



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

# Board Report

## Office of the General Auditor

### • General Auditor's Report for September 2024

#### Summary

---

This report highlights significant activities of the Office of the General Auditor for the month ended September 30, 2024.

#### Purpose

---

Informational

#### Attachments

---

1. Operational Audit: Surplus Personal Property Process
2. First & Final Follow-up Review: Stores Inventory

#### Detailed Report

---

##### Audit & Advisory Projects

Twenty-six projects are in progress:

- Ten audit projects are in the report preparation phase, including:
  - One preliminary draft report issued (Sensis)
- Sixteen projects are in the execution phase, including nine audits and seven advisories; an entrance letter was issued this period for:
  - Colorado River Water Users Association: Agreed Upon Procedures

Work priority is being given to the nine (down one from last month) carryforward audits.

##### Follow-Up Reviews

Prior Years' Audits

- Six follow-up reviews are in the execution phase and two follow-up reviews are in the planning phase.

Current Year

- One follow-up review is pending management submission of the follow-up review form (Roesling Nakamura Terada Architects due 9/3/24).

## Board Report (General Auditor's Report for September 2024)

### **Final Reports**

1. **Operational Audit: Surplus Personal Property Process** (project number 22-3010) issued September 9, 2024
  - Audit scope included reviewing internal controls over the administration and accounting of the Surplus Personal Property process from July 1, 2018 to June 30, 2021.
  - Ten recommendations with the following ratings: one **Priority 1**, four **Priority 2**, and five **Priority 3**.
2. **First & Final Follow-up Review: Stores Inventory** (project number 21-1710) issued September 26, 2024
  - Audit scope included assessing the implementation status, as of December 31, 2023, of the one (1) recommendation made in the original audit, Report on Stores Inventory, dated April 29, 2021.
  - Management implemented the one (1) recommendation, which closes out the original audit.

### **Other General Auditor Activities**

#### **1. Adoption of Global Internal Audit Standards**

Evaluation of the updated standards issued by the Institute of Internal Auditors, effective January 2025, is in process.

#### **2. Internal Quality Assessment**

Preparation for the annual internal quality assessment required by professional internal auditing standards is in progress; surveys were distributed to department staff, the Board, and management.

#### **3. Senior Audit Manager Recruitment**

Collaboration with Human Resources to fill this position is in progress.

#### **4. External Auditor Support**

Assistance to external auditor Macias Gini & O'Connell LLP continues in accordance with their work plan.



Office of the General Auditor

# Operational Audit: Surplus Personal Property Process

Project Number: 22-3010  
September 9, 2024

# TABLE OF CONTENTS

- 1 Executive Summary**  
Background · What We Did · What We Concluded · What We Recommend
- 2 General Auditor's Letter**
- 3 Results**  
Recognition · Results Overview
- 5 Observation 1: Employee Auction Purchases**  
Recommendation 1
- 6 Observation 2: Surplus Inventory and Data**  
Recommendations 2 and 3
- 7 Observation 3: Post-Auction/Unsold Leftover Surplus**  
Recommendation 4
- 8 Observation 4: Surplus Transfer and Retirement**  
Recommendation 5
- 9 Observation 5: Auction Proceeds**  
Recommendation 6
- 9 Observation 6: Policies & Procedures**  
Recommendation 7
- 10 Observation 7: Resale Certificates and Valid Seller's Permits**  
Recommendation 8
- 11 Observation 8: Surplus Documentation**  
Recommendation 9
- 12 Observation 9: Surplus Program Expenditures**  
Recommendation 10
- 13 Evaluation of Management's Response & Audit Team**

## 14 Appendix A: Supplemental Information

Additional Information · Scope & Objectives · Exclusions · Prior Audit Coverage · Authority · Professional Internal Audit Standards · Follow-Up Reviews · Internal Control System · Metropolitan's Responsibility for Internal Control

## 17 Appendix B: Priority Rating Definitions

## 18 Appendix C: Management's Response

# Executive Summary

## BACKGROUND

Metropolitan Administrative Code Sections 8270, 8271, and 8272, Operating Policies F-01 and F-02, and the Disposal of Surplus Personal Property procedures manual establish policies and procedures for identifying and disposing of surplus personal property (surplus property). Surplus property includes operating equipment, furniture, office machines, automobiles, trucks, machinery, heavy equipment, scrap, stock, refuse, stockpiled raw materials (including excavated materials), and recyclable material for which Metropolitan has no foreseeable use. Operating policies and procedures authorize the disposal of this property through web-based auctions, trade-ins with suppliers, recycling, and donations to outside entities.

The responsibility for identifying and disposing of surplus property has been assigned to the Administrative Services Section under the Assistant General Manager/Chief Financial Officer. The Contracting Services Unit and the Inventory Control Team are responsible for authorizing the disposal of surplus items and the Investment Recovery Coordinators direct the sale of these items to the auctioneer (see Appendix A: Additional Information), direct buyers, and scrap dealers.

From July 1, 2018 through June 30, 2021, Metropolitan retired 1,262 surplus items totaling \$9.3 million (cost basis), with a net book value of \$23,000. The proceeds from selling these items totaled \$865,000, with a net gain of \$842,000. Of this amount, surplus equipment covered by this review that was retired totaled 1,116 items (\$5.5 million in cost basis), with a net book value of \$13,000, proceeds of \$59,000, and a net gain of \$46,000.

## WHAT WE DID

Our audit scope included the Surplus Personal Property process from July 1, 2018 to June 30, 2021.

Our audit objectives were to:

- (1) Determine if surplus personal property was properly authorized, properly transferred, and securely stored.
- (2) Determine if the surplus personal property auction process was properly managed, auction vendor was qualified, and surplus program costs and expenses were properly accounted for.
- (3) Determine if auction proceeds were properly accounted for, auction charges were accurate, and auctioned surplus was properly released.
- (4) Determine if auctioned surplus property was properly retired and unsold leftover property was properly accounted for.
- (5) Determine if certain governmental tax regulations were adhered to.

## WHAT WE RECOMMEND

We recommend Metropolitan: (1) change the bidding contract language and check for employees making District auction purchases; (2) enhance EForm download and reporting capabilities and develop reconciliation procedures; (3) explore implementing a surplus property management system; (4) develop procedures for processing post-auction/unsold leftover surplus items; (5) change auction deposit procedures; (6) update the operating policies and the surplus procedures manual; (7) implement new procedures for asset transfer and retirement; (8) review applicable surplus transactions for copies of resale certificates and proof of validation of seller's permit; (9) implement procedures for proper completion/authorization for surplus documentation, and (10) obtain guidance from the Controller Section on proper accounting of the surplus program expenses.

Management agreed with our observations and recommendations.

## WHAT WE CONCLUDED

- (1) While surplus personal property was securely stored pending disposition, improvements should be implemented to ensure proper surplus personal property authorization and transfer.
- (2) While the auction vendor was qualified, improvements should be implemented to ensure proper management of the surplus auction process and proper accounting of program costs and expenses.
- (3) Auction proceeds were properly accounted for, auction charges were accurate, and auction surplus was properly released.
- (4) Improvements should be implemented to ensure the auctioned surplus property is properly retired and unsold leftover property is properly accounted for.
- (5) Improvements should be implemented to ensure compliance with government regulations for tax-exempt surplus buyers.

