



## **Internal Audit Report for March 2018**

### **Summary**

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Two reports were issued during the month:

- 1. Orange County Feeder Stage 2 Lining Repairs**
- 2. Accounting for and Billing of Reimbursable Projects**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during March 2018. 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.

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## **Orange County Feeder Stage 2 Lining Repairs Audit Report**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over Capital Investment Plan - Conveyance and Distribution System – Orange County Feeder Stage 2 Lining Repairs (#15377) as of January 31, 2018.

Our review consisted of evaluating project administration, reporting practices, change authorizations, and close-out processes. Further, we evaluated the accuracy of invoice payments for assurance that the amounts billed were properly calculated and adequately supported. Finally, we reviewed actual vs. budgeted costs on a project-by-project basis and compared these totals to the appropriated amounts and to management reports.

The Orange County Feeder conveys treated water from the F.E. Weymouth Water Treatment Plant in La Verne to six member agencies in Los Angeles and Orange Counties. The Orange County Feeder Extension follows Bristol Street south for approximately eleven miles through the cities of Santa Ana, Costa Mesa and Newport Beach. The Orange County Feeder Extension has a diameter of 36 to 39 inches and is constructed of welded steel pipe with coal-tar enamel lining.

During inspections of the pipeline, large areas of the Orange County Feeder Extension were found to have significant deterioration of the lining which if left unrepaired would cause accelerated corrosion and leakage. Repairs began in November 2016 in Santa Ana, through Costa Mesa and ending in Newport Beach. The project consisted of relining 9.5 miles of the 41-mile-long Orange County Feeder, which is Metropolitan's major water conveyance pipeline to Orange County.

In November 2016, the Board appropriated \$4.58 million which was awarded to Spiniello

Companies for the lining repairs. As of September 31, 2017, Metropolitan had spent \$4.79 million, including one extra work-order of \$185,000 and \$48,231 in miscellaneous costs. The program was within budget and completed in September 2017 on schedule.

### **Opinion**

In our opinion, the accounting and administrative procedures over Capital Investment Plan - Conveyance and Distribution System – Orange County Feeder Stage 2 Lining Repairs (#15377) 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 November 1, 2016 through January 31, 2018.

### **Comments and Recommendations**

None

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## **Accounting for and Billing of Reimbursable Projects Audit Report**

### **Background**

The Audit Department has completed a review of the controls over the Accounting for and Billing of Reimbursable Projects (Oracle 70, 75, 76, 77, and 78 Series) as of September 30, 2016.

Our review consisted of evaluating the internal controls over project authorization, billing, collection, and closeout processes. We also tested compliance with the terms and conditions of grant and contract agreements with federal and state agencies, member agencies, project proponents or other outside entities. In addition, we performed analytical reviews of billed and reimbursed amounts, grants and advance deposits received, and subsequent collections and payments recorded to the general ledger. Finally, we agreed management reports to source documents for accuracy.

Reimbursable projects are contractual relationships under which Metropolitan provides a product or service to another party and related costs are paid by the contracting entity. These projects may originate from any Group and are categorized as follows. The Engineering Services Group (ESG) and the Water System Operations Group (WSO) are responsible for administering the construction, fabrication, and water quality related projects. The Water Resource Management Group (WRM) is responsible for administering water planning and conservation projects. The Real Property & Asset Management Group (RP&AM) administers real property projects, whereas the External Affairs Group administers water forum projects. Finally, the Business

Technology Group (BTG) administers Lake Mathews and Multi-Species reserve and information system projects. Contracting or originating entities may include member agencies, non-member public or private agencies, federal or state grantors, and non-profit organizations.

Within each group, project managers are assigned as administrators of these projects. Their duties include monitoring project activities, reviewing expenditures, approving cost reimbursement requests, initiating project billing, processing cost transfers, and preparing management reports. As support for these activities, the Project Controls Team in the Engineering Services Group (ESG) is responsible for establishing and closing projects in the Oracle system. In addition, the Controller Section is responsible for activating new projects in the Project Accounting and Grants Management (PAGM) system, initiating periodic billings, and processing cost transfers.

