



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report Office of General Auditor

Internal Audit Report for September 2021

Summary

One report was issued during the month:

Quarterly Consulting and Services Contracts Review Report for Period Ending June 30, 2021

Discussion Section

This report highlights the significant activities of the Internal Audit Department during September 2021. 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.

Quarterly Consulting and Services Contracts Review Report for Period Ending June 30, 2021

We reviewed the reports for consulting and routine services contracts for the period ending June 30, 2021, issued by the Chief Administrative Officer. This review included the Annual Report of Professional Services Agreements (Professional Services Report) for the Fiscal Year 2020/21 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 2020/21. The purpose of this review is to gain reasonable assurance that the 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 a former Metropolitan employee when a consultant. 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 quarterly and annually 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 2021, the Professional Services Report disclosed that Metropolitan paid \$56.53 million for consulting and professional services. We compared the amounts expended on professional services during this fiscal year against the prior fiscal year and noted a decrease of \$23.88 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 2020/21, 56 of 473 agreements were sole-source agreements totaling \$4,467,038. This represents 8% of total fiscal year-to-date expenditures for the fiscal year 2020/21. In fiscal year 2019/20, 62 of 475 agreements were sole-source agreements totaling \$4,301,516.

We also noted that 141 of 473 agreements, totaling \$1,589,807, were small purchases of less than \$74,999. In fiscal year 2019/20 such purchases represented 134 of 475 agreements and totaled \$2,149,575.

See tables below for details:

Fiscal Year 2020/21

Fiscal Year-to-Date	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$ 55,766,648	\$1,719,105	\$ 449,100	\$ 317,719
Active Agreements	353	*155	1	1
Terminated Agreements	117	21	-	1

* Agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source
\$ 1,049,766	\$ 28,701,537	\$ 20,725,320	\$ 1,589,807	\$ 4,467,038
15	52	209	141	56
2%	50%	37%	3%	8%

Note: The categories do not include General Counsel Expenditures

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

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 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.

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 that the Professional Services Report was issued on September 14, 2021.

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, and 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, 2021, the Contracts Report disclosed twenty-five contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$30 million. Fifteen of these contracts were awarded as a result of competitive bidding under Administrative Code Section 8140 – Competitive Procurement; two were cooperative agreements, whereas 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. 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 the policies and procedures for competitive bidding, cooperative agreements, sole source agreements are in place. Finally, we noted for the quarter ending June 30, 2021 Contracts Report was issued to the board on September 14, 2021.