or longer in contrast to policy which requires vendors with no activity for 3 years to be deactivated.

In addition, our audit revealed more than 3,000 active vendor records with missing or incomplete address and tax ID fields. Our testing revealed that some of the missing data was within Oracle; however, it was outside of the Vendor Master File. It should be noted that a 2016 Oracle update prevents the creation of vendor master records with missing data fields.

Inaccurate or incomplete vendor records could result in erroneous payments and inaccurate or incomplete reporting.

We recommend that management review and update the vendor master file as necessary.

Follow-up on Review of Regional Turf Removal Program

The Audit Department has completed a follow-up review of recommendations contained in our audit of the Regional Turf Removal Program, which was issued on December 7, 2017. The audit was rated as “Less Than Satisfactory” and included recommendations for improvements to inspection and verification procedures and compliance with contract terms and conditions.

Our follow-up procedures consisted of verifying that management’s corrective actions effectively addressed the flaws or breakdowns of accounting and administrative controls identified by our audit. Our testing revealed that the Water Resources Management Group

(WRM) had implemented the necessary corrective actions. Specifically, we noted updated procedures and guidelines for inspection and verification as well as for monitoring compliance to program requirements. The updated procedures include step-by-step instructions for testing compliance to program requirements, including revised inspection parameters, procedures for conducting mandatory inspections, and defining acceptable error rates. WRM had also taken steps to resolve discrepancies noted in specific turf removal applications.

Management Response Table is attached on next page.

**Follow up of Turf Removal Program
Job No. 18-2500
October 2017**

Review Area	Recommendations	Response to Recommendations	Audit Verification
<p>INSPECTION AND VERIFICATION PROCEDURES</p>	<p>We recommend that operating policies and procedures be modified to address the noted deficiencies. These procedures should describe step-by-step instructions for the tasks needed to verify the accuracy of the application. Procedures should aim to achieve efficiency, ensure quality output and uniformity of performance, while reducing miscommunication and failure to comply with program requirements.</p> <p>Our audit also recognized the value of performing a statistical based survey of subject turf removal parcels that would inform decisions on the payment of applications. These surveys would also serve to infer results for the whole population as to the veracity of all payments. Accordingly, we recommend in such instances that management conform to generally accepted statistical methods. That is, staff initiating a survey must develop a written plan that sets forth a justification, including: goals and</p>	<p>WRM agrees that the sampling method and implementation guidelines should have been more explicitly documented. Staff is updating the documentation of administrative procedures in this program to include more detail on sampling criteria, sampling methodology, and more detailed instructions for inspections.</p> <p>The audit also makes recommendations regarding the use of a stratified random sampling method for selection of sites for inspection. While WRM agrees with this finding, the practical application of this concept will have to be considered, if a future turf removal program is developed. Because of the desire to monitor compliance in real time, the sampling frame for the program was dynamic, changing in size and characteristics weekly. This fact made it challenging to construct a stratified random sample since the</p>	<p>Management corrective action implemented plan.</p> <ol style="list-style-type: none"> 1. We reviewed a copy of the updated administrative procedures included in the “Turf Removal Inspections and Quality Assurance Procedures (Turf Procedures).” We noted the inspection procedures have step-by-step instructions over random inspections, aerial inspections, and physical inspections. It includes measuring steps and measurement results. The Turf Removal Program Procedure defines the Regional Program and staff responsibilities for screening and processing turf applications. The procedures address rebate applications exceeding 50,000 square feet as “Large Turf Projects”, which will have greater oversight and 100% of projects will receive a post-project physical measurement with no variances allowed. The procedures address waitlisted turf removal applications, responsibilities of Member Agency administered turf removal, and the required inspection