Administrative code, operating policies and detailed desk procedures establish standards and provide guidance for the control of these projects. Specifically, Administrative Code and Operating Policy C-01 “Accounting for and Billing of Reimbursable Projects” establish the policies and procedures for the general operating duties over these projects. Further, Operating Policy C-09 “Remittance Handling Processing” establishes policies for the collection of remittances such as advances and reimbursements and sets management reporting standards. Ancillary to these, the “Emergency Cash Fund Procedures - Custodian’s Guide” specifies the requirements for the handling and accounting of cash remittances. Finally, Operating Policy C-21, “Accounting and Administration of Federally Funded Grants (and Cooperative Agreements)” and the “Accounting and Administrative Procedures for Federally Funded Grants” establish policies and procedures specific to federal grants.

### ***Reimbursable project types***

Reimbursable projects consist of three categories: those that require an advance deposit prior to the initiation of work; those that require eligible costs to be accumulated and billed pursuant to contract terms; and those that require cash advances to employees to be reconciled after completion of travel or activity.

The first category of projects includes Service Connections and Substructures (Oracle 70 series) that require an advance deposit from the responsible entity prior to initiating work. Service connection projects connect the conveyance and distribution system with that of a member agency, and are administrated jointly by WSO and ESG. Substructure projects, on the other hand, require that ESG review the proposal to assess the impact on facilities and/or evaluate potential encroachment of rights-of-way. Funds are required to be deposited in advance of these projects. Upon completion, a detailed accounting is made and the contracting agency is either refunded excess deposits or presented a billing for additional funding.

The second category includes reimbursable projects (Oracle 76, 77, 78 and other 70 series projects) in which costs are accumulated and billed periodically to the contracting entity or grantor. WSO projects in this category include federal, state, or public agencies such as FEMA-California Department of Emergency Services and the California Department of Water Resources. ESG projects include the Los Angeles Department of Water and Power Lagoon Refurbishment and Neenach Pumping Station. WRM reimbursable projects include conservation efforts such as the Regionwide Long Term Commercial-Industrial-Institutional (CII) Rebate Program and Residential Conservation Rebate Program. Finally, reimbursable projects are also administered by External Affairs, RP&AM and BTG (e.g. Southern California World Water Forum, 2014-17 LA County Sanitation Grant, Administrative Services-Western Center, Lake Mathews and Multi-Species reserve projects).

Finally, the third type of reimbursable projects (Oracle 75 series projects) involves employee travel cash advances and the temporary emergency cash fund. For employee travel, custodians' process cash advances for employees, perform periodic reconciliations of the cash fund and prepare management reports to the Controller's Section. Furthermore, employees reconcile their expense with the advances and submit a Travel Expense Reports to account for these items. It is important to note that the use of the temporary emergency cash fund is infrequent and nominal.

As of September 30, 2016, there were 156 active reimbursable projects consisting of 63 projects with outstanding and unbilled charges totaling \$4.2 million, 46 projects with advance deposits totaling \$5.3 million and 47 projects with zero balances.

### **Opinion**

In our opinion, the controls over the Accounting for and Billing of Reimbursable Projects provide for a less than satisfactory internal control structure. This opinion is the result of non-billing or late billing of eligible costs; advanced deposits held that have not been reconciled against expenses nor have been refunded to the funding agency; missing or incomplete documentation; and completed projects with zero balances remaining in the Project Accounting and Grant Management system. Finally, we noted uncollectable charges that were identified in the September, 2014 audit that have not been resolved.

We also express concern over the fact that the performance of this function has been inconsistent. That is, our audit in September, 2008 was issued with a less than satisfactory opinion and raised concerns regarding the overall administration of this function. Management addressed these concerns and a September, 2014 audit acknowledged these efforts inasmuch that it was issued with a generally satisfactory opinion. Current testing revealed, however that the administrative controls over these efforts have eroded.

