



Internal Audit Report for May 2019

Summary

Two reports were issued during the month:

- 1. Payroll Audit Report**
- 2. Water Supply Programs with Semitropic, Arvin-Edison and Kern Delta Audit Report**

Discussion Section

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

Payroll Audit Report

The Audit Department has completed a review of the accounting and administrative controls over Payroll as of June 30, 2018.

Scope

Our audit consisted of a review of payroll processing as a joint function of the HR Services Section and Employee Relations Section of the Human Resources Group and the Controller Section of the Office of the Chief Financial Officer.

Tests included the verification and recalculation of employee earnings, deductions, and withholdings against source documentation. These tests included a review of payments for federal and state withholding, retirement accounts (401k and 457), FSA plans (medical), and employee association dues. We also reviewed federal and state tax quarterly filings for completeness and examined payroll account reconciliations of the PeopleSoft and Oracle systems to the Bank of America statements for propriety. Finally, we verified that W-2s were made available to employees on a timely basis.

Background

The responsibilities for the administration and management of payroll are shared between the HR Services Section and Employee Relations Section of the Human Resources Group and the Controller Section of the Office of the Chief Financial Officer.

Within the Human Resources Group, the Classification, Compensation and Recruitment Unit and

Human Resources Information Systems (HRIS) staff are responsible for reviewing, approving and updating job data and salary changes in the PeopleSoft system. In addition, the Benefits Unit and HRIS staff are responsible for establishing and maintaining employee records in PeopleSoft and for securing benefits, deferred compensation, and personnel files.

Within the Office of the Chief Financial Officer, the Payroll Team is responsible for monitoring employee time entered into the WorkTech Time System, for processing payroll transactions, and for preparing wire/check payment requests for employee retirement and savings contributions, payroll taxes, benefit premiums, and other payroll deductions. Moreover, the Treasury/Debt Management Section is responsible for executing wires and check payments to cover Metropolitan's bi-weekly payroll and other payroll related third party payments. Further, the Accounting Operations Unit is responsible for reconciling payroll expenses reported in the systems to the bank statements.

For the pay period ending June 30, 2018, payroll for 1,822 employees was made which consisted of gross pay of \$8.569 million and net direct deposits of \$5.495 million.

Opinion

In our opinion, the accounting and administrative procedures over Payroll 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 from July 1, 2016 to June 30, 2018.

Comments and Recommendations

COMPLETENESS AND TIMELINESS OF DATA INPUT

Application input controls are designed to ensure that data entered into a computer system is complete and accurate. Application processing controls are designed to ensure that data in a system is completely and accurately processed. Together these controls provide assurance that all input is properly entered and processed into the automated system. Within the HR Group employee data change forms are received from management to effect payroll adjustments, merit raises, and promotions.

During our review, we noted four instances where employee data change forms applying promotions, transfers, or demotions were not processed in a timely basis. Specifically, we noted that these adjustments were made between 4 and 21 pay periods after the effective date. It is important to note that retroactive adjustments to the effective date were made in each instance.

We recommend that management establish procedures to ensure that all employee data change forms are input and processed accurately and on a timely basis.

Water Supply Programs with Semitropic, Arvin-Edison and Kern Delta Audit Report

The Audit Department has completed a review of the accounting and administrative controls over Water Resource Management (WRM) Group Water Supply Programs with Semitropic, Arvin-Edison and Kern Delta as of December 31, 2018.

Scope

Our review consisted of evaluating the accounting and administrative controls over these Water Supply Programs as of December 31, 2018. Specifically, we tested invoice review and approval to ensure water and energy costs were reasonable and proper. We also evaluated reporting controls to ensure timely and accurate reporting of activities. Finally, we tested compliance with terms and conditions of the agreements.

Background

Water Resource Management Group protects and optimally manages imported water quantity and quality; advances water-use efficiency; provides supply and demand forecasts that are the foundation for resource planning; and develops and implements timely resource planning, programs, and projects.

The strategies necessary to achieve these objectives have been particularly crucial over the past decade as California has experienced eight drought and three wet years. Regional storage programs have been a central feature for maintaining water supply reliability in the face of supply volatility. Accordingly, Metropolitan developed water supply programs to supplement its State Water Project and Colorado River water supplies. These programs allow Metropolitan to store water during wet years and retrieve it through pumpbacks and exchanges during dry years. Three of these programs are administered through agreements with Semitropic Water Storage District (Semitropic), Arvin-Edison Water Storage District (Arvin-Edison), and Kern Delta Storage District (Kern Delta).

Semitropic

In December 1994, Metropolitan entered into a groundwater storage agreement with Semitropic that allows for the storage of up to 350,000 acre-feet of water. The agreement, which expires in 2035, allows stored water to be retrieved by direct pumpback to the California Aqueduct or through State Water Project entitlement exchange. When the State Water Project Allocation is low, recovering water through exchange is reduced or eliminated. Metropolitan currently has a minimum annual pumpback capability of 44,700 acre-feet per year. Metropolitan also has rights to the unused capacity of other banking partners. With a 100% State Water Project allocation and usage of other banking partner's rights, Metropolitan's maximum potential return is estimated at 223,000 acre-feet per year.

For the audit period of July 2014 through December 2018, Metropolitan paid \$20.8 million to Semitropic, stored 62,500 acre-feet and withdrew 97,438 acre-feet of water. As of December 2018, Semitropic had 187,343 acre-feet of Metropolitan water in storage.

Arvin-Edison

In December 1997, Metropolitan entered into a groundwater storage agreement with Arvin-Edison that allows for the storage of up to 350,000 acre-feet of water. The agreement, which expires in 2035, allows Metropolitan to retrieve stored water by direct pumpback to the California Aqueduct or through exchange of Friant contract supplies. The contractual return amount is up to 75,000 acre-feet and is determined by a number of factors, including Arvin-Edison's water supply conditions, operational capability, and the number of consecutive return years.

For the audit period of July 2014 through December 2018, Metropolitan paid Arvin-Edison \$21.5 million, stored 45,107 acre-feet and withdrew 75,574 acre-feet of water. As of December 2018, Arvin-Edison had 153,233 acre-feet of Metropolitan water in storage.

Kern Delta

In November 2002, Metropolitan's Board authorized a ground water storage agreement with Kern Delta that allows for the storage of 250,000 acre-feet of water. The agreement, which expires in 2029, allows stored water to be retrieved mainly by State Water Project entitlement exchange but also by some direct pumpback to the California Aqueduct. Furthermore, at Metropolitan's call, Kern Delta will return a minimum of 50,000 acre-feet of water annually.

For the audit period of July 2014 through December 2018, Metropolitan paid Kern Delta \$15.6 million, stored 42,005 acre-feet and withdrew 67,692 acre-feet of water. As of December 2018, Kern Delta has 138,422 acre-feet of Metropolitan water in storage.

Opinion

In our opinion, the accounting and administrative procedures over the Semitropic, Arvin-Edison, and Kern Delta Water Supply Programs 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 from July 2014 to December 2018.

Comments and Recommendations

None