## NUMBER OF RECOMMENDATIONS



**PRIORITY 1**  
Response time:  
Immediate



**PRIORITY 2**  
Response time:  
Within 90 days



**PRIORITY 3**  
Response time:  
Within 180 days



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** September 9, 2024  
**To:** Executive Committee  
**From:** Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor  
**Subject:** Operational Audit: Surplus Personal Property Process  
(Project No. 22-3010)

This report presents the results of our audit of the Surplus Personal Property process.

Results, including our observations and recommendations, follow this letter. Supplemental information, including our scope and objectives, is included in Appendix A. Appendix B includes a description of our new recommendation priority rating system. Finally, management's response to our audit is now included in Appendix C.

We appreciate the cooperation and courtesies provided by the Office of the General Manager and the Finance & Administration Group.

The results in this report will be summarized for inclusion in status reports to the Board. If you have any questions regarding our review, please do not hesitate to contact me directly at 213.217.6528 or Deputy General Auditor Kathryn Andrus at 213.217.7213.

#### Attachments

cc: Board of Directors  
Interim General Manager  
General Counsel  
Ethics Officer  
Office of the General Manager Distribution  
Assistant General Managers  
Finance & Administration Distribution  
External Auditor

# RESULTS

## RECOGNITION

Positive aspects observed during our audit include:

- ◆ The surplus warehouse (Building 32) in La Verne was secured and maintained properly, with access limited to authorized personnel.
- ◆ EForm 2199 (Authority to Sell) was approved properly when required.
- ◆ The auction vendor was qualified to hold a surplus auction online.
- ◆ Surplus information was entered correctly, and the bidding instructions were properly posted on the auction vendor platform.
- ◆ The winning bidder was the highest bidder for the auctioned surplus.
- ◆ Auction proceeds were accounted for, charges were verified, and the surplus was adequately released by staff.
- ◆ Auction proceeds were deposited and recorded properly.
- ◆ Gain on sale of surplus exceeds 3,687% of net book value (purchase cost less accumulated depreciation).

## RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
<b>PRIORITY 1</b>				
1	An employee participated in Metropolitan's personal surplus property auctions.	Conflict of interest Adverse impact on Metropolitan's reputation	Change bidding contract language. Check for employees making Metropolitan auction purchases.	Agree
<b>PRIORITY 2</b>				
2	There was no surplus inventory list, and Internal Shipment Packing List data was manually input to Excel spreadsheets and not reconciled to Authority to Sell EForm data.	Inaccurate or invalid surplus property data Assets surplusd without authorization Asset misappropriation Inefficient resource usage	Enhance EForm download and reporting capabilities. Develop reconciliation procedures. Explore implementing a surplus property management system.	Agree Agree
3	Unsold surplus was not tracked if reauctoned, repurposed, or thrown away.	Asset misappropriation	Develop procedures for processing post-auction/unsold leftover surplus items.	Agree





	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
<b>PRIORITY 2 (CON'T)</b>				
4	Surplus property was not transferred, auctioned, and retired in the correct order or was processed after extended periods.	Inaccurate accounting records Theft/irregularities	Implement new procedures for asset transfer and retirement.	Agree
<b>PRIORITY 3</b>				
5	Auction proceeds were not deposited in a timely manner.	Lost checks Lost interest income	Change auction deposit procedures.	Agree
6	Operating policies F-01 and F-02 and the surplus procedures manual were not updated.	Lack of accountability Reduced efficiency/quality Increased errors/irregularities	Update the operating policies and the surplus procedures manual.	Agree
7	Resale certificates, seller's permits, and online documentation of a valid seller's permit were not on file when required.	Fines Tax liabilities	Review applicable surplus transactions for copies of resale certificates and proof of validation of seller's permit.	Agree
8	Internal Shipment Packing List EForms were incomplete, unapproved, or missing.	Assets surplusd without authorization Lack of accountability Incomplete data to track, process, and reconcile surplus property	Implement procedures for proper completion/ authorization for surplus documentation.	Agree
9	Program expense and labor charge accounting does not result in an accurate total cost of program operation.	Inappropriate charges to the surplus program Inaccurate program operation cost	Obtain guidance from the Controller Section on proper accounting of surplus program expenses.	Agree



## OBSERVATIONS & RECOMMENDATIONS

### 1 Employee Auction Purchases

*An employee participated in Metropolitan's personal surplus property auctions.*

Metropolitan's Administrative Code Section 8272 and Operating Policy F-02, Section 5, establish that District directors and employees, their spouses, and dependent children may not make an exchange for or purchase surplus personal property from the District and prohibit them from receiving any of Metropolitan's surplus personal property.

We reviewed the auction vendor's Surplus Sold report for the audit period (July 1, 2018 through June 30, 2021) against Human Resources' employee data file through June 30, 2021.

An employee purchased Metropolitan's surplus equipment (totaling \$3,938), which was sold through internet auctions in May 2019 and October 2020. The surplus equipment includes a 1995 GMC 3500 Stakebed Pickup, Comer Rotary Mower, and Shulte XH600 Mower.

#### Priority 1

*Employee purchases of surplus District property are a conflict of interest and could result in an adverse impact on Metropolitan's reputation.*

#### Recommendation 1

We recommend the Contracting Services Unit:

- (1) Add language to the bidding contract stating that Metropolitan employees may not make auction purchases.
- (2) Periodically check auction purchasers against the employee database.

#### Management Response

**Agree.**

Process Changed.

- (1) Investment Recovery incorporated the following highlighted wording into the description of every auction posting.

"Per MWD Operating Policy F-02...Directors, employees, their spouses, and dependent children are prohibited from receiving directly or indirectly, any surplus Metropolitan personal property."

- (2) Inventory Control Team Manager will check auction sales to ensure MWD employees have not purchased equipment after every auction. If we find an employee purchased equipment, we will proceed to cancel the sale.

Management's action plans for (1) and (2) were implemented in February 2022 and April 2024 respectively.



## 2 Surplus Inventory and Data

*There was no surplus inventory list, and Internal Shipment Packing List data was manually input to Excel spreadsheets and not reconciled to Authority to Sell Eform data.*

Surplused items are stored at a warehouse; however, there is no list of items on hand. As a result, it is not possible to determine what items should physically be in the warehouse at any given time.

When an item is ready for surplus, the surplus requester completes and signs Eform 2312 (Internal Shipment Packing List) and submits it to their supervisor or manager for approval. When a surplus item is ready to be sold, Eform 2199 (Authority to Sell) is completed and approved. However, Eform 2312 is not reconciled with Eform 2199 to ensure the surplus item received matches the item for auction, reauction, repurpose, or to be thrown away.

Eform 2312 data is manually input into Excel spreadsheets to prepare and document the surplus for auction and Eform 2199 is prepared using these same spreadsheets.

### Priority 2

*Without a surplus inventory list and reconciliations, there could be inaccurate or invalid surplus property data and assets could be misappropriated or surplused without authorization. Additionally, manual data input is an inefficient use of resources.*

### Recommendation 2

We recommend the Contracting Services Unit:

- (1) In conjunction with the Eform Administrator, enhance Eform 2312 download and reporting capabilities, eliminating the need to manually input data into Excel spreadsheets to prepare the surplus for auction and provide inventory reporting.
- (2) Develop reconciliation procedures for Eform 2312 and Eform 2199.