### **Comments and Recommendations**

## **COMPLIANCE WITH POLICIES AND PROCEDURES AND TERMS AND CONDITIONS OF THE AGREEMENTS**

Operational policies and procedures are established to provide a framework for achieving organizational goals and objectives. Procedures provide guidelines for consistent performance of daily operations, assist in the training of new employees, and provide a source of reference for experienced personnel. Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate controls over the administration of the agreements. In addition, compliance with the contracts' terms and conditions ensures that parties fully discharge their obligations and exercise their rights associated with the agreements.

Our test work revealed various instances of non-compliance with established procedures and/or with the terms and conditions of the reimbursable contracts. Furthermore, we also noted instances where policies and procedures were deficient in providing the necessary guidance and direction to ensure adequate control over reimbursable projects.

Non-compliance with established procedures could result in loss to Metropolitan if expenditures related to a reimbursable contract were not billed to the contracting entity. Financial loss could also occur if deposits received in advance were returned to the contracting party in error as a result of an incomplete or inaccurate accounting. Non-compliance has resulted in late billing of charges and in the failure to properly close completed reimbursable projects.

The following comments and recommendations describe departures from established operating procedures and offer suggestions for improvement in the internal control structure. These comments are organized by type of reimbursable project.

We reviewed 25 projects with outstanding charges of \$1,077,779; 15 projects with outstanding deposits of \$2,566,085; and 10 projects with zero balances as of September 30, 2016. Our testwork revealed:

### **I. UNBILLED CHARGES OF \$228,858**

#### **A. Unbilled and Uncollectible Charges of \$168,894**

This amount cannot be collected because it has passed the statute of limitation of four years set by the state of California. The breakdown by group is shown below:

GROUP	AMOUNT *	DETAIL	PROJECT #
Business Technology Group - Information Technology Section	\$79,334	Reimbursable charges of \$79,334 for four projects have never been invoiced and have been outstanding for 11 to 19 years.	750037 - SB Underground, Permit AP, \$48,855
			750022 - Water Delivered to Arroyo-Seco Filtration Plant Site, \$19,871
			750034 - SB Underground, Monitoring, \$6,145
			750035 - SB Underground, Reporting, \$4,463
Office of the Chief Financial Officer - Risk Management Unit	\$13,480	Reimbursable charges of \$13,480 for two projects have not been billed to the individuals who were responsible for the damage to Metropolitan's property in 2010 and 2013.	761741 - Incident 2012-0726-0036, \$9,623
			761704 - Incident 2010-0811-0082, \$3,857
	\$2,552	This outstanding amount represents the difference between the cost to fix damage to Metropolitan's property in January 2015 and the amount reimbursed from an insurance carrier.	761791 - Incident 2014-1217-0298
Engineering Services Group	\$14,850	Metropolitan's labor and additive costs incurred in 2002 to determine the impacts of the City of Placentia's railroad lowering project on the conveyance and distribution system.	701524 - City of Placentia Railroad Lowering Project
	\$12,028	The project was established in May 2008 to relocate the Santa Monica Feeder at an estimated cost of \$331,000. These charges consist of labor and additive costs incurred in 2015 and 2016. The Project Manager indicated that this amount will not be invoiced.	701756 - Santa Monica Feeder Relocation, From Station 4418+00 to 4403+00
Water System Operations Group	\$15,021	Power Operations & Planning Section: Labor and additive costs incurred in 2001 to retrofit existing bank metering system in Hinds, Gene and Intake pump plants, and the project was completed in 2002.	701557 - Installation of CA-ISO Certified Energy Meters at Hinds, Gene, & Intake Pump Plants
	\$31,629	Operations Support Services Section: Costs incurred to construct service connection LA-36, which have been outstanding for 19 years.	701138 - Service Connection LA-36/Foothill Feeder/San Fernando TNL
<b>Total</b>	<b>\$168,894</b>		

\* Amounts shown in this column are not collectible because they have passed the statute of limitation of four years set by the state of California.

