



## Office of the General Auditor

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

#### Summary

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This report highlights significant activities of the Office of the General Auditor for the month ended May 31, 2024.

#### Purpose

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Informational

#### Attachments

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1. Final report on Contract Audit: Kennedy/Jenks Consultants, Inc., Agreement No. 184581
2. Final report on Compliance Audit: Fuel Regulations

#### Detailed Report

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##### Audit & Advisory Projects

Twenty-seven projects are in progress:

- Twelve audit projects are in the report preparation phase, including:
  - One draft report pending management response (IBI Group)
  - One preliminary draft report pending management comment (Surplus Personal Property)
- Eleven projects are in the execution phase, including five audits and six advisories.
- Four audit projects are in the planning phase.

Work priority is being given to carry-forward audits.

##### Final Reports

1. **Contract Audit: Kennedy/Jenks Consultants, Inc., No. 184581** (project number 22-2102-02) issued May 31, 2024
  - Audit scope included reviewing internal controls over the administration and accounting of the contract from November 16, 2018 to November 30, 2021.
  - One recommendation with the following rating: **Priority 2**.
2. **Compliance Audit: Fuel Regulations** (project number 22-3051) issued May 31, 2024
  - Audit scope included evaluating the administrative controls over the regulatory compliance of fuel stored in aboveground storage tanks (AST) and underground storage tanks (UST) over the period July 1, 2018 to June 30, 2021.
  - Five total recommendations with the following rating: **Priority 3**.

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

### **Advisory Memos**

1. **Fixed Asset Capitalization** (no. 2301) issued May 31, 2024
  - Project accounting improvements should be implemented to ensure expenses are correctly recorded in the proper period in Metropolitan's accounting system.

### **Follow-Up Audits**

We will follow up on nine audits from prior years. Follow-up audit forms have been received back from management for seven of the audits, and follow-up audit work is in progress for all seven.

### **Other General Auditor Activities**

1. **FY 2024/25 General Auditor Internal Audit Plan**

Next fiscal year's internal audit plan was completed and Board feedback received at this month's Audit Subcommittee meeting. The audit plan is pending approval at the June Board of Directors meeting.
2. **External Auditor Support**

Macias Gini & O'Connell LLP has commenced planning for this fiscal year's external audit. Internal Audit is assisting with the interim testing and will provide 800 hours of support.
3. **Service Awards**

Principal Auditors Sherman Hung and Linawaty Tan received their 20-year service awards.



Office of the General Auditor

Contract Audit:  
Kennedy/Jenks  
Consultants Inc.  
Agreement  
No. 184581

Project Number: 22-2102-02  
May 31, 2024



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# Executive Summary

## BACKGROUND

Metropolitan's distribution system includes over 830 miles of pipelines and 5,400 individual structures that require regular maintenance and monitoring. The system is comprised of four operating regions: Los Angeles County, Orange County, Riverside/San Diego County, and Western San Bernadino County. Metropolitan staff routinely inspect the condition of the structures and pipelines within each region to plan and prioritize needed repairs.

In November 2018, the Board authorized the rehabilitation of 15 service connection structures on three feeders within the Orange County operating region, and the preliminary investigations of approximately 290 additional structures within the same region. In December 2018, Metropolitan entered into an agreement with Kennedy/Jenks Consultants, Inc. (Kennedy/Jenks) to provide technical support for this project. The consultant was selected from a previously prequalified pool of vendors to provide this service under Request for Qualifications (RFQ) No. 1131. The agreement is effective from December 3, 2018 to December 2, 2025, with a maximum amount payable of \$2,037,000. As of the report date, the total payments to Kennedy/Jenks under this agreement total \$1,206,295. The consultant's scope of work is to respond to the contractor's request for information as the engineer on record and assist with testing and commissioning of the 15 service connection structures, conduct field surveys, and evaluate the condition of existing electrical, mechanical, and instrumentation equipment for the approximately 290 additional structures, including the review of existing drawings, identifying hazardous materials, and evaluating compliance with current codes.

## WHAT WE DID

Our audit scope included reviewing the internal controls over the administration and accounting of the Kennedy/Jenks agreement (No. 184581) from the Board approval date of November 16, 2018 through November 30, 2021.

Our audit objectives were to:

- (1) Determine if the procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Determine if the contract administration (including task orders and deliverables) and reporting processes adhered to Metropolitan's policies and procedures.
- (3) Determine if charges paid to the consultant were submitted timely, and were authorized, complete, and accurate.
- (4) Determine if the tasks were delivered by the consultant in a timely manner.
- (5) Determine if consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

## WHAT WE CONCLUDED

- (1) The procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Contract administration and reporting processes generally adhered to Metropolitan's policy and procedures; however, certain task order administration processes should be improved.
- (3) Charges paid to the consultant were submitted timely and were authorized, complete, and accurate.
- (4) Tasks were delivered by the consultant in a timely manner.
- (5) Consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

## WHAT WE RECOMMEND

We recommended management ensure task orders are executed before the commencement of associated work.

