



## **Internal Audit Report for June 2021**

### **Summary**

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One report was issued during the month:

#### **Quarterly Consulting and Services Contracts Review Report for Period Ending March 31, 2021**

### **Discussion Section**

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

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#### **Quarterly Consulting and Services Contracts Review Report for Period Ending March 31, 2021**

We reviewed the reports for consulting and routine services contracts for the period ending March 31, 2021, issued by the Chief Administrative Officer. This review included the Third Quarter 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 Report) for the Third Quarter of the fiscal year 2020/21, issued by the Chief Administrative Office. 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 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 March 2021, the Professional Services Report disclosed that \$39.7 million was paid for consulting and professional services. We compared the amounts expended on professional services during this quarter against the prior fiscal year's third quarter and noted a decrease of \$17.2 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 the quarter ending March 2021, 48 of 386 agreements were sole-source agreements totaling \$3,041,554. This represents 8% of total fiscal year-to-date expenditures for the fiscal year 2020/21. We also noted that 105 of 386 agreements were small purchases of less than \$74,999, totaling \$977,864. See the tables below for detail:

#### Fiscal 2020/21

Year-to-Date Q3	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$39,127,319	*\$539,435	449,100	81,789
Active Agreements	357	117	1	1
Agreements Terminated	29	1	-	1

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

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source	Total**
909,037	21,074,683	13,655,069	977,864	3,041,554	39,658,208
14	45	174	105	48	386
2%	53%	34%	2%	8%	100%

\*\*Total 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 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 the Professional Services Report for the quarter ending March 2021 was issued to the Board on June 08, 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, 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 March 31, 2021, the Contracts Report disclosed twenty-one contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$68.3 million. Fourteen of these contracts were awarded as a result of competitive bidding under Administrative code section 8140 – Competitive Procurement; four were cooperative agreements, whereas three 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 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 March 31, 2021 Contracts Report was issued to the Board on June 08, 2021