**B. Unbilled Charges of \$53,964**

GROUP	AMOUNT	DETAIL	PROJECT #
Real Property & Asset Management Group	\$53,964	Reimbursable charges of \$53,964 for one-half share of the total utility costs incurred between July 2015 and September 2016 were not billed to the Western Center Community Foundation (WCCF).	701853 - Administrative Services- Western Center Costs

It should be noted that this amount was subsequently billed in April and May 2017.

We recommend that Group Managers work with the Controller Section and the General Counsel’s Office to process a write off for eligible uncollectible charges. We also recommend that management conduct a thorough review of all reimbursable projects in order to identify those projects that have not been billed and take corrective action. Finally, we recommend that management conduct period reviews to ensure compliance.

**II. ADVANCE RECEIPTS OF \$278,943**

Metropolitan receives advanced funding for certain contracted projects. Upon completion a detailed reconciliation is made and any remaining funds are remitted back to the contracting entity. Our review revealed three instances where deposited funds were in excess of incurred costs and have yet to be remitted to the contracting agent. Moreover, these projects have been completed for several years. We understand that the statute of limitation of four years set by the state of California may impact these projects.

GROUP	AMOUNT *	DETAIL	PROJECT #
Business Technology Group - Information Technology Section	\$73,016	Advance deposit on Agreement 3655 that was executed in 1992 and has been outstanding for more than 19 years.	700042 - Strategic Assessment Study/Letter Agreement 3655
Engineering Services Group	\$159,868	Excess deposit provided by the California Department of Water Resources to Metropolitan in June 2001 to provide project management, design and construction of a concrete lining along 33.2 miles of the Coachella Canal in Riverside and Imperial counties.	701568 - Coachella Canal Lining
	\$46,059	Excess deposit provided by San Diego County Water Authority to Metropolitan to prepare a conceptual design report for reducing the minimum delivery of treated water for Service Connection SD-07 from 40-400 to 20-200 cubic feet per second range. The report was provided to the member agency in August 2005. It is important to note that management is working with the member agency to transfer this outstanding amount to another reimbursable project.	701832 - Service Connection SD - 7 Study
<b>Total</b>	<b>\$278,943</b>		

\* Amounts shown in this column have passed the statute of limitation of four years set by the state of California.

We recommend that Group Managers work with the Controller Section and the General Counsel Office to resolve the noted discrepancies.

**III. UNRECONCILED ADVANCE DEPOSITS OF \$803,008 AND UNRECONCILED REIMBURSABLE EXPENSES OF \$94,801**

We could not locate detailed reconciliations between amounts paid by Metropolitan on behalf of third parties and amounts to be reimbursed.

GROUP	AMOUNT		DETAIL	PROJECT #
Water Resources Management Group	\$675,497	(1)	Monthly reconciliations between total rebate amounts paid by Metropolitan on behalf of the member agencies and total amounts to pass through to the member agencies via their water invoices have not been performed. As of September 30, 2016 the account shows an outstanding credit balance of \$675,497.	701689 - Long Term Commercial-Industrial-Institutional (CII) Program, Regionwide Rebate Program
Office of the Chief Financial Officer - Controller Section	\$2,000	(2)	We were unable to locate one of eight "Emergency Cash Fund Reconciliations" for fiscal year 2015/16 (Diemer Treatment Plant). The "Emergency Cash Fund Procedures - Custodian's Guide" requires each custodian to reconcile between total cash on hand and total amount disbursed at least annually and submit a copy of reconciliation sheet to the Controller's Office.	750047 - Permanent Emergency Cash Fund (\$2,000 per custodian at each site; 8 custodians within Water System Operations Group)
Real Property & Asset Management Group	\$53,954	(2)	Monthly reconciliations between project costs recorded in the general ledger and amounts reimbursed from the Western Center Community Foundation have not been performed. Subsequent to our review, Metropolitan was reimbursed \$53,954.	701853 - Administrative Services - Western Center Costs
Business Technology Group - Environmental Planning Section	\$38,847	(2)	Monthly reconciliations between project costs recorded in the general ledger and payments made from the Lake Mathews Reserve Management Trust and the Multi-Species Reserve Trust Fund accounts could not be located.	701404 - Lake Mathews Reserve Management
	\$127,512	(1)		701431 Multi Species Reserve Management
			As of January 2017, Metropolitan has not been reimbursed from the Multi Species Reserve Trust Fund for payment made in an amount of \$72,488 to Riverside County Regional Park and Open Space District for management services.	701431 Multi Species Reserve Management
			Riverside County Habitat Conservation Agency (RCHCA) did not invoice Metropolitan monthly for land management services as required under the Lake Mathews Reserve Agreement 130804.	701404 - Lake Mathews Reserve Management
(1) Total unreconciled advance deposits of \$803,009.				
(2) Total unreconciled reimbursable expenses of \$94,801				