Management agreed with our observation and recommendation.

## 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:** May 31, 2024  
**To:** Executive Committee  
**From:** Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor  
**Subject:** Contract Audit: Kennedy/Jenks Consultants, Inc., Agreement No. 184581  
(Project Number 22-2102-02)

This report presents the results of our contract audit of the Kennedy/Jenks Consultants, Inc., Agreement No. 184581.

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 Engineering Services Group.

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

Attachment

cc: Board of Directors  
General Manager  
General Counsel  
Ethics Officer  
Office of the General Manager Distribution  
Assistant General Managers  
Engineering Services Group Distribution  
External Auditor

# RESULTS

## RECOGNITION

Positive aspects observed during our audit include:

- ◆ Procurement procedures, which include solicitation, selection, and awarding of the consultant contract (agreement), were properly followed.
- ◆ The contract was properly authorized.
- ◆ Insurance certificates for the consultant were kept current and in Oracle.
- ◆ Tasks were delivered timely.
- ◆ Invoices were submitted timely by the consultant and in accordance with the contract.
- ◆ Payments were properly approved and within the approved funding limit.
- ◆ Consultant expenditures were charged to the appropriate project, subaccount, and appropriation.

## RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
<b>PRIORITY 1</b>				
	None			
<b>PRIORITY 2</b>				
1	Work commenced on certain task orders before the task order was executed.	Unauthorized, unnecessary, or incorrect work performed	Ensure task orders and amendments are timely authorized. Implement a task order review process.	Agree
<b>PRIORITY 3</b>				
	None			



## OBSERVATIONS & RECOMMENDATIONS

### 1 Contractual Compliance

*Work commenced on certain task orders before the task order was executed.*

Compliance with contractual requirements is necessary to ensure adequate control over the administration of the agreement and to ensure only proper and necessary charges are incurred.

Two task orders were issued against this agreement. Task order #1 comprises the initial task order and three amendments, and task order #2 contains no amendments within the audit period.

Per our review of both task orders and the associated amendments:

- One of 5 (20%) task orders/amendments had work performed before the associated task order execution date, resulting in \$7,452 incurred before approval to proceed.

#### Priority 2

*Permitting work to proceed before an authorized task order could result in unauthorized, unnecessary, or incorrect work being performed.*

#### Recommendation 1

We recommend the Engineering Services Group:

- (1) Ensure task orders and related amendments are timely authorized.
- (2) Review the status of task orders and related amendments during project management meetings to ensure work has only commenced on fully executed task orders and related amendments.

#### Management Response

**Agree.** The Engineering Services Group concurs with the audit findings and will remind their staff to begin work only if task orders and related amendments are fully executed. We will provide this guidance during project management meetings and the review of task orders and related amendments.

Estimated implementation is May 2024.

## EVALUATION OF MANAGEMENT'S RESPONSE

Internal Audit considers management's response appropriate to our recommendations, and their planned actions should resolve the condition identified in the report.





## APPENDIX A: SUPPLEMENTAL INFORMATION

### SCOPE & OBJECTIVES

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Our audit scope included reviewing the internal controls over the administration and accounting of the Kennedy/Jenks agreement (No. 184581) from the Board approval date of November 16, 2018 through November 30, 2021.

Our audit objectives were to:

- (1) Determine if the procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Determine if the contract administration (including task orders and deliverables) and reporting processes adhered to Metropolitan's policy and procedures.
- (3) Determine if charges paid to the consultant were submitted timely, and were authorized, complete, and accurate.
- (4) Determine if the tasks were delivered by the consultant in a timely manner.
- (5) Determine if consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

### EXCLUSIONS

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Our audit scope did not include reviewing other costs charged to the project, including internal costs incurred in the administration of the agreement.

### PRIOR AUDIT COVERAGE

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We have completed two audit reports with a similar scope during the past five years:

- (1) Consulting Agreements – IBI Group (139755), Cooper & Associates (161856), Atkins North America, Inc. (161820), Project Number 19-2100 issued on February 8, 2019.
- (2) Consulting Agreements – Project Partners (177915), Carollo Engineers (180287), HDR Engineering (178378), Project Number 20-2102 issued on August 31, 2020.

### AUTHORITY

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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.

### AUDIT TEAM

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



## PROFESSIONAL INTERNAL AUDIT STANDARDS

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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 AUDITS

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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 audit 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 audit will occur approximately six months after issuance of the first follow-up audit report. Any audit recommendations not implemented after the second follow-up audit will be shared with the Board/Audit Subcommittee of the Executive Committee at its next scheduled meeting.