### Management Response

#### Agree.

- (1) Investment Recovery will work with the Eforms team to explore the possibility of automatically extracting information from e-forms into Excel. This enhancement is expected to significantly benefit the team. Also, Investment Recovery staff upgraded from PCs to laptops, eliminating the need for manual entry of every barcode.
- (2) Reconciliation procedure will be developed for E-form 2312 and 2199.

The estimated implementation date for (1) is February 2025 (if extraction option is possible) and (2) is February 2025.

### Recommendation 3

We recommend the Contracting Services Unit explore implementing a surplus property management system to create and maintain complete and accurate surplus inventory and disposition records. This system would capture the Eform 2312 information and provide accurate inventory and disposition reports.



**Management Response****Agree.**

Process Changed – Staff is utilizing Oracle notes for the team to document asset transfers into our database. Staff can now track whether an asset has been sold or is currently in our facility undergoing preparation for auction, providing real-time visibility into our inventory status.

Management’s action plan was implemented in February 2022.

### 3 Post-Auction/ Unsold Leftover Surplus

*Unsold surplus was not tracked if reauctioned, repurposed, or thrown away.*

Once an auction is completed, unsold leftover items require additional handling.

- (1) Unsold auctioned surplus is not tracked, whether reauctioned, repurposed, or thrown away.
- (2) There are no disposition records, and management approval could not be found, e.g., one item was sent to auction twice, went unsold, and was thrown into the garbage without management approval.

#### Priority 2

*Inadequate handling procedures for unsold surplus items could result in asset misappropriation.*

**Recommendation 4**

We recommend the Contracting Services Unit develop procedures for processing post-auction/unsold leftover surplus items, including documentation and approval.

**Management Response****Agree.**

- (1) Process Changed – Investment Recovery developed a new e-Form titled “Authority to Dispose of Equipment.” This form mandates that all equipment slated for scrapping, e-waste disposal, or any form of disposal must be approved by the Inventory Control Team manager.
- (2) Additionally, Investment Recovery will draft a comprehensive procedure to establish clear and proper steps for this process.

Management’s action plan for (1) was implemented in April 2024. The estimated implementation date for (2) is February 2025.



## 4 Surplus Transfer and Retirement

*Surplus property was not transferred, auctioned, and retired in the correct order or was processed after extended periods.*

The correct order to process surplus property is: (1) transfer authorized asset to salvage, (2) auction authorized asset, (3) remove auctioned asset from accounting system (retire).

We reviewed 1,875 surplus items auctioned online through the contractor web platform from July 1, 2018 through June 30, 2021:

- (1) Seventeen of 1,875 (1%) were auctioned one to 25 months before being transferred to the Salvage Techs/other staff in the Oracle Fixed Assets (OFA) system.
- (2) One hundred fifty-one of 1,875 (8%) were auctioned long after (11 to 210 months) being transferred to Investment Recovery in the OFA system.
- (3) One hundred three of 1,875 (6%) were retired 12 to 208 months before they were auctioned.
- (4) One hundred sixty-five of 1,875 (9%) were retired long after (16 to 39 months) the auction.
- (5) Six hundred twenty-two of 1,875 (33%) items auctioned between July 2018 and June 2021 were not retired in the OFA system as of January 31, 2022. As a result of our audit, the Controller's Section retired all these assets in the system in February 2022.

### Priority 2

*Incorrect surplus property processing could result in inaccurate accounting records or theft/irregularities.*

### Recommendation 5

We recommend the Contracting Services Unit implement procedures for annual auctions and to ensure assets may not be:

- (1) Auctioned unless transferred to salvage.
- (2) Retired until auctioned or disposed of.

### Management Response

**Agree.**

Process Changed

*[Internal Audit Note: numbering in the management response below aligns to numbering in our observation above]*

- (1) Timely database entry: All barcoded assets are promptly transferred into our database upon receipt at our facility. During this transfer, we assign a future IR# and utilize the packing slip # as an identifier. This ensures that our records are organized and accurately documented for subsequent sales.
- (2) & (3) Handling retired assets: Occasionally, the Investment Recovery team receives assets that have already been retired, often due to associated incident reports. Now, upon receipt of a previously retired asset, we request the controller's team to reactivate it for auctioning purposes.



Once the equipment is successfully auctioned and payment is received, we will then request it to be retired again.

- (4) & (5) On researching findings 4 and 5, it was found that Investment Recovery requested retirement of assets via email to the Controller's office, yet the assets were not retired. To rectify this, we now require a confirmation email form the Controller's office upon asset retirement.

Management's action plans for (1) and (2) of the recommendation were implemented in February 2022 and April 2024 respectively.

## 5 Auction Proceeds

*Auction proceeds were not deposited in a timely manner.*

After auctions are completed, the auction contractor remits proceeds to the Investment Recovery Coordinators at Metropolitan. As a non-authorized receiving agent, the Investment Recovery Coordinators remit the auction proceeds directly to the Treasury Unit; however, the Investment Recovery Coordinators remitted all collections between November 2018 and August 2021 (totaling \$1,248,887) between 14 and 42 days after the check date.

### Priority 3

*Delayed check deposits could result in lost checks or lost interest income.*

### Recommendation 6

We recommend the Contracting Services Unit change the auction deposit procedures so that auction proceeds are remitted to the Treasury Unit within three business days of receiving them from the auction vendor.

### Management Response

**Agree.**

Process Changed – Staff has implemented the three-day requirement.

Management's action plan was implemented in April 2024.

## 6 Policies & Procedures

*Operating policies F-01 and F-02 and the surplus procedures manual were not updated.*

Metropolitan's Administrative Code, operating policies, and procedures manual establish the policies and procedures for identifying and disposing of surplus personal property. They include:

- Administrative Code Section 8271 (Disposal of Surplus Personal Property)
- Administrative Code Section 8272 (Acceptable Bidders on Disposal of Surplus Personal Property)
- Operating Policy F-01 (Operating, Expensed, and Capital Equipment)



- Operating Policy F-02 (Disposal of Surplus Personal Property)
- Disposal of Surplus Personal Property procedures manual

We reviewed the Administrative Code, operating policies, and procedures manual for surplus. The Contracting Services Unit last updated Operating Policy F-01, Operating Policy F-02, and the Disposal of Surplus Property procedures manual in May 2002, December 2014, and July 2014, respectively.

These policies and procedures no longer reflect current practices and organizational changes. The differences noted include selling surplus through internet auctions, online payment by the winning bidder, Paymac remittances of surplus proceeds, picking up of sold surplus at the La Verne facility, and reassigning equipment tracking and monitoring to the Administrative Services Section.

### Priority 3

*Outdated policies and procedures could result in a lack of accountability, reduced efficiency/quality, or increased errors/irregularities.*

### Recommendation 7

We recommend the Contracting Services Unit update Operating Policies F-01 and F-02 and the Disposal of Surplus Property procedures manual to include current practices and organizational changes.

### Management Response

#### Agree.

Investment Recovery is currently in the process of revising Operating Policies F-01, F-02 and procedures to accurately reflect current practices.

The estimated implementation date is February 2025 (dependent on various stakeholder participation).

## 7 Resale Certificates and Valid Seller's Permits

*Resale certificates, seller's permits, and online documentation of a valid seller's permit were not on file when required.*

California Revenue and Taxation Code (Article 3, Section 6091) requires that all gross receipts are subject to tax until the contrary is established, e.g., seller takes a California resale certificate from the purchaser. The seller should verify the validity of the California purchaser's seller's permit.

