



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

## Report Office of General Auditor

### Internal Audit Report for August 2020

#### Summary

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One report was issued during the month:

**Consulting agreements with Project Partners, LLC (Project Partners) - 177915, Carollo Engineers, Inc. (Carollo) - 180287, and HDR Engineering, Inc. (HDR) - 178378**

#### Discussion Section

This report highlights the significant activities of the Internal Audit Department during August 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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#### Consulting agreements with Project Partners, Carollo, and HDR

The Audit Department has completed a review of the accounting and administrative controls over consulting agreements with Project Partners, LLC (Project Partners) - 177915, Carollo Engineers, Inc. (Carollo) - 180287, and HDR Engineering, Inc. (HDR) - 178378 as of June 30, 2020.

#### Scope

Our review consisted of evaluating the accounting and administrative controls over the consultant selection process, reviewing agreement administration and reporting practices, and testing compliance with terms and conditions of the agreements. Additionally, we evaluated the validity and propriety of invoice payments for assurance that the amounts billed were calculated correctly and adequately supported.

#### Background

The Engineering Services Group is responsible for ensuring Metropolitan meets its mission of delivering adequate and reliable supplies of high-quality water to its 5,200 square mile service area. They provide routine maintenance of Metropolitan's five water treatment plants, nine reservoirs, 16 hydroelectric facilities, conveyance and distribution system, and the Colorado River Aqueduct. Also, they provide oversight of Metropolitan's Capital Investment Plan, which sustains long term reliability of the delivery and treatment system.

The Engineering Services Group advances these goals by providing technical resources and delivering projects that help Metropolitan meet its mission. Specifically, they provide program

management, engineering design, construction management, and facility planning services. In addition, they provide oversight of various consulting agreements used to supplement in house resources and provide specialized skills to complete these tasks. Our audit consisted of a review of three such contracts.

### Project Partners

The first agreement reviewed was a contract for the deployment of a new Project Controls Reporting System (PCRS) to replace the existing control system that is functionally obsolete. Metropolitan's existing project reporting system, the Project Management Information System (PMIS), was created in the early 1990s to provide summary-level reports on capital project budgets and expenditures. The performance of this custom-designed system has diminished over time, and the application is no longer functional due to a recent upgrade to Metropolitan's enterprise financial application, Oracle E-Business Suite (Oracle EBS). Further, PMIS utilized software and custom programming that the developer no longer provides fixes, updates, or technical assistance.

Accordingly, in September 2014, the Board authorized an agreement with CH2M Hill, Inc., to complete design work for the PCRS. Subsequently, in October 2017, the Board authorized a \$2.65 million contract with Project Partners to implement PCRS.

The scope of work for Project Partners includes: (1) installing, configuring, and testing the Primavera P6/Oracle EBS integration software; (2) creating the PCRS data warehouse; (3) upgrading the Primavera P6 software; (4) creating new standard schedules for all ongoing capital projects; (5) furnishing system-specific user manuals and technical documentation; and (6) creating the system's web-based user interface, dashboards, and reports. Metropolitan amended the agreement twice, and Project Partners completed the work in March 2020. The total funds paid to the contractor were \$2.97 million.

### Carollo

The second agreement reviewed resulted from a Request for Qualification (RFQ) issued to establish a pool of qualified firms to support projects related to Metropolitan's conveyance, storage, water treatment, and distribution facilities. Expressly, this RFQ stipulated that each respondent has expertise in the specialized design of siphon repairs. The project scope consisted of repairs on the Casa Loma Siphon Barrell No. 1, on the Colorado River Aqueduct (CRA) near Lake Perris. The siphon was constructed in 1935 and has been repaired several times due to cracks and leaks caused by its proximity to the Casa Loma seismological fault.

In 2017, Metropolitan's Board authorized repair of the siphon with an earthquake-resistant ductile iron pipe, which would allow it to remain intact in the event of a seismic event. Accordingly, Metropolitan selected Carollo from a prequalified pool of consultants for the specialized design of the siphon repairs. The work included geotechnical and geo-hazard investigations, development of design criteria for structural demands, utility investigations, determination of right-of-way needs, preparing pipe procurement specifications, and construction cost estimates. The \$2.5 million agreement was amended once and ran from May 30, 2018, through December 31, 2020. As of June 20, 2020, Metropolitan paid Carollo \$2.13 million.

### HDR

The final agreement reviewed was with HDR to provide preliminary engineering design services for Prestressed Concrete Cylindrical Pipe (PCCP) on the Sepulveda Feeder. This critical pipeline delivers treated water from the Jensen plant to an interconnection with the Second Lower Feeder in Torrance. This work is part of Metropolitan's PCCP Rehabilitation Program, a long-term plan to replace or reline at-risk PCCP lines, authorized by the Board in September 2011.

The scope includes utility research and mapping, preliminary geotechnical analysis, environmental site assessment, field reconnaissance, hydraulic analysis, surge analyses, access hole layout, permit plans, construction cost estimates, and CEQA project description. The contract was amended once and runs from August 1, 2018, through February 1, 2021. As of June 20, 2020, Metropolitan paid HDR \$3.5 million.

### Opinion

In our opinion, the accounting and administrative procedures over the consulting agreements with Project Partners, Carollo, and HDR include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period January 1, 2018, through June 30, 2020.

### Comments and Recommendations

#### COMPLIANCE TO AGREEMENT TERMS

Compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting detail, and adequate control over the administration of agreements. Furthermore, compliance with agreement terms and conditions confirms that parties fully discharge their duties and obligations and exercise their rights associated with the contracts.

Our audit revealed:

#### Work Performed Without an Active Task Order

Task Orders define a project's scope, cost, and schedule; as a component of the contract, they explain and authorize expenditures. Metropolitan's agreement with Carollo requires a completed, signed Task Order before any work begins.

We tested a sample of six paid Carollo invoices, totaling \$720,009. Invoice #0180544 included charges of \$37,986 for work related to Task Order #1, which expired on May 30, 2019. Further review revealed that the work started on 07/01/2019, although MWD and Carollo did not sign a completed, revised Task Order until December 2019.

Failure to obtain a signed Task Order before work begins increases the risk of unauthorized work and could make it more challenging to resolve contract disputes.

### Missing Certifications

Section 9 (d) of the Project Partners agreement with Metropolitan requires them to sign and certify that their invoices are true and correct.

Our review of twelve paid Project Partners invoices, totaling \$646,334, found that none included the required certification.

Failure to obtain required invoice certifications could result in the inability to enforce the rights under the agreement.

### Non-compliant Charges

The primary objectives in approving invoices for payment are to ensure that materials or services were received, that invoiced charges were correct, and that they complied with contractual terms. During our audit, we noted:

- Testing of six paid Carollo invoices, totaling \$720,009, disclosed upgraded airfare charges of \$70, which are prohibited by the contract.
- Testing of ten paid HDR invoices, totaling \$1,057,233, disclosed labor charges of \$3,317 that were not itemized by the date of service, as required by the contract.

Payment of vendor invoices with unauthorized charges results in financial losses to Metropolitan. Payment of vendor invoices that lack appropriate supporting documentation could result in financial losses due to errors or fraud.

### RECOMMENDATION

We recommend that management enforce existing procedures to ensure that all parties comply with contractual requirements from project inception to completion. Task Orders should be in place before contractors perform their work, and invoices should not be approved for payment unless all charges are valid, correct, and adequately supported.