## INTERNAL CONTROL SYSTEM

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An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by Metropolitan management 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

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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 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 <i>control(s)</i> 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



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** May 9, 2024  
**To:** Scott Suzuki, General Auditor  
**From:** Adel Hagekhalil, General Manager  
**cc:** John Bednarski, Group Manager, Engineering Services  
Deven Upadhyay, Executive Officer and AGM  
**Subject:** Management Response to Audit Number 22-2102-02

Please find below the management response to the Kennedy Jenks contract audit. I am confident that the recommendations will be effectively implemented and look forward to working with you to ensure they are. This Management Response was prepared by the subject area lead(s) under the coordination of John Bednarski, manager of the Engineering Services Group. Please do not hesitate to contact me or my chief of staff Mohsen Mortada if you would like to discuss our response or any other matters.

Thank you for your partnership in strengthening Metropolitan's systems, controls and capacity.



**Contract Audit: Kennedy/Jenks Consultants, Inc., Agreement No. 184581**  
**Project Number 22-2102-02**  
**Management Response**

<b>OBSERVATION 1</b>		<b>Contractual Compliance</b>
		Work commenced on certain task orders before the task order was executed.
<b>RECOMMENDATION 1</b>		We recommend Engineering Services Group:
<b>PRIORITY 2</b>		(1) Ensure task orders and related amendments are timely authorized.
		(2) Review the status of task orders and related amendments during project management meetings to ensure work has only commenced on fully executed task orders and related amendments.
X	<b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b> The Engineering Services Group concurs with the audit findings and will remind staff to begin work only if task orders and related amendments are fully executed. We will provide this guidance during project management meetings and the review of task orders and related amendments.
		<b>ESTIMATED IMPLEMENTATION</b> May 2024
	<b>PARTIALLY AGREE</b>	
	<b>DO NOT AGREE</b>	<b>EXPLANATION</b>





Office of the General Auditor

# Compliance Audit: Fuel Regulations

Project Number: 22-3051  
May 31, 2024



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# Executive Summary

## BACKGROUND

Metropolitan utilizes both aboveground and underground storage tanks to store fuel. Safety, Regulatory & Training (SRT), a section of Safety, Security, and Protection, manages Metropolitan's 42 aboveground storage tanks (AST) and 41 underground storage tanks (UST) across 19 facilities, ensuring compliance with regulatory agencies, such as the Certified Unified Program Agencies (CUPA), South Coast Air Quality Management District (SCAQMD), the California Air Resources Board, and the State Water Resources Control Board. SRT uses the Environmental Management System (Enviance), a cloud-based application, to track certifications, citations, inspections, and permits to assist with regulatory compliance. SRT collaborates with Fleet Services to provide training and sustain compliance with the regulations, and SRT has published and maintains the Health, Safety, and Environmental Manual. See Appendix A – Additional Information for the specific regulations.

## WHAT WE DID

Our audit scope included evaluating the administrative controls over the regulatory compliance of fuel stored in aboveground storage tanks (AST) and underground storage tanks (UST) covering the period July 1, 2018 to June 30, 2021. Our work was limited to the documentation associated with periodic inspections, testing, and training records to ensure compliance with:

- Health Safety Environmental Manual Sections:
  - 204.109 (Non-Retail Gasoline Transfer and Dispensing Procedure)
  - 207 (Underground Storage Tank (UST) Program and Responsibilities)
  - 207.101 (UST Alarm Response and Release Reporting)
  - 207.102 (Tank Inspections and Recordkeeping)
- Title 40 Code of Federal Regulations (CFR) Part 112 (Oil Pollution Prevention).

Our audit objectives were to:

- (1) Ensure compliance with applicable government regulations.
- (2) Ensure compliance with internal policies.
- (3) Ensure required reporting was timely, accurate, and complete.
- (4) Ensure regulatory, inspection, and testing invoices were accurately paid and substantiated.

## WHAT WE CONCLUDED

- (1) Compliance with certain governmental regulations should be improved.
- (2) Internal policies were complied with.
- (3) Required reporting was timely, accurate, and complete; however, the updating, approval, and certification process of the pumping plants' Spill Prevention Control and Countermeasure (SPCC) Plans needs improvement.
- (4) Regulatory and inspection testing invoices were accurately paid and substantiated.

## WHAT WE RECOMMEND

We recommended SRT management: (1) conduct periodic UST documentation reviews; (2) establish processes to ensure UST training is provided and completed within required time frames and implement a training monitoring program; (3) finish updating, publishing, and certifying outstanding SPCC Plans and establish monitoring procedures to ensure regulatory compliance moving forward; (4) ensure UST Permits and Leak and Prevention Plans are posted as required; and (5) evaluate aligning Metropolitan's UST Alarm Logbook record retention requirements with governmental compliance requirements.

Management agreed with our observations and recommendations.

## 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:** May 31, 2024  
**To:** Executive Committee  
**From:** Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor  
**Subject:** Compliance Audit: Fuel Regulations  
(Project Number 22-3051)

This report presents the results of our audit of Fuel Regulations Compliance.