We reviewed the California resale certificates and seller's permits for all 29 tax-exempt buyers from July 1, 2018 through June 30, 2021:

- (1) For two California purchasers, the California Resale Certificates and a copy of the seller's permit (or documentation of online validation of the seller's permit) could not be provided.
- (2) For 15 California purchasers with a valid seller's permit, the California Resale Certificates could not be provided.



(3) For five California purchasers with a California Resale Certificate, a copy of the seller’s permit (or documentation of online validation of the seller’s permit) could not be provided.

**Priority 3**

*Inadequate records for tax-exempt transactions could result in fines or tax liabilities.*

**Recommendation 8**

We recommend the Contracting Services Unit ensure copies of resale certificates and proof of validation of the seller’s permit are obtained during the sales transaction for applicable surplus transactions.

**Management Response**

**Agree.**

Process changed – To enhance internal controls, Investment Recovery has taken the necessary steps to remove tax-exempt status from all our buyers. Buyers have been instructed to resubmit the required paperwork. Upon submission, we now meticulously verify applicable information using the State of California website and securely store relevant documents within bidder profiles.

Management’s action plan was implemented in February 2022.

**8 Surplus Documentation**

*Internal Shipment Packing List EForms were incomplete, unapproved, or missing.*

EForm 2312 documents the reason surplus personal property is no longer needed, and approval for salvage is required for salvage processing.

We reviewed 60 surplus transactions:

- (1) For 17 of 60 (28%), EForm 2312 could not be provided. In addition, per the Investment Recovery Coordinator, some non-barcode deliveries were not attached with EForm 2312.
- (2) For 19 of 60 (32%), the receiver did not sign EForm 2312.
- (3) For seven of 60 (12%), the requester’s manager did not approve EForm 2312.
- (4) For 17 of 60 (28%), EForm 2312 was incomplete. It was missing information, including the description, quantity, transfer date, equipment status, parts removed, hard drive removed, recipient, and/or date shipped.

**Priority 3**

*Inadequate surplus property records could result in assets surplused without authorization, lack of accountability, or incomplete data to track, process, and reconcile surplus property.*

**Recommendation 9**

We recommend the Contracting Services Unit implement procedures that require a properly completed/authorized EForm 2312 for Pony Express drivers to pick up surplus items or to be accepted for receipt.

**Management Response**

**Agree.**





Process changed – Investment Recovery successfully updated our e-Forms to include tracking capabilities for items transported via the pony drivers, particularly focusing on deliveries for Investment Recovery. Utilizing electronic tracking, we monitor all e-Forms from sender to pony delivery, ensuring confirmation of receipt. Upon receipt by Investment Recovery, we transfer all assets and diligently sign each e-Form received.

Management's action plan was implemented in June 2022.

## 9 Surplus Program Expenditures

*Program expense and labor charge accounting does not result in an accurate total cost of program operation.*

We reviewed the surplus program expenditures recorded in Project 900980 (Contracting Services Unit) from July 1, 2018 through June 30, 2021:

- (1) The surplus program expenditures are not recorded to a single Task or Org type under Project 900980.
- (2) The Investment Recovery Coordinators and support staff working on the surplus program charge their labor hours to a Task or Org type for the team to which they belong.
- (3) One Investment Recovery Coordinator (assigned as a senior administrative analyst) had 3,859 labor hours charged to Task 53054 (Materials Management)/Org type 00980 (Contracting Services Unit) and 1,908 hours to Task 53054 (Materials Management)/Org type 01106 (Inventory Management Team) when performing surplus and inventory management, respectively.
- (4) Another Investment Recovery Coordinator (assigned as a storekeeper) had 1,645 labor hours charged to Task 53054 (Materials Management)/Org 01106 (Inventory Management Team) and 3,166 hours to Task 53054 (Materials Management)/Org 01263 (Warehousing Team).
- (5) The Pony Express drivers that occasionally pick up surplus from various locations have their labor hours charged to Task 53054 (Materials Management)/Org 01263 (Warehousing Team). The surplus pick-ups are in conjunction with their regular runs.

### Priority 3

*Inadequate timekeeping and cost accounting could result in inappropriate charges to the surplus program and inaccurate program operation cost.*

### Recommendation 10

We recommend the Contracting Services Unit:

- (1) Obtain guidance from the Controller's Section on using a single Task or Org type under Project 900980 to record all surplus program expenditures.
- (2) Ensure the staff time and other related surplus expenses are charged to a single Task or Org type established for the surplus program under Project 900980.



- (3) Review and analyze the cost reports periodically to ensure the costs charged to the surplus program are appropriate.

**Management Response**

**Agree.**

All activities undertaken by both the Investment Recovery and pony driver staff fall under the umbrella of materials management. Historically, our staff has not segmented their time by task.

To address this, Inventory Control will reach out to the Finance office to seek clarification on the appropriate method for time entry.

The estimated implementation date is February 2025 (if changes are needed).

## EVALUATION OF MANAGEMENT'S RESPONSE

---

Internal Audit considers management's response appropriate to the recommendations and management's corrective actions should resolve the conditions identified in the report.

## AUDIT TEAM

---

Kathryn Andrus, CPA, Deputy General Auditor  
Leo Roldan, CPA, CIA, CGMA, Principal Auditor



## APPENDIX A: SUPPLEMENTAL INFORMATION

### ADDITIONAL INFORMATION

---

#### **Auction Vendor**

Metropolitan entered into a contract purchase agreement (No. 181801) with Public Surplus, LLC authorizing the auction vendor to perform internet auction services on an “as needed basis.” The contract amount was \$10,000, effective October 2, 2018 through October 1, 2019. This contract was rolled over for the same amount for each succeeding year through October 1, 2021.

Under the terms of the agreement, the auction vendor shall:

- *Provide all labor, materials, and equipment to perform specified internet auction services;*
- *Send out winning notifications (award) to the high bidder to pay for specified auctioned equipment, materials, and/or goods;*
- *Be fully responsible for receiving and securing payment(s);*
- *Notify the Metropolitan auction contact once payment is made; and*
- *Coordinate material recovery/transfer of ownership.*
- *Send MWD one check (lump sum) from the specified processing company (“Paymac”) for the total amount of all the auctions sold in a specified 30-day period and/or month duration. The fee for the service is 10.50%. Subject fee shall be passed on to the buyer as a transaction premium at the time of payment.*

#### **Administrative Code & Policy References**

Metropolitan’s Administrative Code Section 8271 (Disposal of Surplus Personal Property) requires that any personal property belonging to the District and which, in the opinion of General Manager, is no longer required for the use of the District may be sold, or exchanged as part payment for the purchase of new equipment of like kind and nature. In addition, such sale or exchange is to be made under such procedure, at such prices and upon such terms and conditions, as General Manager may prescribe.

Administrative Code Section 8272 (Acceptable Bidders on Disposal of Surplus Personal Property) states that District directors and employees, their spouses, and dependent children may not make exchange for or purchase surplus personal property from the District under any terms and conditions for the disposal of surplus personal property prescribed by the General Manager under the authority delegated to him by Section 8271 above.

In addition, Metropolitan’s Operating Policy F-02 (Disposal of Surplus Personal Property), Section 5, prohibits the District directors and employees, their spouses, and dependent children from receiving, directly or indirectly, any of Metropolitan’s surplus personal property.



