



## **Internal Audit Report for April 2018**

### **Summary**

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Two reports were issued during the month:

- 1. Energy Management Program-Greenhouse Gas Reporting**
- 2. Consulting Agreements with ICF Jones & Stokes, Inc., Wagner Biological Consulting, and Social Bio-Environmental Associates, LLC**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during April 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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## **Energy Management Program-Greenhouse Gas Reporting**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over Energy Management Program-Greenhouse Gas Reporting as of October 31, 2017.

Our review consisted of evaluating the internal controls over the administration of Energy Management Program-Greenhouse Gas Reporting. Specifically, we evaluated the Greenhouse Gas (GHG) inventory procedures, reviewed the propriety of the reported GHG emission amounts, and assessed Metropolitan's energy efficiency plans and policies.

Metropolitan initiated the Energy Management Program (EMP) in the fall of 2006 partly in response to the California Global Warming Solutions Act of 2006 (AB 32), which requires California to reduce GHG emissions to 1990 levels by 2020. The EMP's four primary goals are to: 1) identify Metropolitan's GHG inventory; 2) implement additional renewable energy production; 3) reduce energy consumption; and 4) develop and implement comprehensive strategies to manage power resources in a cost-effective manner. By accomplishing these goals, Metropolitan hopes to reduce its carbon footprint, operate its facilities in a sustainable manner and help California comply with AB 32.

The Facility Planning Section in the Engineering Services Group is responsible for compiling and calculating gas emissions data obtained from outside sources and from various units in the Water System Operations Group. They are also responsible for preparing annual gas emissions reports.

### **Mandatory Reporting – California Air Resources Board (CARB)**

AB 32 tasked CARB with oversight of California’s main greenhouse gas reduction programs. In December 2007 CARB approved the Mandatory Reporting of Greenhouse Gas Emissions Regulation (MRR). MRR requires entities that import or export electricity to register and report compliance via the California Electronic Greenhouse Gas Reporting Tool. Because Metropolitan occasionally imports supplemental energy for Colorado River Aqueduct pumping, the District is required to report the energy and associated GHG emissions to CARB annually; the reports must be verified by an accredited, independent consultant. For the calendar years 2015 and 2016 Metropolitan reported the following to CARB:

<b>Gas Emission Type</b>	<b>2015</b>	<b>2016</b>	<b>Decrease</b>
Carbon Dioxide Equivalent for third-party purchases of imported electricity (metric tons)	54,219.00	174.60	(54,044.40)
Sulfur Hexafluoride (SF <sub>6</sub> ) (pounds)	7.10	2.60	(4.50)

The decrease in Carbon Dioxide Equivalent is due to lower third-party purchases of imported electricity in 2016. The decrease in SF<sub>6</sub> was due to lower maintenance requirements in 2016.

### **Voluntary Reporting – The Climate Registry**

In February 2007, the Board authorized Metropolitan’s membership in the California Climate Action Registry (CCAR), a nonprofit, voluntary registry for greenhouse gas emissions. CCAR was established by California statute to help organizations create GHG inventory baselines and evaluate their emission reduction efforts. In 2010, CCAR transitioned its members to The Climate Registry (TCR), a nonprofit GHG emissions registry for North America.

Since 2007, Metropolitan has voluntarily reported annual emissions for six GHG’s including Carbon Dioxide, Methane, Nitrous Oxide, Hydrofluorocarbon, Perfluorocarbon, and Sulfur Hexafluoride. TCR requires annual reports to be verified by an accredited independent consultant. For the 2015 and 2016 calendar years, Metropolitan reported the following to TCR:

<b>Gas Emission Type</b>	<b>2015 (metric tons)</b>	<b>2016 (metric tons)</b>	<b>Increase (Decrease)</b>
Direct Emissions			
Carbon Dioxide	7,560.05	8,252.03	691.98
Methane	13.23	13.60	0.37
Nitrous Oxide	85.84	76.47	(9.37)
Hydrofluorocarbon	86.68	51.88	(34.80)
Sulfur Hexafluoride	57.84	28.20	(29.64)
Total Carbon Oxide Equivalent	7,803.64	8,422.18	618.54

Indirect Emissions			
Carbon Dioxide	407,850.19	231,019.67	(176,830.52)
Methane	365.31	282.44	(82.87)
Nitrous Oxide	1,193.60	508.37	(685.23)
Total Carbon Oxide Equivalent	409,409.10	231,810.48	(177,598.62)

The increase in Direct Emissions of Carbon Dioxide was due to additional portable standby generators added to the emissions inventory. The decrease in Indirect Emissions of Carbon Dioxide was the result of less electricity consumption for the Colorado River Aqueduct. Other variances resulted from normal fluctuations in maintenance or usage.

### **Opinion**

In our opinion, the accounting and administrative procedures over Energy Management Program-Greenhouse Gas Reporting 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 January 1, 2015 to October 31, 2017.