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 Safety, Regulatory & Training, and Fleet Management sections.

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

#### Attachment

cc: Board of Directors  
General Manager  
General Counsel  
Ethics Officer  
Office of the General Manager Distribution  
Assistant General Managers  
Safety, Regulatory & Training Section Distribution  
External Auditor

# RESULTS

## RECOGNITION

Positive aspects observed during our audit include:

- No major violations/citations issued by regulatory agencies.
- No fines/penalties imposed by regulatory agencies.
- Underground Storage Tank (UST) testing and certifications performed as required.
- Permits obtained and maintained as required.
- Invoices substantiated and paid accurately.

## RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
<b>PRIORITY 1</b>				
	None	None		
<b>PRIORITY 2</b>				
	None	None		
<b>PRIORITY 3</b>				
1	Required UST documentation was not consistently maintained as required.	Civil penalties Liability exposure	Conduct periodic UST documentation reviews. Develop a UST alarm logbook solution.	Agree
2	UST Training scheduling, attendance, and record management did not consistently occur as required.	Civil penalties Insufficient qualified personnel available to respond to a leak Liability exposure	Ensure training occurs timely and can be evidenced. Implement a training monitoring program.	Agree
3	Certain pumping plant SPCC Plans were not updated, approved, and certified as required.	Civil penalties Liability exposure	Finish SPCC Plans. Establish monitoring procedures.	Agree
4	Certain site UST Permit and Leak Response Plans were not posted as required.	Civil penalties. Delayed response to an emergency	Ensure permits and plans are posted as required.	Agree
5	Metropolitan's record retention policy for UST Alarm Logbooks exceeds governmental compliance requirements.	Inefficient use of Metropolitan resources	Align internal UST Alarm Logbook record retention requirements.	Agree



## OBSERVATIONS & RECOMMENDATIONS

### 1 Required UST Documentation

*Required UST documentation was not consistently maintained as required.*

Health, Safety, and Environmental (HSE) Manual 207 Section 4.5 requires all UST alarms to be immediately investigated and recorded in the UST Alarm Logbook.

Per a review of the physical UST Alarm Logbooks at the six sites visited, the following alarms were not recorded or were only partially recorded:

- (1) Pressurized Line Leak Detection (PLLD) alarm at Union Station in April 2020 noted in the Certified Unified Program Agencies (CUPA) Inspection Report
- (2) Diesel PLLD Pressure Transducer Fail alarm at Diemer on December 8, 2020
- (3) DSL (Digital Subscriber Line) South line Test Failed alarm at Mills on February 24, 2021
- (4) Annular alarm at Valley View on July 7, 2021

In addition, HSE Manual 207.101 Section 4.2 requires that every alarm must be recorded, including all testing alarms. For the six sites visited, the testing alarms in the Monthly Designated UST Operator Visual Inspections were not consistently recorded, as shown in the table below:

**Table 1. Months with No Inspection Entries by Location**

Location	Month(s) with No Inspection Entries	Without Entries (Nov 2020 to Oct 2021- total 12)
Mills	11	92%
Lake Mathews	8	67%
Diemer	6	50%
Union Station	3	25%
Sepulveda Pressure Control Structure	2	17%
Weymouth	1	8%

SOURCE: On-Site UST Alarm Logbook per location

Further, HSE Manual 207 Section 4.10 requires UST Records to be retained on-site for a designated period based on the record type.

- (1) Per review of the UST Alarm Logbook records, the Logbooks were maintained off-site.



- (2) A UST document box is used to store all the required UST documents, and a binder is used to keep the documents organized. During our site visits in November 2021, Lake Mathews did not have a UST binder, and the following documents were missing:
  - (a) Monthly Designated UST Visual Inspection Reports from January 2021 to November 2021.
  - (b) Designated Operator UST Training Records for all years from 2017 to 2021.
  - (c) Annual UST Monitoring Certification Test Results from 2019 to 2021
- (3) The Annual UST Monitoring Certification Test results are to be maintained on-site for three years. However, Weymouth's UST Monitoring Certification Test results were not in the binder for 2020 and 2021.

### Priority 3

*Improper UST documentation could result in civil penalties and increased liability exposure.*

#### **Recommendation 1**

We recommend Safety, Regulatory & Training (SRT) Management:

- (1) Implement and appropriately maintain a UST document binder at Lake Mathews.
- (2) Conduct periodic reviews of UST Recordkeeping Requirements at sites that must maintain documentation to ensure compliance with government regulations, including document retention requirements.
- (3) Develop plans to implement an electronic UST alarm logbook solution per tank and submit them for CIP inclusion.