We recommend that Group Managers seek reimbursement for the noted items. We also recommend that management implement periodic reconciliation procedures, provide training to staff, and conduct periodic review to ensure compliance. We further recommend that project managers remind their partners to submit monthly invoices to Metropolitan.

**IV. RECORDING ERRORS OF \$455,240**

We noted six instances where amounts were charged against incorrect accounts.

GROUP	AMOUNT	DETAIL	PROJECT #
Business Technology Group - Environmental Planning Section	\$200,000	An accounting entry in the amount of \$200,000 which represents Metropolitan's annual funding under the 1992 Cooperative Agreement was recorded in error to this project as opposed to the Multi-Species Reserve Management Trust Fund. This error was subsequently corrected.	701431 - Multi Species Reserve Management
Office of the Chief Financial Officer - Risk Management Unit	\$5,240	Insurance settlements for 3 incidents without the corresponding cost transfers into the projects. Management is in the process of identifying the corresponding expenses before processing the needed cost transfers to offset the credits in these projects.	761773 - Incident 2014-0925-0163, December 2014, \$1,001 761784 - Incident 2015-0616-0582, November 2015, \$2,848 761795 - Incident 2016-0125-0275, March 2016, \$1,391
Engineering Services Group	\$250,000	Project costs totaling \$250,000 from Southern California Edison to Metropolitan to relocate a portion of the Middle Feeder Pipeline were recorded to capital project 104766 instead of reimbursable project 701866. Discussion with project management revealed that this was done to better manage costs and the project manager intends to transfer costs to the appropriate account upon project completion.	701866 - Middle Feeder Relocation, Between Sta 36+00 and Sta 58+00
<b>Total</b>	<b>\$455,240</b>		

We recommend that Group Managers resolve the noted issues, remind staff of the importance of recording charges to the correct accounts, and perform periodic review to ensure compliance. We further recommend that management remind staff to close-out projects in the PAGM system after the costs have been reconciled and the project is completed.

**V. MISSING AND UNAPPROVED PROJECT AUTHORIZATION AND CLOSEOUT FORMS**

During our review, we noted that four projects had missing or unapproved project authorization and closeout forms. This is in contrast to the set-up and closeout requirements of Operating Policy C-01, "Accounting for and Billing of Reimbursable Projects."

FORMS	DETAIL	PROJECT #
Missing Form 540 "Project Authorization - New Project Request"	Office of the Chief Financial Officer - Controller Section	750047 - Permanent Cash Advance
	Engineering Services Group	701138 - SVC Connection LA-36/Foothill Feeder/San Fern
Unapproved Form 540 "Project Authorization - New Project"	Water System Operations Group - Manufacturing Services Unit	780534 - Buena Vista Pump Bearing
Missing Form 542 "Notice of Project Cancellation/Closeout"	Engineering Services Group	701844 - Service Connection LA-100T

We recommend that Group Managers remind project managers the importance of complying with established policy and procedures and conduct periodic review to ensure compliance.

