



Office of the General Auditor

• General Auditor's Report for August 2024

Summary

This report highlights significant activities of the Office of the General Auditor for the month ended August 31, 2024.

Purpose

Informational

Attachments

1. Final Report on Contract Audit: IBI Group, Agreement No. 178689

Detailed Report

Audit & Advisory Projects

Twenty-seven projects are in progress:

- Ten audit projects are in the report preparation phase, including:
 - One draft report pending management response (Surplus Personal Property, originally due 8/19/2024)
 - One preliminary draft report issued (Employee Tuition Reimbursement)
- Seventeen projects are in the execution phase, including nine audits and eight advisories; entrance letters were issued this period for:
 - Oracle Services Procurement Advisory
 - Grants Management Advisory

Work priority is being given to the ten (down one from last month) carryforward audits.

Follow-Up Reviews

Nine audits from prior fiscal years are in the follow-up phase:

- Six follow-up reviews are in progress
- One final report is in progress (Stores Inventory), expected release September 2024
- Two follow-up reviews are pending return of the follow-up review form from management:
 - Fleet Management & Maintenance (10 recommendations, originally due 3/27/2024)
 - Fuel Management (32 recommendations, originally due 4/19/2024)

Final Report

1. **Contract Audit: IBI Group, Agreement No. 178689** (project number 22-2102-01) issued August 20, 2024
 - Audit scope included reviewing internal controls over the administration and accounting of the contract from February 13, 2018 to October 31, 2021.
 - One recommendation with the following rating: **Priority 2**.

Date of Report: September 10, 2024

Board Report (General Auditor's Report for August 2024)

Other General Auditor Activities

1. **Continuing Professional Education**

Department attended Auditing for Fraud in Government Procurement & Contracting training seminar.

2. **Weymouth Site Visit**

Department personnel met with Fleet management to gain an understanding of their role in the zero emissions initiative.

3. **Civil & Inclusive Workplace Training**

Department head attended executive session.

4. **Internal Quality Assessment**

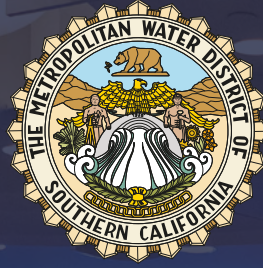
Preparation for the annual internal quality assessment required by professional internal auditing standards is in progress; surveys were distributed to department staff, the Board, and management.

5. **Senior Audit Manager Recruitment**

Collaboration with Human Resources to fill this position is in progress.

6. **External Auditor Support**

Assistance to external auditor Macias Gini & O'Connell LLP continues in accordance with their work plan.



Office of the General Auditor _

Contract Audit: IBI Group Agreement No. 178689

Project Number: 22-2102-01
August 20, 2024

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Executive Summary

BACKGROUND

Metropolitan safeguards personnel at the Headquarters Building through a multi-layered approach. Based on a comprehensive assessment and in line with the Department of Homeland Security and the General Services Administration guidelines for public buildings, several enhancements and physical security features were sought.

In February 2018, Metropolitan's Board authorized the final design of the physical security improvements to the headquarters building and for management to enter into an agreement with IBI Group (IBI), a California Partnership, to provide specialized security design and architectural services. Due to their extensive experience in security design and retrofit of high-rise buildings, IBI was selected from a pool of prequalified consultants (Request for Qualifications No. 1040) for on-call and project-specific architectural services.

In April 2018, Metropolitan signed a three-year, \$890,000 agreement with IBI, effective April 2018 through March 2021, for the final design of the physical security improvements. The scope of the IBI agreement included field investigations, detailed architectural and engineering design, preparation of drawings and specifications, and technical assistance during the bidding process. Metropolitan staff provided technical oversight and overall project management and obtained required permits.

In January 2019 and November 2019, the agreement was amended to increase the scope of work and extend the agreement until March 2023, with a maximum amount payable of \$2,445,000. Additional work included the design of upgrades of the audio-visual systems in the Board and committee rooms at headquarters and the Building Automation System (BAS), and technical support during the construction phase of each element. As of the report date, the contract not-to-exceed amount is \$3,350,000, with total payments to IBI under this agreement totaling \$2,522,237. The increase is for design activities for additional scope and technical support during construction.