#### **Management Response**

##### **Agree.**

- (1) Document box has been placed and labeled by the UST panel at Lake Mathews to reflect the location of the UST document binder.
- (2) Periodic reviews of UST Recordkeeping Requirements are conducted during annual monitoring certification pre-inspections. A checklist has been revised to ensure all documents and retention times are listed.
- (3) SRT will be modifying the UST Alarm Logbook requirements in HSE 207.101. All alarms are digitally maintained in the tank monitoring systems which satisfies the regulatory requirement. SRT will instruct the CIP UST study to prioritize available systems that provide electronic records of UST alarms.

Management's action plans for (1) and (2) were implemented in February 2024 and April 2024 respectively. The estimated implementation date for (3) is June 2024.



## 2 Facility Employee UST Training

*UST Training scheduling, attendance, and record management did not consistently occur as required.*

HSE Manual 207 Section 4.9 requires employees who respond to a UST leak alarm to be trained annually.

UST training records reviewed from 2019 to 2021 showed the following:

- (1) In 2021, employee training conducted at Weymouth and Union Station facilities was provided 12 to 30 days late.
- (2) Twenty of 30 (67%) employees sampled who attended training, attended 11 to 221 days past their due date.
- (3) The Facility Employee Training Certificates for Union Station (2019), Mills (2020), Lake Mathews (2020, 2021), and the Sepulveda Pressure Control Structure (2020, 2021) could not be provided.

Further, HSE Manual 207 Section 4.10 requires UST Designated Training Records to be maintained on-site for five years. Based upon a review of training records during each of the six site visits, the locatable records of the Designated Operator UST Training were as follows:

**Table 2. UST Training Records by Location**

Location	Years Certificate On-site	Training Certificate On-site
Union Station	2 (2020, 2021)	40%
Mills	3 (2018, 2019, 2021)	60%
Lake Mathews	0	0%
Diemer	3 (2019, 2020, 2021)	60%
Weymouth	3 (2018, 2019, 2020)	60%
Sepulveda Pressure Control	1 (2019)	20%

SOURCE: On-Site UST Document Binder per location



**Priority 3**

*Improper UST training could result in civil penalties imposed against Metropolitan, insufficient qualified personnel available to respond to a leak, and increased liability exposure from mishandling of leaks.*

**Recommendation 2**

We recommend SRT Management:

- (1) Establish processes to ensure UST training is provided and completed within required time frames, and documentation of training is maintained as required.
- (2) Implement a monitoring program to identify and remediate non-compliance promptly.

**Management Response Agree.**

- (1) SRT will be modifying the HSE 207 Section 4.10 to clarify that records must be maintained on-site or offsite at a readily accessible location and made available upon request within 36 hours.
- (2) SRT will draft a bulletin to remind custodians and managers of required annual training and changes in course naming. Additionally, on a quarterly basis, SRT will identify the training status of employees overseeing alarm response and convey this to their managers to ensure timely registration of training courses. SRT is also evaluating the option of adding the required training to plans on a semi-annual basis to ensure at least one class is attended.

The estimated implementation date for (1) is June 2024. Management's action plan for (2) was partially implemented in February 2024 and is estimated to be fully implemented by July 2024.

### **3 Spill Prevention Control & Countermeasure (SPCC) Plans**

*Certain pumping plant SPCC Plans were not updated, approved, and certified as required.*

The purpose of an SPCC Plan is to provide the facility guidance on preventing oil spills and controlling a spill should one occur. Title 40 Code of Federal Regulations, Part 112, as specified below, specifically requires the SPCC Plan to:

- (1) Be certified by a Professional Engineer – 112.3(d).
- (2) Be reviewed every five years – 112.5(b).
- (3) Have Management's approval and commitment – 112.7.

Per our review of the SPCC plans for 24 facilities, Eagle Mountain, and Hinds's SPCC Plans were last reviewed, certified, and approved in November 2014. The 2020 draft SPCC Plan for Iron Mountain and Hinds was still in review and thus not completed. Management had not completed the review, approval, and certification process for the proposed plans.



**Priority 3**

*Improper SPCC Plans could result in civil penalties imposed against Metropolitan and increased liability exposure due to inappropriate response from outdated plans.*

**Recommendation 3**

We recommend SRT Management:

- (1) Finish updating, publishing, and certifying the Eagle Mountain and Hinds SPCC Plans.
- (2) Establish processes and monitoring procedures to ensure plans are timely reviewed, certified, and approved every five years.

**Management Response Agree.**

- (1) The Hinds and Eagle Mountain SPCC Plans have been updated and they are currently in review and in the certification process.
- (2) The SPCC Plan requirements are included as tasks in SRT's HSE Management System. Additionally, auto-generated email notifications will be sent as deadlines approach. SRT will also be creating workflows in the system that will track each step of the SPCC Plan process to monitor the progress and ensure all regulatory requirements are met.

Management's action plan for (1) was partially implemented in March 2024 and is estimated to be fully implemented by June 2024. Management's action plan for (2) was implemented April 2024.

