



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Report**  
Office of General Auditor

## **Internal Audit Report for September 2020**

### **Summary**

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Two reports were issued during the month:

- 1. Quarterly Consulting and Services Contracts Review Report for Period Ending June 30, 2020**
- 2. Assistance to KPMG for Annual Financial Audit for the Fiscal Year 2020**

### **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during September 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 June 30, 2020**

We reviewed the reports for consulting and routine services contracts for the period ending June 30, 2020, issued by the Chief Administrative Office. This review included the Annual Report of Professional Services Agreements (Professional Services Report) for Fiscal Year 2019/20 and the Report of Contracts for Equipment, Materials, Supplies, and Routine Services of \$250,000 or Above (Contracts Report) for the Fourth Quarter of Fiscal Year 2019/20. The purpose of this review is to gain reasonable assurance that information included in these reports is accurate, complete, 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. The Administrative Code, Sections 2721-2723, requires the General Counsel, General Auditor, and Ethics Officer 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 fiscal year ending June 2020, the Professional Services Report disclosed that \$80.42 million was paid for consulting and professional services. We compared the amounts expended on professional services during this fiscal year against the prior fiscal year and noted an increase of \$10.69 million.

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 fiscal year 2019/20, 62 of 475 agreements, totaling \$4.3 million, were sole-sourced. In fiscal year 2018/19, 67 of 486 agreements, totaling \$6.4 million, were sole-sourced.

We also noted that 134 of 475 agreements, totaling \$2,149,575, were small purchases of less than \$74,999. In fiscal year 2018/19, such purchases represented 129 of 486 agreements and totaled \$1,242,764.

See tables below for details:

**Fiscal Year 2019/20**

Fiscal Year-to-Date	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$79,937,162	\$1,394,751	\$456,685	\$23,988
Active Agreements	369	141*	1	1
Terminated Agreements	103	39	-	1

\* Agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source
\$744,732	\$44,058,913	\$29,163,099	\$2,149,575	\$4,301,516
15	46	218	134	62
1%	55%	36%	3%	5%

Note: The categories do not include General Counsel Expenditures

**Fiscal Year 2018/19**

Fiscal Year-to-Date	General Manager	General Counsel	General Auditor	Ethics Officer
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Contract Expenditures	\$69,295,797	\$1,847,785	\$417,400	\$15,107
Active Agreements	362	132*	1	2
Terminated Agreements	120	12	-	1

\* Agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source
1,063,076	35,447,366	25,612,917	1,242,764	6,362,181
13	50	227	129	67
2%	51%	37%	2%	9%

Note: The categories do not include General Counsel Expenditures

### **Testing Procedures Performed**

Our procedures included a cursory review of the reasonableness of the professional service expenditures and an analysis of consultants with multiple active contracts to assess whether they had been split to circumvent established approval limits. We also evaluated whether statistics in the Professional Services Report were adequately supported and evaluated 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 disclose any material differences between the reported amounts and supporting documentation. Finally, we noted that the Professional Services Report was issued on September 15, 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 quarterly 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. Section 8122(g) states: “The General Manager may execute contracts for the purchase of materials, supplies, other consumable items such as fuels, water treatment chemicals, materials for construction projects and other bulk items, and for routine services such as waste disposal and maintenance services, which are generally identified in the budget, regardless of dollar value, provided that sufficient funds are available within the adopted budget for such materials, supplies, and routine services.”

During the quarter ending June 30, 2020, the Contracts Report disclosed twenty-two contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$27.76 million. Nine contracts were competitively bid, five were cooperative agreements, and eight were sole-source contracts authorized under Administrative Code Section 8140 – Competitive Procurement.

### **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 the specified items were included in the Contracts Report and were adequately supported. Further, we reviewed sole-source agreements for justification and approval. Finally, we assessed the timeliness of board reporting.

### **Testing results**

Our review did not reveal any discrepancies between the contracts and amounts shown in the Contracts Report and supporting documentation. We also noted that policies and procedures for competitive bidding, cooperative agreements, and awarding sole-source contracts are in place. Finally, we noted that the quarterly report was issued to the board on September 15, 2020.

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## **Assistance to KPMG for Annual Financial Audit for the Fiscal Year 2020**

As part of Metropolitan’s external audit services agreement with KPMG LLP (KPMG), we assisted in their performance of the annual year-end audit of the District, Delta Conveyance Authority (DCA), and Colorado River Association (CRA). Due to COVID-19 restrictions, the external auditors conducted the entire audit remotely. While assisting KPMG and working with District staff, we employed innovative approaches to conducting necessary transaction testing, and we remotely observed the year-end water inventory verification. Additionally, we used zoom video conferences to hold planning meetings and perform essential real-time observations. Specifically, Internal Audit assisted with:

- OPEB Testing
- Pension Testing
- DCA Cash Disbursements Testing
- DCA Cash Receipts Testing
- Payroll Testing
- Water Inventory Testing
- Six Agency and CRA Receipts Testing
- Six Agency and CRA Disbursements Testing