## SCOPE & OBJECTIVES

---

Our audit scope included the Surplus Personal Property process from July 1, 2018 to June 30, 2021.

Our audit objectives were to:

- (1) Determine if surplus personal property was properly authorized, properly transferred, and securely stored.
- (2) Determine if the surplus personal property auction process was properly managed, auction vendor was qualified, and surplus program costs and expenses were properly accounted for.
- (3) Determine if auction proceeds were properly accounted for, auction charges were accurate, and auctioned surplus was properly released.
- (4) Determine if auctioned surplus property was properly retired and unsold leftover property was properly accounted for.
- (5) Determine if certain governmental tax regulations were adhered to.

## EXCLUSIONS

---

Our audit scope did not include the disposal and/or retirement processes for (1) vehicles, (2) scrap, (3) E-waste, (4) empty toner cartridges, (5) excavated materials (Administrative Code 8270), and (6) donated items.

## PRIOR AUDIT COVERAGE

---

We have not completed any audits with a similar scope within the last five years.

## AUTHORITY

---

We performed this audit in accordance with the FY 2021/22 Audit Plan presented to the former Audit & Ethics Committee and our FY 2023/24 Audit Plan approved by the Board.



## PROFESSIONAL INTERNAL AUDIT STANDARDS

---

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

## FOLLOW-UP REVIEWS

---

The Office of the General Auditor has implemented a new follow-up process to ensure management has effectively implemented corrective action related to our recommendations. Management is required to report recommendation implementation status to our office within six months following the issuance of this report and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within a year of this report and if necessary, a second follow-up review will occur approximately six months after issuance of the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Subcommittee of the Executive Committee at its next scheduled meeting.

## INTERNAL CONTROL SYSTEM

---

An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by the Metropolitan team and seek to provide reasonable (not absolute) assurance that the District's business objectives will be achieved. However, limitations are inherent in any internal control system no matter how well designed, implemented, or operated. Because of these limitations, errors or irregularities may occur and may not be detected. Specific examples of limitations include but are not limited to, poor judgment, carelessness, management override, or collusion. Accordingly, our audit would not necessarily identify all internal control weaknesses or resultant conditions affecting operations, reporting, or compliance. Additionally, our audit covers a point in time and may not be representative of a future period due to changes within Metropolitan and/or external changes impacting the District.

## METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

---

It is important to note that Metropolitan management is responsible for designing, implementing, and operating a system of internal control. The objectives of internal controls are to provide reasonable assurance as to the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of established goals and objectives. In fulfilling this responsibility, management judgment is required to assess the expected benefits and related costs of internal control policy and procedures and to assess whether those policies and procedures can be expected to achieve Metropolitan's operational, reporting, and compliance objectives.



# APPENDIX B: PRIORITY RATING DEFINITIONS

The Office of the General Auditor utilizes a priority rating system to provide management with a measure of urgency in addressing the identified conditions and associated risks. We assess the significance of each observation identified during the audit using professional judgment and assign priority ratings to each recommendation using the criteria listed below. Factors taken into consideration in assessing the priority include the likelihood of a negative impact if not addressed, the significance of the potential impact, and how quickly a negative impact could occur.

PRIORITY			
<b>Definition</b>	Observation is <i>serious</i> enough to warrant <i>immediate</i> corrective action. The condition may represent a <i>serious</i> financial, operational, or compliance risk. A priority 1 recommendation may result from a <i>key</i> control(s) being absent, not adequately designed, or not operating effectively.	Observation is of a <i>significant</i> nature and warrants <i>prompt</i> corrective action. It may represent a moderate <i>financial</i> , operational, or compliance risk. A priority 2 recommendation may result from a <i>process</i> or less critical control(s) not being adequate in design and/or not operating effectively on a consistent basis.	Observation involves an internal control issue or compliance lapse that can be corrected in the <i>timely</i> course of <i>normal</i> business. A priority 3 recommendation may result from a <i>process</i> or control that <i>requires</i> enhancement to better support Metropolitan’s objectives and manage risk.
<b>Response Time</b>	Immediate	Within 90 Days of report issuance	Within 180 Days of report issuance



## APPENDIX C: MANAGEMENT'S RESPONSE

### Elias, Mari

---

**From:** Ros, Mya P on behalf of Benson, Adam D  
**Sent:** Thursday, September 5, 2024 11:08 AM  
**To:** Suzuki, Scott M  
**Cc:** Upadhyay, Deven N; Kasaine, Katano; Mortada, Mohsen; Torres, Cuauhtemoc  
**Subject:** Management Response to Audit Number 22-3010



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** September 5, 2024  
**To:** Scott Suzuki, General Auditor  
**From:** Adam Benson, Finance and Administration Group Manager

A handwritten signature in black ink, appearing to read "Adam Benson", written over a horizontal line.

**cc:** Deven Upadhyay, Interim General Manager  
Katano Kasaine, Assistant General Manager/Chief Financial Officer  
Mohsen Mortada, Chief of Staff  
Moty Torres, Manager of Administrative Services  
**Subject:** Management Response to Audit Number 22-3010

#### The General Manager has reviewed and concurs with the following response

Please find below the management response to the Operational Audit: Surplus Personal Property Process, project number 22-3010. Thank you for your recommendations to improve our systems and controls and to increase our capacity and effectiveness. Your partnership will continue to be important as we implement the recommendations. Please do not hesitate to contact me if you would like to discuss the response or any other matters related to this audit.



22-3010 Surplus  
Personal Prope...



## OFFICE OF THE GENERAL AUDITOR

<b>TITLE</b>	<b>MANAGEMENT RESPONSE FORM</b>
<b>PURPOSE</b>	To provide a management response to each audit recommendation.
<b>REQUIRED</b>	<ol style="list-style-type: none"> <li>1. For each recommendation, check the applicable agreement box.</li> <li>2. If there is agreement with the recommendation describe management's action plan and the estimated date when the recommendation will be completely implemented.</li> <li>3. If there is a partially agree or a do not agree with the recommendation explain management's position.</li> <li>4. Prepare an e-mail memo using the standard Metropolitan letterhead from the General Manager to the General Auditor.</li> <li>5. Attach this form to the email and return to the <a href="mailto:OfficeoftheGeneralAuditor@mwdh2o.com">OfficeoftheGeneralAuditor@mwdh2o.com</a> by <b>August 19, 2024</b>. Questions may also be submitted to this e-mail address.</li> </ol>