## **4 UST Permit and Leak Response Plan Posting**

*Certain site UST Permit and Leak Response Plans were not posted as required.*

HSE Manual 207 Sections 4.1 (Permit) and 4.2 (Leak Response Plan) require that the Permit and Leak Response Plan be posted near the UST System.

We conducted six on-site visits. During our visit to the Mills and the Lake Mathews sites, the UST Permit and UST Leak Response Plan were kept in the UST Document Box, rather than being posted near the UST system as required.



**Priority 3**

*Unposted plans could result in civil penalties imposed against Metropolitan and delayed response to an emergency.*

**Recommendation 4**

We recommend SRT Management post the current UST permit and updated Leak Response Plan near the UST System at the Mills and Lake Mathews sites as required.

**Management Response**

**Agree.** HSE 207 was updated in January 2022 to reflect that permits are required to be “posted on-site at or near the UST system” to reflect actual regulatory requirements. The UST document box, containing the Leak Response Plan at Lake Mathews has been labeled and placed by the UST monitoring panel. SRT will be posting signage at Mills to more clearly identify the location of the UST document box and its Leak Response Plan. SRT will consult with Fleet and Plant Management to determine the most appropriate place to post the UST permits and will place signs by the UST indicating the actual conspicuous location of the UST Permit Posting.

Management’s action plans were implemented by April 2024.

## 5 UST Alarm Logbook Record Retention

*Metropolitan’s record retention policy for UST Alarm Logbooks exceeds governmental compliance requirements.*

HSE Manual 207 Section 4.10 requires UST Alarm Logbook Records to be maintained on-site for the life of the tank. Regulatory guidelines require a minimum of five years to be kept.

Per a review of the UST Alarm Logbook records at each of the six sites visited, logbooks are not consistently maintained in accordance with internal policy. For example, the UST located in the Sepulveda Pressure Control Structure, was installed in 1989. However, management could not provide the UST Alarm Logbook for over 30 years (1989 through 2019).

Based on the documentation provided during our review, the following is the oldest month the UST Alarm Logbook was maintained offsite for each location visited:

**Table 3. UST Alarm Logbooks Maintained Offsite**

Location	Tank Installed	Oldest Month Maintained
Union Station	1996	May 2011
Weymouth	1990	December 2004
Mills	1996	September 2004
Diemer	1997	February 2017
Sepulveda Pressure Control	1989	July 2020
Lake Mathews	1992	January 2019

SOURCE: Logbooks provided by Safety, Regulatory & Training





**Priority 3**

*Unnecessary record retention could result in inefficient use of Metropolitan resources.*

**Recommendation 5**

We recommend SRT Management align internal UST Alarm Logbook record retention requirements to regulatory requirements.

**Management Response**

**Agree.** SRT will be revising the HSE 207 Section 4.10 to reflect that UST Alarm Logs should be maintained for 3 years. The UST Alarm Logs are supporting documentation for the regulatory required Monthly UST Designated Operator Visual Inspection Reports and as such, will be maintained for the same duration and in the same location (UST document box).

The estimated implementation date is June 2024.

**EVALUATION OF MANAGEMENT'S RESPONSE**

Internal Audit consider 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  
Linawaty Tan, Principal Auditor  
Leo Roldan, CPA, CIA, CGMA, Principal Auditor



## APPENDIX A: SUPPLEMENTAL INFORMATION

### ADDITIONAL INFORMATION

Safety, Regulatory & Training (SRT) encompasses the following regulations into the Health, Safety, and Environmental Manual to effect fuel storage compliance:

- Mojave Desert Air Quality Management District (MDAQMD) and South Coast Air Quality Management District (SCAQMD) Rules 461 (Gasoline Transfer and Dispensing)
- California Air Resources Board (CARB) California Code of Regulations, Title 17, Sections 94010 – 94168 (Gasoline Vapor Recovery Systems)
- Title 40 Code of Federal Regulations Chapter I, Subchapter I Parts 264.190-264.196 (Subpart J) (Standards for Owners and Operators of Hazardous Waste Treatment, Storage, and Disposal Facilities)
- Title 40 Code of Federal Regulations – Part 112 (Oil Pollution Prevention)
- California Health & Safety Code (HSC) Chapter 6.7, Sections 25280 – 25299.8 (Underground Storage of Hazardous Substances)
- State Water Resources Control Board (SWRCB) California Code of Regulations (CCR), Title 23, Division 3, Chapter 16 (UST Regulations)

Additionally, SRT has published and maintains the Health, Safety, and Environmental Manual sections 204.109 (Non-Retail Gasoline Transfer and Dispensing Procedure), 207 (Underground Storage Tank (UST) Program and Responsibilities), 207.101 (UST Alarm Response and Release Reporting), and 207.102 (Tank Inspections and Recordkeeping) to effect fuel storage compliance with established regulations.

### SCOPE & OBJECTIVES

Our audit scope included evaluating the administrative controls over the regulatory compliance of fuel stored in aboveground storage tanks (AST) and underground storage tanks (UST) covering the period July 1, 2018 to June 30, 2021.