### **Comments and Recommendations**

#### **POLICIES AND PROCEDURES**

Operating policies and procedures should be established and documented to provide a framework for achieving Metropolitan's goals and objectives. Procedures provide management with guidelines for the consistent performance of daily operations, assist in the training of new employees, and provide a source of reference for experienced personnel.

Our review revealed:

1. Section 1.0 of Metropolitan's GHG Emissions Reporting Procedures did not include SF<sub>6</sub> and the list of circuit breakers and gas containers required for annual CARB reports.
2. The Data Request Log for calendar year 2015 was incomplete. Line items for "Fuel Usage/Freon Data", "Propane-All Sites", "Aviation Fuel/Propane/Welding Gas", and "SF<sub>6</sub>" under Retail Energy Use Data did not include email request and response dates.
3. Fees paid to independent verifiers and membership fees paid to The Climate Registry were inconsistently coded in the general ledger. Specifically, we noted:
  - a) Between January 2014 and March 2016, consulting fees paid to SCS Engineers (\$33,500), Climate Registry membership fees (\$5,500) and staff labor and burden costs (\$1,068) for preparing emission reports were charged to project 600882.
  - b) Between July 2016 and August 2017, consulting fees to Cameron-Cole LLC (\$23,248), Climate Registry membership fees (\$6,500) and staff labor and burden costs for preparing emission reports (approximately \$50,000) were charged to Project 901025.

Failure to update policies and procedures could result in inaccuracies and/or delays in preparing annual emissions reports to CARB. Failure to charge EMP expenses to the appropriate project could result in inaccurate/misleading reporting.

We recommend that Program management update GHG Emissions Procedures to include SF<sub>6</sub> equipment/containers required for CARB reporting. Additionally, we recommend that Program management ensure the data request log is complete. Finally, we recommend that Program management ensure all costs are charged to the appropriate project code.

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## **Consulting Agreements with ICF Jones & Stokes, Inc., Wagner Biological Consulting, and Socal Bio-Environmental Associates, LLC**

### **Background**

The Audit Department has completed a review of the accounting and administrative controls over Consulting Agreements with ICF Jones & Stokes, Inc. (ICF), #140607, Wagner Biological Consulting (Wagner), #142365, and Socal Bio-Environmental Associates, LLC (Socal), #142363, as of September 30, 2017.

Our review consisted of evaluating the internal controls over the consultant selection process, agreement administration and reporting practices. Additionally, we tested compliance with contract terms and conditions. Finally, we evaluated the validity and propriety of invoice payments for assurance that the amounts billed were properly calculated and adequately supported.

In July 2013, Metropolitan's Board authorized preliminary design to rehabilitate the pre-stressed concrete cylinder pipe (PCCP) of the Second Lower Feeder, which delivers treated water from the Diemer Treatment Plant to the Palos Verdes Reservoir. Metropolitan selected ICF from a pool of pre-qualified firms to prepare environmental documents. Upon Board approval, Metropolitan entered into a five-year agreement with ICF. The agreement is effective from December 2013 through December 2018, not to exceed \$950,000. ICF completed their work in December 2017 and was paid \$633,241.

The District also entered into three-year, on-call agreements with two pre-qualified vendors, Wagner and Socal, to provide environmental services. Both agreements were effective from March 2014 through February 2017. Payments to both vendors could not to exceed \$200,000 and \$245,000 per contract year, respectively. As of December 2017 both agreements were closed. Total payments to Wagner totaled \$500,153; total payments to Socal totaled \$519,218.

### **Opinion**

In our opinion, the accounting and administrative procedures over Consulting Agreements with ICF, Wagner, and Socal, 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 December 1, 2013 through September 30, 2017.

### **Comments and Recommendations**

#### **NON-COMPLIANCE WITH AGREEMENT TERMS AND CONDITIONS**

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

We reviewed twenty four invoices totaling \$446,336 paid from December 2014 through September 2017. The selected invoices consisted of eight Wagner invoices totaling \$124,346; nine SoCal invoices totaling \$134,829; and seven ICF invoices totaling \$187,161. Our review revealed the following:

- As of October 2017, ICF had only achieved 10% of the 18% Small Business Enterprise (SBE) participation required by the agreement. Project management informed us that ICF had not yet completed their final accounting. However, upon payment of pending sub-consultant charges ICF expects to achieve only 13% of SBE participation.
- We could not locate SoCal Bio's required insurance accord for the period 04/13/2015 through 04/13/2016. At our request SoCal Bio submitted the accord for the above period; however it was dated 11/20/2017.

Failure to ensure compliance with the SBE participation requirements could prevent the District from achieving its objectives. Failure to require proof of insurance could result in financial loss to the District.

We recommend that management remind staff and consultants of the importance of adhering to contract terms and to perform periodic reviews to ensure compliance.