



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Report**  
Office of General Auditor

## **Internal Audit Report for March 2020**

### **Summary**

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One report was issued during the month:

#### **Quarterly Consulting and Services Contracts Review Report for Period Ending December 31, 2019**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during March 2020. 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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#### **Quarterly Consulting and Services Contracts Review Report for Period Ending December 31, 2019**

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 Second Quarter of fiscal year 2019/20, 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**

#### **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 December 2019, the Professional Services Report disclosed that \$35.4 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 December 2019, 42 of 386 agreements were sole-source agreements totaling \$1,928,906, representing 5% of year-to-date expenditures for fiscal year 2019/20. We also noted that 99 of 386 agreements were small purchases of less than \$74,999, totaling \$739,797, representing 2% of year-to-date expenditures for fiscal year 2019/20. See the tables below for detail:

### **Fiscal 2019/20**

Year-to-Date Q2	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$34,922,631	\$501,738*	\$456,685	\$19,263
Active Agreements	371	128	1	2
Agreements Terminated	12	20	-	-

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

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source	Total**
\$364,501	\$19,684,442	\$12,680,932	\$739,797	\$1,928,906	\$35,398,578
9	42	194	99	42	386
1%	56%	36%	2%	5%	100%

\*\* Does not include General Counsel's Expenditures

### **Testing Procedures Performed**

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 agreements were 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.

### **Testing results**

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 Report was issued to the Board on March 10, 2020.

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

### **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 quarterly to report on contracts that comply with these Administrative Code requirements. During the quarter ending December 31, 2019, the Contracts Report disclosed six contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$9.35 million. Four of these contracts were awarded as a result of competitive bidding under Administrative code section 8140 – Competitive Procurement, whereas the remaining eight were sole-sourced.

### **Testing Procedures Performed**

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.

### **Testing results**

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 for the quarter ending December 31, 2019 Contracts Report was issued to the Board on March 10, 2020.