WHAT WE DID

Our audit scope included reviewing the internal controls over the administration and accounting of the IBI agreement (No. 178689) from the Board approval date of February 13, 2018 to October 31, 2021.

Our audit objectives were to:

- (1) Determine if the procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Determine if the contract administration (including task orders and deliverables) and reporting processes adhered to Metropolitan's policies and procedures.
- (3) Determine if charges paid to the consultant were submitted timely, and were authorized, complete, and accurate.
- (4) Determine if tasks were delivered by the consultant in a timely manner.
- (5) Determine if consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

WHAT WE CONCLUDED

- (1) The procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Contract administration and reporting processes generally adhered to Metropolitan policies and procedures.
- (3) Charges paid to the consultant were authorized and accurate; however, contractual compliance monitoring should be enhanced.
- (4) Tasks were delivered by the consultant in a timely manner.
- (5) Consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

WHAT WE RECOMMEND

We recommend management ensure that contract terms and conditions for invoicing are complied with.

Management agreed with our observation and recommendation.

NUMBER OF RECOMMENDATIONS



PRIORITY 1
Response time:
Immediate



PRIORITY 2
Response time:
Within 90 days



PRIORITY 3
Response time:
Within 180 days



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: August 20, 2024
To: Executive Committee
From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor
Subject: Contract Audit: IBI Group, Agreement No. 178689
(Project Number 22-2102-01)

This report presents the results of our contract audit of the IBI Group, Agreement No. 178689.

Results, including our observations and recommendations, follow this letter. Supplemental information, including our scope and objectives, is included in Appendix A. Appendix B includes a description of our new recommendation priority rating system. Finally, management's response to our audit is now included in Appendix C.

We appreciate the cooperation and courtesies provided by the Office of the General Manager and the Engineering Services Group.

The results in this report will be summarized for inclusion in a status report to the Board. If you have any questions regarding our audit, please do not hesitate to contact me directly at 213.217.6528 or Deputy General Auditor Kathryn Andrus at 213.217.7213.

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
Engineering Services Group Distribution
External Auditor

RESULTS

RECOGNITION

Positive aspects observed during our audit include:

- ◆ Procurement procedures, which include solicitation, selection, and awarding of the consultant contract (agreement), were properly followed.
- ◆ The contract was properly authorized.
- ◆ Insurance certificates for the consultant were kept current and in Oracle.
- ◆ Tasks were delivered timely.
- ◆ Payments were properly approved and within the approved funding limit.
- ◆ Consultant expenditures were charged to the appropriate project, subaccount, and appropriation.
- ◆ The small vendor/disabled veteran business enterprise participation level of 18% was on track to be met.

RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
PRIORITY 1				
	None			
PRIORITY 2				
1	Certain contractual terms for invoices were not complied with.	Over-payments Unauthorized charges Interest charges from late payments	Ensure contract terms and conditions for invoicing are complied with. Conduct periodic reviews.	Agree
PRIORITY 3				
	None			



OBSERVATIONS & RECOMMENDATIONS

1 Contractual Compliance

Certain contractual terms for invoices were not complied with.

Review and approval controls are designed to verify the accuracy of billings for services, provide assurance as to the propriety of transactions, confirm compliance with contractual terms and conditions, and ensure that follow-up procedures for exceptions exist. Further, compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate control over the administration of the agreement.

We selected 41 invoices (totaling \$778,906) submitted against the original agreement and subsequent amendments for detailed testing.

- (1) Sixteen of 41 (39%) invoices, totaling \$345,424, were submitted between 90 days and 303 days after the work invoiced had been completed. Metropolitan's agreement (section 9c) with the consultant states, "invoices submitted 90 days after completion of work, may be delayed or not paid."
- (2) One of 41 (2%) invoices included sub-consultant charges of \$637.50 incurred 18 months prior to the invoice date.
- (3) One of the 41 (2%) invoices tested did not itemize sub-consultant labor charges of \$4,895 by date, rate, and title. Metropolitan's agreement (section 9(b)(ii)) with the consultant states, "those invoices with consultant and sub-consultant labor charges shall be itemized by date of service, employee name, title/classification, corresponding labor rate..."

Priority 2

Failure to comply with agreement terms and conditions could result in overpayment, unauthorized charges, or interest charges for late payments.