Our work was limited to the documentation associated with periodic inspections, testing, and training records to ensure compliance with:

- Health Safety Environmental Manual Sections:
  - 204.109 (Non-Retail Gasoline Transfer and Dispensing Procedure)
  - 207 (Underground Storage Tank (UST) Program and Responsibilities)
  - 207.101 (UST Alarm Response and Release Reporting)
  - 207.102 (Tank Inspections and Recordkeeping)
- Title 40 Code of Federal Regulations (CFR) Part 112 (Oil Pollution Prevention)

Our audit objectives were to:

- (1) Ensure compliance with applicable government regulations.
- (2) Ensure compliance with internal policies.
- (3) Ensure required reporting was timely, accurate, and complete.
- (4) Ensure regulatory, inspection, and testing invoices were accurately paid and substantiated.



## EXCLUSIONS

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Our audit scope did not include: (1) Fuel Operations, (2) Enviance – a cloud-based system used by the SRT Section to track permits due, corrective actions due, inspections date, violations, etc., nor (3) the efficiency or performance of the Underground Storage Tank Program.

## PRIOR AUDIT COVERAGE

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

## AUTHORITY

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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

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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 AUDITS

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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 audit 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 audit will occur approximately six months after the issuance of the first follow-up audit report. Any audit recommendations not implemented after the second follow-up audit will be shared with the Board/Audit Subcommittee of the Executive Committee at its next scheduled meeting.

## INTERNAL CONTROL SYSTEM

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An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by Metropolitan management 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 the Metropolitan and/or external changes impacting the district.

## METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

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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 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 financial, 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



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** May 31, 2024  
**To:** Scott Suzuki, General Auditor  
**From:** Adel Hagekhalil, General Manager  
**cc:** Gonzalo Barriga, Chief, Office of Safety, Security, and Protection  
Deven Upadhyay, Executive Officer and AGM  
**Subject:** Updated Management Response to Audit Number 22-3051

Please find below the management response to the Fuel Regulations Compliance Audit. Thank you for working with my team to ensure clarity and accuracy during the response process. I look forward to working with you throughout the implementation of the recommendations to ensure the effectiveness of our safety protocols and programs. This Management Response was prepared by the subject area lead(s) under the coordination of Gonzalo Barriga, chief officer for Safety, Security and Protection. Please do not hesitate to contact me or my chief of staff Mohsen Mortada if you would like to discuss our response or any other matters.



**Fuel Regulations Compliance  
Project Number: 22-3051  
Management Response**

<b>OBSERVATION 1</b>		<b>Required UST Documentation</b>
		Required UST documentation was not consistently maintained as required.
<b>RECOMMENDATION 1</b>		We recommend Safety, Regulatory & Training (SRT) Management:
<b>PRIORITY 3</b>		
		<ul style="list-style-type: none"> <li>(1) Implement and appropriately maintain a UST document binder at Lake Matthews.</li> <li>(2) Conduct periodic reviews of UST Recordkeeping Requirements at sites that must maintain documentation to ensure compliance with government regulations including document retention requirements.</li> <li>(3) Develop plans to implement an electronic UST alarm logbook solution per tank and submit for CIP inclusion.</li> </ul>
<b>X</b>	<b>AGREE</b>	<p><b>MANAGEMENT ACTION PLAN</b></p> <ul style="list-style-type: none"> <li>(1) Document box has been placed and labeled by the UST panel at Lake Matthews to reflect the location of the UST document binder.</li> <li>(2) Periodic reviews of UST Recordkeeping Requirements are conducted during annual monitoring certification pre-inspections. A checklist has been revised to ensure all documents and retention times are listed.</li> <li>(3) SRT will be modifying the UST Alarm Logbook requirements in HSE 207.101. All alarms are digitally maintained in the tank monitoring systems which satisfies the regulatory requirement. SRT will instruct the CIP UST study to prioritize available systems that provide electronic records of UST alarms.</li> </ul>
		<p><b>ESTIMATED IMPLEMENTATION</b></p> <ul style="list-style-type: none"> <li>(1) Completed February 2024</li> <li>(2) Completed April 2024</li> <li>(3) June 2024</li> </ul>
		<b>EXPLANATION</b>
<b>PARTIALLY AGREE</b>		
<b>DO NOT AGREE</b>		

<b>OBSERVATION 2</b>		<b>Facility Employee UST Training</b>
		UST Training scheduling, attendance, and record management did not consistently occur as required.
<b>RECOMMENDATION 2</b>		We recommend SRT Management:
<b>PRIORITY 3</b>		