**VI. POLICIES AND PROCEDURES**

During our review, we noted that policies and procedures are outdated and do not reflect current practices or are not written to ensure consistent performance of daily operations.

OPERATING POLICIES/PROCEDURES	GROUP	DETAIL
76 SERIES PROJECTS	Office of the Chief Financial Officer - Risk Management Unit	Lack of written procedures for administering risk management, incident reporting related projects. Procedures should include establishing and closing out of 76 series projects, monitoring of project activities, reviewing and reconciling project costs, processing and submitting claims. Moreover, procedures should identify responsibility for such tasks. As a result, we noted that 361 completed projects were still remained open in the PAGM system as of September 30, 2016.
Operating Policy C-01, "Accounting for and Billing of Reimbursable Projects"	Engineering Services Group	Operating Policy C-01, which provides guidance for reimbursable projects involving design, fabrication and construction have not been updated since 2006 to reflect current practices adopted by various groups. For example, project managers from WSO Manufacturing Services Unit are currently able to set up new projects or close out completed projects in the PAGM System without going through the Project Controls Team.
Emergency Cash Fund Procedures - Custodian's Guide	8 Custodians	The Guide has not been updated since 2007 and is missing Exhibits 3 Cash Advance Request (E-Form 559) and Exhibit 4 Emergency Cash Reimbursement (E-Form 2380). We were unable to locate the two e-forms in the Metropolitan's E-Form depository. Furthermore, we noted that these cash funds are set up as reimbursable projects (75 Series). We also noted that the custodian list should be updated to replace terminated/inactive employees.

We recommend that Group Managers formalize policies and procedures for administering 76 series projects and update Operating Policy C-01 "Accounting for and Billing of Reimbursable Projects" and the Emergency Cash Fund Procedures - Custodian's Guide. We also recommend that management give careful consideration before setting up or keeping certain projects as reimbursable projects.

**VII. COMPLETED PROJECTS THAT REMAINED OPEN IN THE PROJECT ACCOUNTING AND GRANTS MANAGEMENT (PAGM) SYSTEM**

During our review, we noted that 610 completed projects with zero general ledger balances still remained open in the PAGM System as of September 30, 2016.

- a. Office of the Chief Financial Officer-Risk Management Unit – 361 projects\*

- b. Water System Operations Group – 226 projects\*
- c. Business Technology Group-Information Technology Section – 18 projects\*
- d. External Affairs Group – 2 projects\*
- e. Engineering Services Group – 2 projects
- f. Water Resources Management Group – 1 project

\*It should be noted that these projects were subsequently closed.

We recommend that Group Managers initiate closeout procedures for the noted projects and reiterate the importance of adhering to established policy and procedures involving project closeouts.

**VIII. PRIOR AUDIT RECOMMENDATIONS – WRITE-OFF OF UNCOLLECTIBLE REIMBURSABLE CHARGES \$961,766**

Our recommendations in the audit report dated September 22, 2014 to write off charges that were deemed uncollectible remained opened as of September 30, 2016.

GROUP	AMOUNT	DETAIL	PROJECT #
Office of the Chief Financial Officer - Controller Section	\$118,268	We recommended that management write-off \$118,268 for charges incurred on two projects prior to 2009 that were deemed uncollectible because Metropolitan failed to submit a claim to the state agency by the due date.	750033 - SB-90 Underground Tanks, Installation, \$56,782
			750036 - SB 90 Underground Tanks, Closure, \$61,486.
Office of the Chief Financial Officer - Risk Management Unit	\$843,498	We recommended that management write-off \$843,498 for charges incurred on two projects that were deemed uncollectible because Risk Management could not identify the responsible parties that caused damage to Metropolitan's properties. We understand that this issue is currently under review by the Office of the General Counsel.	7600058 - Incident 95-0303-0357, \$354,986
			760853 - Incident 2004-0630-0689, \$488,512
<b>Total</b>	<b>\$961,766</b>		

We recommend that the Chief Financial Officer coordinate efforts with the General Counsel to write-off the above uncollectible charges.

