

Report #2020-07

HOOVER, TOLL, AND KEPPEL RECYCLED WATER PROJECT AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

05.29.2020



Contents:

A. Overview.....	2
B. Action Plan and Target Completion Dates.....	3
C. Background	3
D. Objective, Scope and Methodology	5
E. Observations, Recommendations, & Management Responses Matrix.....	6
Appendix 1: Definitions of Priority Rankings and Value-Added Categories.....	7

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Acknowledgment

We would like to thank Glendale Water and Power personnel for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Sameel Salim, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov

This report is also available online at <http://www.glendaleca.gov>

A. Overview

Key Outcomes

Glendale Water and Power (GWP) completed its design and construction of approximately 5,890 linear feet of eight-inch recycled water pipeline to bring recycled water supply to Herbert Hoover High School, Eleanor J. Toll Middle School, and Mark Keppel Elementary School. The project was partially funded by Proposition 84 grant¹, completed under budget, and on schedule. However, none of the three schools have built the onsite upgrades necessary to connect to the newly constructed recycled water lines, and as a result no actual reduction of potable water was achieved, which is one of the grant requirements. Unless the City finds a way to reduce potable water usage from this project, the \$1.7M grant fund could be at risk.

Internal Audit identified two improvement opportunities related to compliance, cost saving, and risk reduction.

Impact Dashboard

This table summarizes the applicable value-added categories (total 4) for the one recommendation based on priority rankings.

	Value Added Categories				Innovation Opportunities
	Compliance	Cost Saving	Efficiency	Risk Reduction	
Priority 1 1	1	1	0	1	0
Priority 2 0	0	0	0	0	0
Priority 3 1	1	0	0	0	0

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

¹ GWP stated they received a small portion (approximately \$80k) of the grant reimbursement and is in the process of re-submitting the final reimbursement request.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 1		
1.	Work with the Glendale Unified School District to assist them in completing their portion of the project in order to fulfil the grant requirements and project goals. <i>Value added:</i> Compliance , Cost Saving , Risk Reduction	09/30/2020
Priority 3		
2.	Include total project expenditures in the project costs reported to the State. <i>Value added:</i> Compliance	09/30/2020

C. Background

In accordance with the Fiscal Year 2019-20 annual work plan, Internal Audit performed an audit of the Hoover, Toll, and Keppel Recycled Water Project. The recycled water project (Project) was administered by the Water Services Division, one of the six divisions within GWP. The mission of the Water Services Division is to provide safe and reliable water services that meet or exceed regulatory water quality requirements while optimizing the local production of water resources including water recycling, and efficiently pumping and storing water to minimize energy use.

Proposition 84 Funding

The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act, also known as Proposition 84 (Prop 84), authorized the Legislature to appropriate \$1.5 billion for water supply reliability, conservation, and water use efficiency projects. The Los Angeles County Flood Control District is the body that reviews and packages grants, and accepts and disburses funds for the Greater Los Angeles County Region.

The Project was approved for Prop 84 funding, based on a total estimated project cost of \$2,595,490. The grant funded amount was approved to be \$1,687,499 (65%), with the remaining \$907,991 (35%) to be paid by the City.

Project Description

According to the approved grant, the Project was to install approximately 5,890 linear feet of new 8" PVC recycled water main to offset approximately 55 AFY (acre/feet/year) of potable water with recycled water for non-potable purposes. The Project was to provide a secondary benefit of improved water quality by reducing the amount of recycled water, along with the associated chloride, total dissolved solids, and copper, discharged to the Los Angeles River.

Design Build Construction

The Project was built using the Design Build construction method. This is a project delivery system where the project owner awards a single contract to a single entity to perform both design and construction. By consolidating design and construction with one entity, project time and costs can be reduced. Additionally, if the completed project fails to meet any or all of the operative project criteria, the design-builder is responsible to the project owner regardless of whether the failure results from inadequate design or from defective construction.

Request for Proposal

Internal Audit reviewed the Request for Proposal and verified that most of the common risks associated with this type of construction were addressed and appropriately allocated between the design builder and the City.

On July 21, 2016, GWP advertised the Request for Proposal for the design-build of the Project. One proposal was received on September 1, 2016, the due date for submissions. The singular proposal was from J. De Sigio Construction, Inc. (JDC) in the amount of \$1,693,000. Based on the selection criteria in the RFP, JDC was awarded the design-build contract.

Project Completion

The project was completed in December 2017, on schedule and under budget. The original estimated total Project cost, which the grant amount was based upon, was \$2.6 million. The project was completed under budget at \$1.98 million. However, although the City built the capacity for the schools to take advantage of utilizing lower cost recycled water, as of this audit report, neither of the three schools have connected to the City's recycled water lines.

GWP has been in discussions with the Glendale Unified School District (GUSD), but there is currently no indication if GUSD intends to connect to the recycled water lines in the near term. According to GWP, no written agreement was obtained from GUSD prior to starting the Project, therefore it is uncertain what after the fact measures GWP can now employ to incentivize the schools to connect to the Project.

Grant Funding Status

The City is currently in the process of requesting full grant reimbursement. The State has been informed that the total project costs were lower than originally estimated. The State has indicated they may still honor the original grant amount of \$1.7M, even though it is

being applied to a lower total cost. However, as this process is currently taking place, it is not certain what the final grant amount ultimately will be. It is also uncertain what impact the schools not connecting to the Project will have on the grant amount.

D. Objective, Scope and Methodology

The objective of this audit was to determine whether the contract provisions were appropriately followed and if the costs were eligible for reimbursement under Prop 84 grant.

The scope of this audit covers the Hoover, Toll, and Keppel Recycled Water Project Contract between JDC and the City.

In order to accomplish the audit objectives, Internal Audit performed the following:

- Interviewed GWP personnel regarding the Project.
- Obtained and reviewed applicable Project documentation.
- Performed detailed testwork on JDC invoices.
- Performed limited review of the Grant Agreement Between the State of California, Department of Water Resources and Los Angeles County Flood Control District (Agreement Number 4600011488) (Prop 84) to determine reimbursement requirements.
- Researched best practice documentation for design-build contracts.

As a result of these audit procedures performed, two observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Work with GUSD to Achieve Project Goals		
Priority 1	<p>The Project was supposed to offset approximately 55 AFY of potable water with recycled water for non-potable purposes. However, per GWP, no written agreement was obtained from the schools prior to starting construction and none of the three schools have connected to the recycled water lines.</p> <p>The Project has not reduced the City's potable water usage, as required by the grant, and therefore the grant amount of \$1.7 million could be at risk.</p>	<p>GWP perform the following:</p> <ul style="list-style-type: none"> Actively engage GUSD in an attempt to build what is necessary to complete the project, including determining what incentives, if any, the City can provide to expedite this process. Prior to starting any project that is dependent on an external party's actions, a written agreement should be obtained. 	<p>Agreed and will implement by September 30, 2020.</p> <p>GWP will actively engage GUSD in an attempt to complete this project. Legal will be consulted to determine what incentives, if any, can be offered to expedite this process.</p> <p>In the future, written agreements will be obtained from external parties prior to starting a project.</p>
2.	Include 2018 Calendar Year Costs to Total Project Costs		
Priority 3	<p>The total expenses for the Project initially reported to the State was incomplete and did not include Calendar Year 2018 expenses of \$12,784.</p>	<p>GWP include Calendar Year 2018 expenses in their total and provide this updated figure to the State.</p>	<p>Agreed and will implement by September 30, 2020.</p> <p>GWP will provide updated project costs to the State.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.