			<ul style="list-style-type: none"> <li>(1) Establish processes to ensure UST training is provided and completed within required time frames, and documentation of training is maintained as required.</li> <li>(2) Implement a monitoring program to identify and remediate non-compliance promptly.</li> </ul>
X	AGREE	<b>MANAGEMENT ACTION PLAN</b>	<ul style="list-style-type: none"> <li>(1) SRT will be modifying the HSE 207 Section 4.10 to clarify that records must be maintained on-site or off-site at a readily accessible location and made available upon request within 36 hours.</li> <li>(2) SRT will draft a bulletin to remind custodians and managers of required annual training and changes in course naming. Additionally, on a quarterly basis, SRT will identify the training status of employees overseeing alarm response and convey this to their managers to ensure timely registration of training courses. SRT is also evaluating the option of adding the required training to plans on a semi-annual basis to ensure at least one class is attended.</li> </ul>
		<b>ESTIMATED IMPLEMENTATION</b>	<ul style="list-style-type: none"> <li>(1) June 2024</li> <li>(2) UST Training Reminder Bulletin –June 2024; UST Training Monitoring – Completed Feb 2024; Follow-Up for Missed Training Implementation – July 2024</li> </ul>
	PARTIALLY AGREE	EXPLANATION	
	DO NOT AGREE		

<b>OBSERVATION 3</b>		<b>Spill Prevention Control and Countermeasure (SPCC) Plans</b>
		Certain pumping plant SPCC Plans were not updated, approved, and certified as required.
<b>RECOMMENDATION 3</b>		We recommend SRT Management:
<b>PRIORITY 3</b>		<ul style="list-style-type: none"> <li>(1) Finish updating, publishing, and certifying the Eagle Mountain and Hinds SPCC Plans.</li> <li>(2) Establish processes and monitoring procedures to ensure plans are timely reviewed, certified, and approved every five years.</li> </ul>
X	AGREE	<b>MANAGEMENT ACTION PLAN</b>
		<ul style="list-style-type: none"> <li>(1) The Hinds and Eagle Mountain SPCC Plans have been updated and they are currently in review and certification process.</li> <li>(2) The SPCC Plan requirements are included as tasks in SRT's HSE Management System. Additionally, auto-generated email notifications will be sent as deadlines approach. SRT will also be creating workflows in the system that will track each step of</li> </ul>



	<b>ESTIMATED IMPLEMENTATION</b>	the SPCC Plan process to monitor the progress and ensure all regulatory requirements are met. (1) Hinds Completed March 2024, Eagle Mountain June 2024 (2) HSE Management Task and Workflow Update Completed April 2024
<input type="checkbox"/> PARTIALLY AGREE <input type="checkbox"/> DO NOT AGREE	<b>EXPLANATION</b>	

<b>OBSERVATION 4</b>	<b>UST Permit and Leak Response Plan Posting</b>
	Certain site UST Permit and Leak Response Plans were not posted.
<b>RECOMMENDATION 4</b> <b>PRIORITY 3</b>	We recommend SRT Management post the current UST permit and updated Leak Response Plan for Mills and Lake Matthews near the UST System, as required.

<input checked="" type="checkbox"/> <b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>	HSE 207 was updated in January 2022 to reflect that permits are required to be “posted on-site at or near the UST system” to reflect the actual regulatory requirements. The UST document box, containing the Leak Response Plan at Lake Matthews has been labeled and placed by the UST monitoring panel. SRT will be posting signage at Mills to more clearly identify the location of the UST document box and its Leak Response Plan. SRT will consult with Fleet and Plant Management to determine the most appropriate place to post the UST permits and will place signs by the UST indicating the actual conspicuous location of the UST Permit Posting.
	<b>ESTIMATED IMPLEMENTATION</b>	Lake Matthews Leak Response Plan – Completed February 2024 Lake Matthews Permit Posting and Signage – Completed April 2024 Mills Leak Response Plan, Permit Posting and Signage – Completed April 2024
<input type="checkbox"/> PARTIALLY AGREE <input type="checkbox"/> DO NOT AGREE	<b>EXPLANATION</b>	

<b>OBSERVATION 5</b>	<b>UST Alarm Logbook Record Retention</b>	
	Metropolitan’s record retention policy for UST Alarm Logbooks exceeds governmental compliance requirements.	
<b>RECOMMENDATION 5</b> <b>PRIORITY 3</b>	We recommend SRT Management align internal UST Alarm Logbook retention requirements to regulatory requirements.	
<input checked="" type="checkbox"/> <b>AGREE</b>	<b>MANAGEMENT ACTION PLAN</b>	SRT will be revising the HSE 207 Section 4.10 to reflect that UST Alarm Logs should be maintained for 3 years. The UST Alarm Logs are supporting documentation for the regulatory required Monthly UST Designated





		Operator Visual Inspection Reports and as such, will be maintained for the same duration and in the same location (UST document box).
	<b>ESTIMATED IMPLEMENTATION</b>	June 2024
<b>PARTIALLY AGREE</b>	<b>EXPLANATION</b>	
<b>DO NOT AGREE</b>		

