



## **Internal Audit Report for March 2019**

### **Summary**

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Two reports were issued during the month:

- 1. Whitewater Siphons Erosion Protection Project Audit Report**
- 2. Quarterly Consulting and Services Contracts Review Report for Period Ending September 30, 2018**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during March 2019. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

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## **Whitewater Siphons Erosion Protection Project**

The Audit Department has completed a review of the accounting and administrative controls over the Whitewater Siphons Erosion Protection Project (104543) as of November 30, 2018. Specifically, we reviewed Metropolitan's contract #1850 with Rockforce Construction LLC (Rockforce) and agreement #136235 with Helix Environmental Planning, Inc. (Helix).

### **Scope**

Our review consisted of evaluating the internal controls over contract administration and reporting practices. Specifically, we reviewed the vendor selection process, tested compliance with terms and conditions of the contracts, and evaluated the validity and propriety of invoice payments for assurance that the amounts billed were properly calculated and adequately supported.

### **Background**

The Colorado River Aqueduct (CRA) passes beneath the Whitewater River via double-barreled, reinforced concrete siphons. Constructed in 1941, the siphons are buried from four to fifteen feet beneath the river bed just north of the city of Palm Springs and are protected by a concrete slab located on the ground surface. Over time, stream flows eroded the soils supporting the slab, resulting in a 40 foot wide, 30 foot long, and 15 foot deep depression directly downstream. Unabated, stream flows would have eventually undermined the foundation of the siphons, necessitating an unplanned CRA shutdown for emergency repairs.

In March 2013, the Board authorized final design of erosion protection measures for the Whitewater Siphons. Simultaneously, the Board awarded a \$303,000 contract to Helix to prepare and process permit applications pursuant to Sections 401 and 404 of the Federal Clean Water Act and Section 1602 of the California Fish and Game Code.

Subsequently, in March 2017, the Board awarded a \$5,285,000 contract to Rockforce for erosion protection, of which \$5,020,750 was paid. The work included construction of east and west gabion berms, an access road, a gabion drop structure and mattress; placement of cellular concrete to prevent overloading of the siphons; installation of a temporary flow diversion structure to protect the work site over the term of the construction work (two winter seasons); and modification of existing earthen berms, concrete slabs, and grouted riprap.

We examined seven Rockforce invoices totaling \$4,356,138 and seven Helix invoices totaling \$178,655. The project was completed in November 2018.

### **Opinion**

In our opinion, the accounting and administrative controls over the Whitewater Siphons Erosion Protection Project include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period January 1, 2017 through November 30, 2018.

### **Comments and Recommendations**

None

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## **Quarterly Consulting and Services Contracts Review Report for Period Ending September 30, 2018**

We reviewed the Report of Professional Services Agreements (Professional Services Report) and the Report of Contracts for Equipment, Materials, Supplies, and Routine Services of \$250,000 or Above Contracts (Contracts Report) for the First Quarter of fiscal year 2018/19, issued by the Chief Administrative Office. The purpose of this review is to gain reasonable assurance that information included in these reports is accurate, complete, timely, and in compliance with the Metropolitan Water District Administrative Code.

### **PROFESSIONAL SERVICES AGREEMENTS REPORT**

#### **Scope**

Our procedures included a cursory review of the reasonableness of the professional service expenditures and analysis of consultants with multiple active agreements, to determine whether an agreement was split into smaller contract amounts to circumvent established approval limits. We also evaluated whether statistics in the Professional Services Report were adequately

supported, and assessed the timeliness of board reporting.

**Background**

Administrative Code Section 2720(e)(2) requires that the General Manager report to the Organization, Personnel and Technology Committee on the employment of any professional and technical consultant, the extension of any professional and technical consulting agreement, and on the Exercise of Authority under Sections 8121(c) and 8122(h) during the preceding calendar quarter. The Administrative Code also requires the Professional Services Report to indicate when a consultant is a former Metropolitan employee. Administrative Code Sections 2721-2723 require the General Counsel, General Auditor and Ethics Officer to report quarterly to their respective committee concerning any expert or professional service agreements executed pursuant to their authority under the Administrative Code.

The Professional Services Report is prepared on a quarterly and annual basis to comply with these Administrative Code requirements and identify those contracts administered by the General Manager, General Counsel, General Auditor, and Ethics Officer.

During the quarter ending September 2018, the Professional Services Report disclosed that \$15.4 million was paid for consulting and professional services. It should be noted that totals reported under the General Counsel’s authority exclude payments related to the San Diego County Water Authority litigation, which is accounted for under the Self-Insurance Retention Fund.

For the quarter ending September 2018, 53 of 384 agreements were sole-source agreements totaling \$1.5 million. This represents 10% of total fiscal year-to-date expenditures for fiscal year 2018/19. We also noted that 83 of 384 agreements were small purchases of less than \$24,999, totaling \$277,751. See tables below for detail:

**Fiscal 2018/19**

Year-to-Date Q1	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$15,236,198	\$423,174*	\$154,300	\$9,725
Active Agreements	349	111	1	2
Agreements Terminated	30	7	1	1

\* For agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source	Total**
\$296,150	\$8,429,797	\$4,928,481	\$277,751	\$1,468,044	\$15,400,223
12	40	196	83	53	384
2%	55%	32%	2%	10%	100%

Total does not include General Counsel’s Expenditures

## **Opinion**

Our review did not reveal any agreements that appeared to be unreasonable or split to override established approval limits. In addition, our review did not reveal any material differences between the reported amounts and supporting documentation. Finally, we noted the Professional Services Reports for the quarter ending was issued to the Board on December 11, 2018.

## **CONTRACTS FOR EQUIPMENT, MATERIALS, SUPPLIES, AND ROUTINE SERVICES OF \$250,000 OR ABOVE REPORT**

### **Scope**

Our procedures included a cursory review of the reasonableness of expenditures. We also verified that all contracts of \$250,000 or more for specified items were included in the Contracts Report and adequately supported. Finally, we assessed the timeliness of board reporting.

### **Background**

Administrative Code Section 2720(e)(2) requires that the General Manager report to the Organization, Personnel and Technology Committee on the execution of any contract authorized under Section 8122(g) – Contracts for Equipment, Materials, Supplies and Routine Services. This code section states that the General Manager may execute contracts for the purchase of materials, supplies, and other consumable items such as fuels and water treatment chemicals generally identified in the budget regardless of dollar value, provided that sufficient funds are available within the adopted budget for such purchases.

The Contracts Report is prepared on a quarterly basis to report on contracts that comply with these Administrative Code requirements. During the quarter ending September 30, 2018, the Contracts Report disclosed seven contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$11.2 million. Four of these contracts were awarded as a result of competitive bidding under Administrative Code Section 8140-Competitive Procurement.

### **Opinion**

Our review did not reveal any discrepancies between contracts and amounts shown in the Contracts Report, and supporting documentation. We also noted that the policies and procedures for competitive bidding and sole source agreements are in place. Finally, we noted quarterly report was issued to the Board on December 11, 2018.