**Operational Audit: Surplus Personal Property Process**  
**Project Number 22-2310**  
**Management Response**

<p><b>OBSERVATION 1</b></p>	<p><b>Employee Auction Purchases</b></p> <p>Metropolitan’s Administrative Code Section 8272 and Operating Policy F-02, Section 5, establish that District directors and employees, their spouses, and dependent children may not make an exchange for or purchase surplus personal property from the District and prohibit them from receiving any of Metropolitan’s surplus personal property.</p> <p>We reviewed the auction vendor’s Surplus Sold report for the audit period (July 1, 2018 through June 30, 2021) against the Human Resources employees’ data file through June 30, 2021.</p> <p>An employee purchased Metropolitan’s surplus equipment (totaling \$3,938), sold through internet auctions in May 2019 and October 2020. The surplus equipment includes a 1995 GMC 3500 Stakebed Pick up, Comer Rotary Mower, and Shulte XH600 Mower.</p>
<p><b>RECOMMENDATION 1</b>  <b>PRIORITY 1</b></p>	<p>We recommend the Contracting Services Unit:</p> <ol style="list-style-type: none"> <li>(1) Add language to the bidding contract stating that Metropolitan employees may not make auction purchases.</li> <li>(2) Periodically check auction purchasers against the employee database.</li> </ol>
<p><b>MANAGEMENT ACTION PLAN</b></p> <p><b>AGREE</b></p>	<p>Process Changed.</p> <ol style="list-style-type: none"> <li>1. Investment Recovery incorporated the following highlighted wording into the description of every auction posting.</li> </ol> <div data-bbox="797 1339 1398 1745"> <p><b>Description</b></p> <p>VIN: 1XPALBOX0MD310604  Mileage: 56040  Running Condition: GOOD  Tires: GOOD</p> <p><b>1991 Peterbilt 357 TRACTOR TRUCK. (OUT OF STATE BUYERS)</b>  <b>QMC TRUCK CRANE QLC 38G</b>  <b>S/N 0716912679</b></p> <p><b>Crane charts on PDF Below.</b></p> <p><b>THIS UNIT IS CURRENTLY, AND WILL BE PICKED UP AT THE FOLLOWING LOCATION</b>  <b>Iron Mountain Pumping Plant</b>  <b>6001 Iron Mountain Pump Plant Road</b>  <b>Twentynine Palms, CA. 92277 - US</b></p> <p><b>Per MWD Operating Policy F-02</b></p> <ul style="list-style-type: none"> <li>Directors, employees, their spouses, and dependent children are prohibited from receiving directly or indirectly, any surplus Metropolitan personal property.</li> </ul> </div>



		2. Inventory Control Team Manager will check auction sales to ensure MWD employees have not purchased equipment after every auction. If we find an employee purchased equipment, we will proceed to cancel the sale.
	<b>ESTIMATED IMPLEMENTATION</b>	1. Implemented February 2022 2. Implemented April 2024
<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>	[insert]
<b>DO NOT AGREE</b>		



<b>OBSERVATION 2</b>		<b>Surplus Inventory &amp; Data</b>	
		<p>Surplused items are stored at a warehouse; however, there is no list of items on hand. As a result, it is not possible to determine what items should physically be in the warehouse at any given time.</p> <p>When an item is ready for surplus, the surplus requester completes and signs EForm 2312 (Internal Shipment Packing List) and submits it to their supervisor or manager for approval. When a surplus item is ready to be sold, EForm 2199 (Authority to Sell) is completed and approved. However, EForm 2312 is not reconciled with EForm 2199 to ensure the surplus item received matches the item for auction, reauction, repurpose, or to be thrown away.</p> <p>EForm 2312 data is manually input into Excel spreadsheets to prepare and document the surplus for auction and EForm 2199 is prepared using these same spreadsheets.</p>	
<b>RECOMMENDATION 2</b>		We recommend the Contracting Services Unit:	
<b>PRIORITY 2</b>		<p>(1) In conjunction with the EForm Administrator, enhance EForm 2312 download and reporting capabilities, eliminating the need to manually input data into Excel spreadsheets to prepare the surplus for auction and provide inventory reporting.</p> <p>(2) Develop reconciliation procedures for EForm 2312 and EForm 2199.</p>	
<b>X</b>	<b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>	<p>1. Investment Recovery will work with the EForms team to explore the possibility of automatically extracting information from e-forms into Excel. This enhancement is expected to significantly benefit the team. Also, Investment Recovery staff upgraded from PCs to laptops, eliminating the need for manual entry of every barcode.</p> <p>2. Reconciliation procedure will be developed for E-form 2312 and 2199.</p>
		<b>ESTIMATED IMPLEMENTATION</b>	<p>1. If "extraction" option is possible, February 2025</p> <p>2. February 2025</p>
	<b>PARTIALLY AGREE</b> <b>DO NOT AGREE</b>	<b>EXPLANATION</b>	
<b>RECOMMENDATION 3</b>		We recommend the Contracting Services Unit explore implementing a surplus property management system to create and maintain complete and accurate surplus	
<b>PRIORITY 2</b>			
FORM	MANAGEMENT RESPONSE FORM	PAGE	3 OF 13

NOVEMBER 2023 (Rv. N/A)



		inventory and disposition records. This system would capture the EForm 2312 information and provide accurate inventory and disposition reports.
X	<b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b> Process Changed - Staff is utilizing Oracle notes for the team to document asset transfers into our database. Staff can now track whether an asset has been sold or is currently in our facility undergoing preparation for auction, providing real-time visibility into our inventory status.
		<b>ESTIMATED IMPLEMENTATION</b> Implemented February 2022
	<b>PARTIALLY AGREE</b>	[insert]
	<b>DO NOT AGREE</b>	
	<b>EXPLANATION</b>	



<b>OBSERVATION 3</b>		<b>Post-Auction/Unsold Leftover Surplus</b>
		Once an auction is completed, unsold leftover items require additional handling. (1) Unsold auctioned surplus is not tracked, whether reauctioned, repurposed, or thrown away. (2) There are no disposition records, and management approval could not be found, e.g., one item was sent to auction twice, went unsold, and was thrown into the garbage without management approval.
<b>RECOMMENDATION 4</b>		We recommend the Contracting Services Unit develop procedures for processing post-auction/unsold leftover surplus items, including documentation and approval.
<b>PRIORITY 2</b>		
<input checked="" type="checkbox"/> <b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>	1. Process Changed - Investment Recovery developed a new e-Form titled "Authority to Dispose of Equipment." This form mandates that all equipment slated for scrapping, e-waste disposal, or any form of disposal must be approved by the Inventory Control Team manager. 2. Additionally, Investment Recovery will draft a comprehensive procedure to establish clear and proper steps for this process.
	<b>ESTIMATED IMPLEMENTATION</b>	1. Implemented April 2024 2. February 2025
	<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>
<b>DO NOT AGREE</b>		



<p><b>OBSERVATION 4</b></p>	<p><b>Surplus Transfer and Retirement</b></p> <p>The correct order to process surplus assets is: (1) transfer authorized asset to salvage, (2) auction authorized asset, (3) remove auctioned asset from accounting system (retire).</p> <p>We reviewed 1,875 surplus items auctioned online through the contractor web platform from July 1, 2018 through June 30, 2021:</p> <ol style="list-style-type: none"> <li>(1) Seventeen (1%) were auctioned one to 25 months <u>before</u> being transferred to the Salvage Techs/other staff in the Oracle Fixed Assets (OFA) system.</li> <li>(2) One hundred fifty-one (8%) were auctioned long after (11 to 210 months) being transferred to Investment Recovery in the OFA system.</li> <li>(3) One hundred three (6%) were retired 12 to 208 months <u>before</u> they were auctioned.</li> <li>(4) One hundred sixty-five (9%) were retired long after (16 to 39 months) the auction.</li> <li>(5) Six hundred twenty-two (33%) items auctioned between July 2018 and June 2021 were not retired in the OFA system as of January 31, 2022. As a result of our audit, the Controller’s Section retired all these assets in the system in February 2022.</li> </ol>
<p><b>RECOMMENDATION 5</b> <b>PRIORITY 2</b></p>	<p>We recommend the Contracting Services Unit implement procedures for annual auctions and to ensure assets may not be:</p> <ol style="list-style-type: none"> <li>(1) Auctioned unless transferred to salvage.</li> <li>(2) Retired until auctioned or disposed of.</li> </ol>
<p><b>MANAGEMENT ACTION PLAN</b></p> <p><input checked="" type="checkbox"/> <b>AGREE</b></p>	<p>Process Changed</p> <ol style="list-style-type: none"> <li>1. Timely database entry: All barcoded assets are promptly transferred into our database upon receipt at our facility. During this transfer, we assign a future IR# and utilize the packing slip # as an identifier. This ensures that our records are organized and accurately documented for subsequent sales.</li> <li>2. - 3. Handling retired assets: Occasionally, the Investment Recovery team receives assets that have already been retired, often due to associated incident reports. Now, upon receipt of a previously retired asset, we request the controller’s team to reactivate it for auctioning purposes. Once the equipment is successfully auctioned and payment is received, we will then request it to be retired again.</li> <li>4.- 5. On researching findings 4 and 5, it was found that Investment Recovery requested retirement of assets via email to the Controller’s office, yet the</li> </ol>
<p>FORM</p>	<p>MANAGEMENT RESPONSE FORM</p>
<p>PAGE</p>	<p>6 OF 13</p>