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
<p><b>1. Unbilled Charges of \$228,858</b></p> <p>We recommend that Group Managers work with the Controller Section and the General Counsel’s Office to process a write off for uncollectible charges. We also recommend that management conduct a thorough review of all reimbursable projects in order to identify those projects that have not been billed and take corrective action. Finally, we recommend that management conduct period reviews to ensure compliance.</p>	<p>Concur.</p> <p>Business Technology – the projects noted do not belong to IT. They belong to Water System Operations (WSO). All of the listed projects have been written off and subsequently closed, except for project 750022.</p> <p>WSO is working with General Counsel in writing off the unbilled balance of that project 750022.</p> <p>CFO-Risk Management is working with General Counsel on the write off of the unbilled and uncollectible charges.</p> <p>Going forward, Risk Management will adopt a new procedure to track costs and amounts recovered from property damage incidents and discontinue the use of reimbursable projects since property damage incidents do not fit the definitions set forth in operating policy C-01 regarding reimbursable projects.</p>	<p>WSO</p> <p>WSO and General Counsel</p> <p>Risk Management and General Counsel</p>	<p>Completed</p> <p>Sep-2018</p> <p>Sep-2018</p>

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
	<p>Engineering Services (ES) – Engineering will coordinate with General Counsel to write off the charges for project numbers 701524 and 701756. They will also review all reimbursable projects for which they are responsible to identify unbilled charges, take corrective action, and conduct periodic reviews.</p> <p>WSO- WSO’s coordinated effort with General Counsel resulted in uncollectible charges for project numbers 701557 and 701138 to be written off as approved by the General Counsel in Oct-2017. This was reported to the Legal and Claims Committee in the Dec-2017 Legal Department’s Quarterly Report. Management will continue periodic review of costs to ensure timely billing.</p>	<p>Engineering Services and General Counsel</p> <p>WSO</p>	<p>Sep-2018</p> <p>Ongoing</p>

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

<b>Recommendations</b>	<b>Response to Recommendations</b>	<b>Responsible Party</b>	<b>Completion Date (Mon-day-yy)</b>
<p><b>2. Advance Receipts of \$278,943</b></p> <p>We recommend that Group Managers work with the Controller Section and the General Counsel Office to resolve the noted discrepancies.</p>	<p>Concur.</p> <p>Information Technology – will work with General Counsel and Controller Section to clear the advance deposit that has been outstanding for over 19 years.</p> <p>Engineering Services Group – Engineering will work with Controller Section and General Counsel to refund the outstanding deposit recorded in project 701568 to the California Department of Water Resources.</p> <p>San Diego County Water Authority has approved the transfer of the outstanding deposit balance in project 701832 to project 701891. The transfer was completed in Nov-2017.</p>	<p>IT, General Counsel and Controller Section</p> <p>Engineering Services</p> <p>Engineering Services</p>	<p>Sep-2018</p> <p>Sep-2018</p> <p>Completed</p>



**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
	<p>basis.</p> <p>Real Property Group – Billing for project 701853 of \$53,954 was completed in 2017. Going forward, the Real Property Group will develop a set of procedures to prevent late billings.</p> <p>Environmental Planning Section manages two agreements - Lake Mathews Reserve Trust (LM) and the Multi-Species Reserve Trust (MSR) under reimbursable project numbers 701404 and 701431, respectively.</p> <p>Although these agreements do not meet the definition of reimbursable projects as set forth in operating policy C-01, the two projects were assigned to enable the payment of vendors that have purchase orders. Reimbursement to Metropolitan from the MSR trust is processed quarterly and is current as of Dec-2017. Monthly project costs reconciliation for both trusts will commence in Apr-2018.</p>	<p>Real Property Group</p> <p>Environmental Planning Section</p>	<p>Dec-2018</p> <p>Ongoing</p>