Recommendation 1

We recommend the Engineering Services Group Agreement Administrator and Project Manager:

- (1) Ensure the consultant complies with the terms and conditions of the agreement.
- (2) Conduct periodic reviews to ensure compliance.

Management Response

The Engineering Services Group concurs that compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate control over the administration of the consultant agreements. Engineering Services Group has established procedures for review, control, and verification of compliance of the invoices submitted by consultants.



Agreement Administrators and Project Managers are aware of these procedures and the contractual requirements. They hold regular meetings with the consultants to discuss work progress and pending invoices for the work completed. As noted, the consultant did not submit several invoices to Metropolitan within the contractual timeframe.

We will remind Agreement Administrators of the importance of holding regular meetings and documenting communication with consultants to ensure compliance with the agreement, including submitting invoices and subconsultant charges within the required time frame and itemizing subconsultant charges in the required manner. We will reinforce this message during scheduled training and staff meetings as appropriate.

EVALUATION OF MANAGEMENT'S RESPONSE

Internal Audit considers management's response appropriate to our recommendations, and their planned actions should resolve the condition identified in the report.

AUDIT TEAM

Kathryn Andrus, CPA, Deputy General Auditor
Chris Gutierrez, CPA, CIA, Audit Program Manager
Neena Mehta, Senior Deputy Auditor



APPENDIX A: SUPPLEMENTAL INFORMATION

SCOPE & OBJECTIVES

Our audit scope included reviewing the internal controls over the administration and accounting of the IBI Group agreement (No. 178689) from the Board approval date of February 13, 2018 through October 31, 2021.

Our audit objectives were to:

- (1) Determine if the procurement of the consultant contract was properly authorized, processed, and managed.
- (2) Determine if the contract administration (including task orders and deliverables) and reporting processes adhered to Metropolitan's policies and procedures.
- (3) Determine if charges paid to the consultant were submitted timely, and were authorized, complete, and accurate.
- (4) Determine if tasks were delivered by the consultant in a timely manner.
- (5) Determine if consultant expenditures were correctly recorded, posted, and reported in Metropolitan's accounting system.

EXCLUSIONS

Our audit scope did not include (1) project costs incurred under the Security System Enhancements appropriation (No. 15499), nor (2) other costs charged to the project, including internal costs incurred in the administration of the agreement.

PRIOR AUDIT COVERAGE

We have completed three audit reports with a similar scope during the past five years:

- (1) Consulting Agreements – IBI Group (139755), Cooper & Associates (161856), Atkins North America, Inc. (168020), Project Number 19-2100 issued on February 8, 2019.
- (2) Consulting Agreements – Project Partners (177915), Carollo Engineers (180287), HDR Engineering (178378), Project Number 20-2102 issued on August 31, 2020.
- (3) Contract Audit: Kennedy/Jenks Consultants Inc. Agreement No. 184581, Project Number 22-2102-02 issued on May 31, 2024.

AUTHORITY

We performed this audit in accordance with the FY 2021/22 Audit Plan presented to the former Audit & Ethics Committee and our FY 2023/24 Audit Plan approved by the Board.



PROFESSIONAL INTERNAL AUDIT STANDARDS

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

FOLLOW-UP AUDITS

The Office of the General Auditor has implemented a new follow-up process to ensure management has effectively implemented corrective action related to our recommendations. Management is required to report recommendation implementation status to our office within six months following the issuance of this report and a first follow-up audit will occur shortly thereafter. All audit recommendations are expected to be implemented within a year of this report and if necessary, a second follow-up audit will occur approximately six months after issuance of the first follow-up audit report. Any audit recommendations not implemented after the second follow-up audit will be shared with the Board/Audit Subcommittee of the Executive Committee at its next scheduled meeting.

INTERNAL CONTROL SYSTEM

An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by Metropolitan management and seek to provide reasonable (not absolute) assurance that the district's business objectives will be achieved. However, limitations are inherent in any internal control system no matter how well designed, implemented, or operated. Because of these limitations, errors or irregularities may occur and may not be detected. Specific examples of limitations include but are not limited to, poor judgment, carelessness, management override, or collusion. Accordingly, our audit would not necessarily identify all internal control weaknesses or resultant conditions affecting operations, reporting, or compliance. Additionally, our audit covers a point in time and may not be representative of a future period due to changes within Metropolitan and/or external changes impacting the district.

METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

It is important to note that Metropolitan management is responsible for designing, implementing, and operating a system of internal control. The objectives of internal controls are to provide reasonable assurance as to the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of established goals and objectives. In fulfilling this responsibility, management judgment is required to assess the expected benefits and related costs of internal control policy and procedures and to assess whether those policies and procedures can be expected to achieve Metropolitan's operational, reporting, and compliance objectives.



APPENDIX B: PRIORITY RATING DEFINITIONS

The Office of the General Auditor utilizes a priority rating system to provide management a measure of urgency in addressing the identified conditions and associated risks. We assess the significance of each observation identified during the audit using professional judgment and assign priority ratings to each recommendation using the criteria listed below. Factors taken into consideration in assessing the priority include the likelihood of a negative impact if not addressed, the significance of the potential impact, and how quickly a negative impact could occur.

PRIORITY			
Definition	Observation is <i>serious</i> enough to warrant <i>immediate</i> corrective action. The condition may represent a <i>serious</i> financial, operational, or compliance risk. A priority 1 recommendation may result from a <i>key</i> control(s) being absent, not adequately designed, or not operating effectively.	Observation is of a <i>significant</i> nature and warrants <i>prompt</i> corrective action. It may represent a moderate <i>financial</i> , operational, or compliance risk. A priority 2 recommendation may result from a <i>process</i> or less critical <i>control(s)</i> not being adequate in design and/or not operating effectively on a consistent basis.	Observation involves an internal control issue or compliance lapse that can be corrected in the <i>timely</i> course of <i>normal</i> business. A priority 3 recommendation may result from a <i>process</i> or control that <i>requires</i> enhancement to better support Metropolitan's objectives and manage risk.
Response Time	Immediate	Within 90 Days of report issuance	Within 180 Days of report issuance



APPENDIX C: MANAGEMENT'S RESPONSE



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: July 26, 2024

To: Scott Suzuki, General Auditor

From: Deven Upadhyay, Interim General Manager

cc: Mai Hattar, Interim Chief Engineer
John Bednarski, Interim Assistant General Manager of Water Resources and Technical Services

Subject: Management Response to Audit Number 22-2102-01

Please find below the management response to Audit #22-2102-01, the Contract Audit of IBI Group Agreement #178689. This Management Response was prepared by the subject area lead(s) under the coordination of Interim Chief Engineer Mai Hattar, who also will be responsible for overseeing its implementation. I am confident that the recommendations will be effectively implemented and look forward to working with you to ensure they are.

Please do not hesitate to contact me or my chief of staff Mohsen Mortada if you would like to discuss our response or any other matters. Thank you for your continued partnership to strengthen Metropolitan's systems, controls, and capacity.



Contract Audit: Contract Audit: IBI Group Agreement No. 178689
Project Number 22-2102-01
Management Response

OBSERVATION 1		Contractual Compliance
		Certain contractual terms for invoices were not complied with.
RECOMMENDATION 1		We recommend the Engineering Services Group Agreement Administrator and Project Manager: (1) Ensure the consultant complies with the terms and conditions of the agreement. (2) Conduct periodic reviews to ensure compliance.
PRIORITY 2		
X	AGREE	<p>The Engineering Services Group concurs that compliance with contractual requirements is necessary to ensure accurate accounting records, proper supporting details, and adequate control over the administration of the consultant agreements. Engineering Services Group has established procedures for review, control, and verification of compliance of the invoices submitted by consultants.</p> <p>Agreement Administrators and Project Managers are aware of these procedures and the contractual requirements. They hold regular meetings with the consultants to discuss work progress and pending invoices for the work completed. As noted, the consultant did not submit several invoices to Metropolitan within the contractual timeframe.</p> <p>We will remind Agreement Administrators of the importance of holding regular meetings and documenting communication with consultants to ensure compliance with the agreement, including submitting invoices and subconsultant charges within the required time frame and itemizing subconsultant charges in the required manner. We will reinforce this message during scheduled training and staff meetings as appropriate.</p>
		ESTIMATED IMPLEMENTATION
		September 2024
	PARTIALLY AGREE	EXPLANATION
	DO NOT AGREE	