NOVEMBER 2023 (Rv. N/A)



		assets were not retired. To rectify this, we now require a confirmation email from the Controller's office upon asset retirement.
	<b>ESTIMATED IMPLEMENTATION</b>	1. Implemented February 2022 2. Implemented April 2024
<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>	[insert]
<b>DO NOT AGREE</b>		




<b>OBSERVATION 5</b>		<b>Auction Proceeds</b>
		After auctions are completed, the auction contractor remits proceeds to the Investment Recovery Coordinators at Metropolitan. As a non-authorized receiving agent, the Investment Recovery Coordinators remit the auction proceeds directly to the Treasury Unit; however, the Investment Recovery Coordinators remitted all collections between November 2018 and August 2021 (totaling \$1,248,887) between 14 and 42 days after the check date.
<b>RECOMMENDATION 6</b>		We recommend the Contracting Services Unit change the auction deposit procedures so that auction proceeds are remitted to the Treasury Unit within three business days of receiving them from the auction vendor.
<b>PRIORITY 3</b>		
<b>X</b>	<b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>
		Process Changed - Staff has implemented the three-day requirement.
		<b>ESTIMATED IMPLEMENTATION</b>
		Implemented April 2024
	<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>
	<b>DO NOT AGREE</b>	[insert]





<b>OBSERVATION 6</b>	<b>Policies and Procedures</b>	
	<p>Metropolitan’s Administrative Code, operating policies, and procedures manual establish the policies and procedures for identifying and disposing of surplus personal property. They include:</p> <ul style="list-style-type: none"> <li>• Administrative Code Section 8271 (Disposal of Surplus Personal Property)</li> <li>• Administrative Code Section 8272 (Acceptable Bidders on Disposal of Surplus Personal Property)</li> <li>• Operating Policy F-01 (Operating, Expensed, and Capital Equipment)</li> <li>• Operating Policy F-02 (Disposal of Surplus Personal Property)</li> <li>• Disposal of Surplus Personal Property procedures manual</li> </ul> <p>We reviewed the Administrative Code, operating policies, and procedures manual for surplus. The Contracting Services Unit last updated Operating Policy F-01, Operating Policy F-02, and the Disposal of Surplus Property procedures manual in May 2002, December 2014, and July 2014, respectively. These policies and procedures no longer reflect current practices and organizational changes. The differences noted include selling surplus through internet auctions, online payment by the winning bidder, Paymac remittances of surplus proceeds, picking up of sold surplus at the La Verne facility, and reassigning equipment tracking and monitoring to the Administrative Services Section.</p>	
<b>RECOMMENDATION 7</b>		We recommend the Contracting Services Unit update Operating Policies F-01 and F-02 and the Disposal of Surplus Property procedures manual to include current practices and organizational changes.
<b>PRIORITY 3</b>		
<b>X</b>	<b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>
		<b>ESTIMATED IMPLEMENTATION</b>
	PARTIALLY AGREE	<b>EXPLANATION</b>
	DO NOT AGREE	
		Investment Recovery is currently in the process of revising Operating Policies F-01, F-02 and procedures to accurately reflect current practices.
		February 2025 (dependent on various stakeholder participation)
		[insert]



<b>OBSERVATION 7</b>	<b>Resale Certificates and Valid Seller's Permits</b>
	<p>California Revenue and Taxation Code (Article 3, Section 6091) requires that all gross receipts are subject to tax until the contrary is established, e.g., seller takes a California resale certificate from the purchaser. The seller should verify the validity of the California purchaser's seller's permit.</p> <p>We reviewed the California resale certificates and seller's permits for all 29 tax-exempt buyers from July 1, 2018 through June 30, 2021:</p> <ul style="list-style-type: none"> <li>(1) For two California purchasers, the California Resale Certificates and a copy of the seller's permit (or documentation of online validation of the seller's permit) could not be provided.</li> <li>(2) For 15 California purchasers with a valid seller's permit, the California Resale Certificates could not be provided.</li> <li>(3) For five California purchasers with a California Resale Certificate, a copy of the seller's permit (or documentation of online validation of the seller's permit) could not be provided.</li> </ul>
<b>RECOMMENDATION 8</b>	We recommend the Contracting Services Unit ensure copies of resale certificates and proof of validation of the seller's permit are obtained during the sales transaction for applicable surplus transactions.
<b>PRIORITY 3</b>	
 <b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>
	Process changed – To enhance internal controls, Investment Recovery has taken the necessary steps to remove tax-exempt status from all our buyers. Buyers have been instructed to resubmit the required paperwork. Upon submission, we now meticulously verify applicable information using the State of California website and securely store relevant documents within bidder profiles.
	<b>ESTIMATED IMPLEMENTATION</b>
	Implemented February 2022
<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>
<b>DO NOT AGREE</b>	[insert]



<b>OBSERVATION 8</b>	<b>Surplus Documentation</b>
	<p>EForm 2312 documents the surplus personal property is no longer needed, and approval for salvage is required for salvage processing.</p> <p>We reviewed 60 surplus transactions:</p> <ul style="list-style-type: none"> <li>(1) For 17 of 60 (28%), EForm 2312 could not be provided. In addition, per the Investment Recovery Coordinator, some non-barcode deliveries were not attached with EForm 2312.</li> <li>(2) For 19 of 60 (32%), the receiver did not sign EForm 2312.</li> <li>(3) For seven of 60 (12%), the requester’s manager did not approve EForm 2312.</li> <li>(4) For 17 of 60 (28%), EForm 2312 was incomplete. It was missing information, including the description, quantity, transfer date, equipment status, parts removed, hard drive removed, recipient, and/or date shipped.</li> </ul>
<b>RECOMMENDATION 9</b>	We recommend the Contracting Services Unit implement procedures that require a properly completed/authorized EForm 2312 for Pony Express drivers to pick up surplus items or to be accepted for receipt.
<b>PRIORITY 3</b>	
<b>MANAGEMENT ACTION PLAN</b>	Process changed - Investment Recovery successfully updated our e-Forms to include tracking capabilities for items transported via the pony drivers, particularly focusing on deliveries for Investment Recovery. Utilizing electronic tracking, we monitor all e-Forms from sender to pony delivery, ensuring confirmation of receipt. Upon receipt by Investment Recovery, we transfer all assets and diligently sign each e-Form received.
	<b>ESTIMATED IMPLEMENTATION</b>
<input checked="" type="checkbox"/> <b>AGREE</b>	Implemented June 2022
<input type="checkbox"/> <b>PARTIALLY AGREE</b>	<b>EXPLANATION</b> [insert]
<input type="checkbox"/> <b>DO NOT AGREE</b>	