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	<p>objectives; potential users; the decisions the survey is designed to inform; key survey estimates; the precision required of the estimates (e.g., the size of differences that need to be detected); the tabulations and analytic results that will advise decisions and other uses; when and how frequently users need the data; and the level of detail needed in the tabulations and public-use data files.</p>	<p>major facets defining the population - the strata – were not knowable until the program was complete. The principle of real time compliance monitoring implied that it would be preferable to use ongoing random sampling rather than conducting a stratified random sample after the program had terminated.</p>	<p>reporting. No exception.</p> <p>2. We reviewed the response to audit’s recommendation to consider stratified random sampling for a future removal program. Staff determined that due to the need to monitor compliance in real time it would be impossible to construct a stratified random method since the major facets defining the population – the strata- would not be known until the program is complete. Therefore, staff recommends that if a new program is developed the simple random sample without replacement be maintained. Finally, we also confirmed procedures for random sampling under the “Turf Procedures” and noted specific instructions under Task Order 6. No exception.</p> <p>3. Reviewed the “Turf Procedures” and confirmed Aerial Inspection Procedure. Staff has determined a specific website (findlotsize.com) and appropriate instructions used to perform aerial inspections. No</p>

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			<p>exception.</p> <p>4. Reviewed “Turf Procedures” and confirmed instructions for measuring parcels on a manual basis. No exception.</p> <p>5. We reviewed management response to follow-up dated November 7, 2017 and step-by step instructions for testing applications for compliance to program requirements performed by EGIA and the process is included in the “Turf Procedures.” This will be addressed in guidelines for a new program. No exception.</p> <p>6. We reviewed Task Order No. 31 and noted the revised inspection parameters and direction to EGIA to implement immediately. No exception.</p> <p>7. Reviewed Task Order No. 21 and 31 and “Turf Procedures” and confirmed instructions and procedure for mandatory or forced inspections. No exception.</p>

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			<p>8. We reviewed management response dated November 7, 2017 indicating that staff has discontinued the practice of using the assistance of local agency staff to inspect sites where discrepancies were found. Staff determined that if inspections are required, they will be performed by our inspection vendor. This instruction will be included as a guideline for a new program. No exception.</p> <p>9. We reviewed “Turf Procedures” and noted that staff revised its acceptable errors and sent the revision to EGIA to be implemented and revised via Task Order No. 31. If a new program is implemented these procedures will be revised to meet the needs of the new program. No exception.</p> <p>10. Reviewed “Turf Procedures” noting that the inspection process for large turf removal projects have been revised to measure 100% of these sites. Pre-and post-inspection of all</p>

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			<p>applications exceeding 50,000 square feet will be measured. These instructions are also addressed to EGIA under Task Order 31. No exception.</p> <p>11. We reviewed management response dated November 7, 2017 addressing the concept of swapped parcels and noted that staff will not allow this if a new program is implemented. No exception.</p>
	<p>We recommend WRM address the noted discrepancies. We also recommend management remind personnel of the importance of compliance with the terms and conditions of the EGIA contract and conduct periodic tests to ensure compliance.</p>	<p>WRM has reviewed the deficiencies noted in the detective controls and made changes to the on-going administration of remaining turf removal wait-list applications and will incorporate the recommendations into the design of any potential turf removal programs at Metropolitan in the future.</p> <p>Furthermore, staff will also be looking at the administration of other conservation programs to</p>	<p>Management corrective action implementation plan.</p> <p>1. We reviewed “Turf Procedures” and noted the section addressing Waitlisted Turf Removal Applications. The procedures address inspection instructions covering aerial and physical inspections over residential applications and variances. Instructions also address commercial and public agency waitlist turf rebate applications under and over 15,000</p>

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		<p>ensure appropriate balance between preventive and detective controls.</p>	<p>feet. It describes how to perform inspections to verify the square footage or project areas, compliance with program requirements, and accuracy of general customer information. Finally, we noted a section covering inspection reporting describing deliverable reports required. Direction of requirements was also included to EGIA under Task Order No. 6, No. 21 and No. 31. No exception.</p> <p>2. We reviewed management response dated November 7, 2017 indicating that further review from staff revealed that the required inspections were performed by EGIA. For the five applications noted, three inspection reports were made available. The other two were before we started doing inspections on all sites over 50,000 square feet. We confirmed and reviewed the inspection reports and attached. No exception.</p> <p>3. We reviewed email from Green Pros</p>

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			confirming receipt for check in the amount of \$3,701.25 for a duplicate payment. No exception.