



Internal Audit Report for February 2019

Summary

Two reports were issued during the month:

- 1. Jensen Solar Power Facility**
- 2. Consulting Agreements with IBI Group, Vali Cooper & Associates, and Atkins North America, Inc.**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during February 2019. 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.

Jensen Solar Power Facility

The Audit Department has completed a review of the accounting and administrative controls over construction of the Jensen Solar Power Facility as of June 30, 2018.

Scope

Our review consisted of evaluating administration and reporting practices, project authorization, and the contract bid and award process. In addition, we evaluated the validity and accuracy of contractor pay applications and consultant invoices for assurance that the amounts billed were properly calculated and adequately supported.

Background

The Jensen plant was placed into service in 1972 and delivers treated water to Metropolitan's Central Pool and to an exclusive service area on the west side of the distribution system. The plant is located in Granada Hills and receives electrical service from the Los Angeles Department of Water and Power (LADWP). The Jensen Solar Power Facility is expected to generate up to 2.4 million kilowatt hours of clean, renewable energy annually. Power generated by the facility will directly offset retail electricity rates, provide a hedge against projected rate increases and volatility in the price of electricity, and reduce Metropolitan's carbon footprint.

Final design for the Jensen Solar Power Facility was completed by MWH Americas in early 2016. Subsequently, the Board awarded a \$4.9 million construction contract to Sol Construction, Inc. (Sol). The plant began producing power in January 2018 and the project was 95% complete at the time of our audit. Accordingly, in November 2018, Metropolitan received an incentive

payment of \$1,401,925 from LADWP in alignment with the California Solar Initiative, Senate Bill One (SB1).

Between September 1, 2014 and June 30, 2018, project expenditures totaled \$6.7 million consisting of Metropolitan labor and burden costs (\$1.7 million), payments to Sol (\$4.1 million), MWH Americas (\$619,000), and the escrow company (\$215,000).

Opinion

In our opinion, the accounting and administrative procedures over construction of the Jensen Solar Power Facility 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 September 1, 2014 to June 30, 2018.

Comments and Recommendations

POLICIES AND PROCEDURES

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 consistent performance of daily operations, assist management in the training of new employees, and provide a source of reference for experienced personnel.

STOP PAYMENT NOTICES

Our review of progress payments revealed that Metropolitan withheld payment to Sol Construction in the amount of \$188,088.71 as the result of a Stop Payment Notice filed by the subcontractor Walters Wholesale Electric (Walters). The amount withheld consisted of \$150,470.97 claimed by Walters plus \$37,617.74 retained by Metropolitan to cover potential litigation costs. Further review revealed that these funds were released to Sol upon receipt of a "Release of Stop Notice Bond". Although our review of these events did not reveal impropriety on behalf of Metropolitan we did note that policies and procedures for processing Stop Payment Notices are not sufficient to ensure they are accounted for properly.

Failure to process Stop Payment Notices consistently and appropriately could result in financial liability to Metropolitan.

We recommend that management work with the Legal Department and the Controller's office to enhance policies and procedures for processing Stop Payment Notices to ensure they are processed and accounted for appropriately.

PROJECT MANAGEMENT PLAN

The Project Management Plan provides a comprehensive baseline of what is to be achieved and how it will be achieved. It should be used as a reference throughout the project to ensure it is managed consistently and in line with Metropolitan policies and procedures.

We could not locate the Project Management Plan for the Jensen Solar Power Facility.

Failure to update the Project Management Plan could result in ineffective project execution.

We recommend that management remind staff of the importance of preparing and updating Project Management Plans and to perform periodic reviews to ensure compliance.

Consulting Agreements with IBI Group, Vali Cooper & Associates, and Atkins North America, Inc.

The Audit Department has completed a review of the accounting and administrative controls over consulting agreements with IBI Group (IBI) - 139755, Vali Cooper & Associates (Vali Cooper) - 161846, and Atkins North America, Inc. (Atkins) - 161820 as of September 30, 2018.

Scope

Our review consisted of evaluating the accounting and administrative controls over the consultant selection process, reviewing agreement administration and reporting practices and testing compliance with terms and conditions of the agreements. In addition, we evaluated the validity and propriety of invoice payments for assurance that the amounts billed were properly calculated and adequately supported.

Background

Metropolitan performs inspections, studies, and enhancements throughout its network of aqueducts, pipelines, pumps and treatment plants in order to ensure a reliable supply of high quality water. The Engineering Services Group leads these infrastructure system assessments and they supplement in house resources with professional services agreements that provide specialized skills to complete defined tasks.

These agreements are structured such that resources are utilized on a “on call or as needed” basis which allows management to issue task orders as necessity dictates. Moreover, work orders are most often used for water treatment design, distribution facility design, and environmental technical support.

In May 2013, Metropolitan issued a Request for Qualification (RFQ) to establish a pool of qualified firms to support architectural, engineering, landscape and design sustainability on an as needed basis. Accordingly, in October 2013, Metropolitan entered into a roll over agreement with IBI to provide such services. The agreement was effective from October 2013 through September 2018 with a maximum amount payable per contract year of \$245,000. Payments to IBI as of September 30, 2018 totaled \$469,150 for the five year period.

In July 2015, Metropolitan issued an RFQ to pre-qualify firms for on-site construction contract administration and inspection services. Accordingly, in June 2016, Metropolitan entered into a

roll over agreement with Vali Cooper to provide such services. The agreement is effective from June 2016 through May 2019 with a maximum amount payable per contract year of \$245,000. Payments to Vali Cooper as of September 30, 2018 totaled \$478,748 for the three year period.

Finally, in October 2015, Metropolitan issued an RFQ to pre-qualify firms to provide Category 1 Hydraulic Modeling and Category 2 Inundation Mapping consulting services. Accordingly, in May 2016, Metropolitan entered into a roll over agreement with Atkins to provide such services. The agreement is effective from May 2016 through April 2019 with a maximum amount payable per contract year of \$245,000. Payments to Atkins as of September 30, 2018 totaled \$383,284 for the three year period.

Opinion

In our opinion, the accounting and administrative procedures over the consulting agreements with IBI, Vali Cooper, and Atkins 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, 2014 through September 30, 2018.

Comments and Recommendations

COMPLIANCE WITH CONTRACT TERMS

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

We reviewed eight IBI invoices, totaling \$141,253, paid between June 2014 and July 2018. Audit testing revealed the following:

- Seven of eight invoices, totaling \$135,465, were not submitted monthly as required by section 9.a of the agreement. The delay in submitting these invoices ranged from three to eight months after the charges were incurred.
- Labor hours totaling \$70,455 were not itemized by date of service for three of eight selected invoices. We also noted that none of these invoices included a description of the work performed as required by section 9.b.ii of the agreement.

Additionally, we noted that IBI achieved a Small Business Enterprise (SBE) participation level of 10.8%, and that the agreement required 18%. Further review revealed that due to the nature of on call or as needed agreements, the Business Outreach Section relaxed SBE requirements for these contracts in 2015. The new policy replaced the 18% mandate with a requirement for consultants to use their best efforts to achieve a goal of 25%. It should be noted that the IBI agreement was executed in 2013, prior to that change.

Failure to comply with the terms and conditions of the agreements could result in financial loss to Metropolitan.

We recommend that management remind staff and consultants of the importance of complying with agreement terms and conditions and to perform periodic reviews to ensure compliance.