**OBSERVATION 9**

**Surplus Program Expenditures**

We reviewed the surplus program expenditures recorded in Project 900980 (Contracting Services Unit) from July 1, 2018 through June 30, 2021:

- (1) The surplus program expenditures are not recorded to a single Task or Org type under Project 900980.
- (2) The Investment Recovery Coordinators and support staff working on the surplus program charge their labor hours to a Task or Org type for the team to which they belong.
- (3) One Investment Recovery Coordinator (assigned as a senior administrative analyst) had 3,859 labor hours charged to Task 53054 (Materials Management)/Org type 00980 (Contracting Services Unit) and 1,908 hours to Task 53054 (Materials Management)/Org type 01106 (Inventory Management Team) when performing surplus and inventory management, respectively.
- (4) Another Investment Recovery Coordinator (assigned as a storekeeper) had 1,645 labor hours charged to Task 53054 (Materials Management)/Org 01106 (Inventory Management Team) and 3,166 hours to Task 53054 (Materials Management)/Org 01263 (Warehousing Team).
- (5) The Pony Express drivers that occasionally pick up surplus from various locations have their labor hours charged to Task 53054 (Materials Management)/Org 01263 (Warehousing Team). The surplus pick-ups are in conjunction with their regular runs.

**RECOMMENDATION 10**  
**PRIORITY 3**

We recommend the Contracting Services Unit:

- (1) Obtain guidance from the Controller’s Section on using a single Task or Org type under Project 900980 to record all surplus program expenditures.
- (2) Ensure the staff time and other related surplus expenses are charged to a single Task or Org type established for the surplus program under Project 900980.
- (3) Review and analyze the cost reports periodically to ensure the costs charged to the surplus program are appropriate.

**MANAGEMENT ACTION PLAN**

 **AGREE**

All activities undertaken by both the Investment Recovery and pony driver staff fall under the umbrella of materials management. Historically, our staff has not segmented their time by task.

To address this, Inventory Control will reach out to the Finance office to seek clarification on the appropriate method for time entry.



	<b>ESTIMATED IMPLEMENTATION</b>	If changes are needed, February 2025
<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>	
<b>DO NOT AGREE</b>		





Office of the General Auditor

# First & Final Follow-up Review: Stores Inventory

Project Number: 21-1710  
September 26, 2024

# TABLE OF CONTENTS

## 1 Executive Summary

Background · What We Did · What We Concluded

## 2 General Auditor's Letter

## 3 Results

Recommendations & Current Status · Audit Team

## 4 Appendix A: Implementation Status Definitions

# Executive Summary

## BACKGROUND

The Office of General Auditor completed an original audit that reviewed the controls over the receipt, storage, and distribution of materials and supplies that are processed at Metropolitan warehouses. The audit also evaluated the effectiveness of periodic cycle counts, physical security, and reconciliations of warehouse inventory to the general ledger. The report contained one finding regarding the completeness of items included in cycle counts, and we recommended that management take steps to ensure that cycle counts are complete and accurate. In November 2023, we sent a follow-up form to management requesting the implementation status of our recommendation. In December 2023, management reported the recommendation had been implemented.

## WHAT WE DID

Our review objective and scope were to assess the implementation status, as of December 31, 2023, of the one (1) recommendation made in the original audit, Report on Stores Inventory, Audit No. 21-1710, dated April 29, 2021.

## WHAT WE CONCLUDED

Management implemented the one (1) recommendation, which closes out the original audit.

### RECOMMENDATION STATUS







THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** September 26, 2024  
**To:** Executive Committee  
**From:** Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor  
**Subject:** First & Final Follow-up Review: Stores Inventory  
(Project Number 21-1710)

This report presents the results of our first follow-up review of Report on Stores Inventory as of December 31, 2023, original Audit No. 21-1710, dated April 29, 2021.

Our first follow-up review concluded that the Administrative Services Section implemented the one (1) recommendation. As all recommendations have been implemented, this report represents the final closeout of the original audit.

We appreciate the cooperation and courtesies provided by the Administrative Services Section. If you have any questions regarding our review, please do not hesitate to contact me directly at 213.217.6528 or Deputy General Auditor Kathryn Andrus at 213.217.7213.

#### Attachments

cc: Board of Directors  
General Manager  
General Counsel  
Ethics Officer  
Office of the General Manager Distribution  
Assistant General Managers  
Finance & Administration Group Distribution  
External Auditor

# RESULTS

## RECOMMENDATIONS & CURRENT STATUS

---

### 1 Cycle Counts

*All inventoriable items should be included in the cycle count process.*

*Failure to perform complete cycle counts may result in undetected loss of assets and incorrect accounting records.*

#### Recommendation 1

We recommend that management take steps to ensure accurate and timely cycle counts are performed and properly documented.

#### Current Status

##### Implemented.

As of December 31, 2023, all warehouse items that should be cycle counted have been included in the cycle count program.

## AUDIT TEAM

---

Kathryn Andrus, CPA, Deputy General Auditor  
Chris Gutierrez, CPA, CIA, Audit Program Manager



## APPENDIX A: IMPLEMENTATION STATUS DEFINITIONS

Professional internal auditing standards require that internal auditors confirm that management has implemented internal audit's recommendations. The Office of the General Auditor has established follow-up reviews as part of its service portfolio to assess the implementation status of each recommendation from original audits.

Management is required to report recommendation implementation status to our office within six months following the issuance of the original audit report, and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within one-year of the original audit report, and if necessary, a second follow-up review will occur approximately six months after the issuance of the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Subcommittee of the Executive Committee at its next scheduled meeting.

To facilitate our follow-up reviews, we developed a classification system that rates actions taken by management to implement our recommendations.

IMPLEMENTATION STATUS	
<b>IMPLEMENTED</b>	Management has implemented our recommendation in full as verified by the follow-up review. No further follow-up will occur.
<b>IN PROGRESS</b>	Management has partially implemented our recommendation. Additional follow-up will occur.
<b>NOT IMPLEMENTED</b>	Management has not taken any action to implement our recommendation. Additional follow-up will occur.
<b>CLOSED</b>	<p>No further follow-up review will occur due to one of the following conditions:</p> <ol style="list-style-type: none"> <li>1. <u>Alternative Action Taken</u>: Management took corrective action different from our recommendation. The corrective action sufficiently mitigates the risks associated with the observation.</li> <li>2. <u>No Longer Applicable</u>: Circumstances have changed, and the observation/recommendation is no longer applicable.</li> <li>3. <u>Risk Assumed</u>: Management has chosen to accept the risk of not implementing or partially implementing our recommendation. The Board of Directors has been apprised of the status.</li> <li>4. <u>Other</u>: The recommendation's current status was discussed with the Board and while our recommendation has been partially implemented, no additional follow-up review has been requested by the Board.</li> </ol>