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
<p><b>4. Recording Errors of \$455,240</b></p> <p>We recommend that Group Managers resolve the noted issues, remind staff of the importance of recording charges to the correct accounts, and perform periodic review to ensure compliance. We further recommend that management remind staff to close-out projects in the PAGM system after the costs have been transferred and the project is completed.</p>	<p>Concur.</p> <p>Environmental Planning Section discovered the one-time error (\$200,000) for project 701431. The error was subsequently corrected in Feb-2017.</p> <p>CFO-Risk Management will adopt a new procedure to track costs and amounts recovered from property damage incidents going forward and discontinue the use of reimbursable projects since property damage incidents do not fit the definitions set forth in operating policy C-01</p>	<p>Environmental Planning Section</p> <p>Risk Management</p>	<p>Completed</p> <p>Apr-2018</p>

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
	<p>regarding reimbursable projects.</p> <p>Engineering Services Group - Costs were intentionally recorded to capital project 104766 in order to better manage the total expenses of the relocation project with the intent of transferring appropriate costs back to reimbursable project 701866 upon completion. The transfer of costs to project 701866 has been completed in Jul-2017.</p>	Engineering Services	Completed
<p><b>5. <i>Missing and Unapproved Project Authorization and Closeout Forms</i></b></p> <p>We recommend that Group Managers remind project managers the importance of complying with established policy and procedures and conduct periodic review to ensure compliance.</p>	<p>Concur.</p> <p>CFO-Controller – Management will continue to emphasize the importance of following established procedures for project management with staff.</p> <p>WSO staff was unable to locate a signed project authorization form for project 780534, Buena Vista Pump Bearing, which was initiated on November 2, 2005. We acknowledge that these forms must be processed properly prior to</p>	<p>Controller Section</p> <p>WSO</p>	<p>Ongoing</p> <p>Ongoing</p>

**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
	<p>initiating work on projects. Management will continue to emphasize the importance of following established procedures for project management with staff. Monthly meetings on reimbursable projects and procedures will continue to be held to ensure proper documentation and processes are being followed.</p> <p>Engineering Services Group – No project authorization form was found on file for project 701138. Management will continue to emphasize the importance of following established procedures for project management with staff.</p> <p>Form 543 “Request for Project Cancellation/Closeout” for project 701844 was prepared and on file with Project Controls. Form 542 will be submitted and filed.</p>	<p>Engineering Services</p> <p>Engineering Services</p>	<p>Ongoing</p> <p>Jun-2018</p>



**Management Response to Accounting for and Billing of Reimbursable Projects Audit  
Report No: 17-1250-00**

Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
	policy C-01 regarding reimbursable projects.		
<p><b>7. Completed Projects that Remained Open in the Project Accounting and Grants Management System</b></p> <p>We recommend that Group Managers initiate closeout procedures for the noted projects and reiterate the importance of adhering to established policy and procedures involving project closeouts.</p>	<p>Concur.</p> <p>All of the noted projects with zero general ledger balances have been closed in Feb-2018.</p>	<p>Risk Management, WSO, Information Technology, External Affairs, Engineering Services, and WRM,</p>	<p>Completed</p>

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Recommendations	Response to Recommendations	Responsible Party	Completion Date (Mon-day-yy)
<p><b>8. <i>Prior Audit Recommendations-Write-off of Uncollectible Reimbursable Charges of \$961,766</i></b></p> <p>We recommend that the Chief Financial Officer coordinate efforts with the General Counsel to write-off the above uncollectible charges.</p>	<p>Concur.</p> <p>CFO-Controller – Project numbers 750033 and 750036 have been closed and the remaining balances totaling \$118,268 were written off in Nov-2017.</p> <p>General Counsel staff is in the process of drafting a board letter to write off the balances in project numbers 760058 and 760853 totaling \$843,498.</p>	<p>Controller Section</p> <p>General Counsel</p>	<p>Completed</p> <p>Dec-2018</p>