



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report Office of General Auditor

Internal Audit Report for January 2023

Summary

One report was issued during the month:

Quarterly Consulting and Services Contracts Review Report for the 1st Quarter Ending September 30, 2022

In addition to presenting background information, the procedures performed and the results of those procedures are provided.

Quarterly Consulting and Services Contracts Review Report for Period Ending September 30, 2022

We reviewed the reports for consulting and routine services contracts for the quarter ending September 30, 2022, issued by the Chief Financial Officer. This review included the First 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 First Quarter of the fiscal year 2022/23. 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 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 Quarter ending September 2022, the Professional Services Report disclosed that \$8.85 million was paid for consulting and professional services, excluding General Counsel and Equal Employment Opportunity (EEO) agreements which are reported separately due to confidentiality. The General Counsel and EEO paid \$760,416 and 83,685, respectively, for these services during the Quarter. We compared the amounts expended on professional services this Quarter against the prior fiscal year's first quarter and noted a decrease of \$2.3 million.

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 September 2022, excluding General Counsel and EEO, 39 of 409 agreements were sole-source agreements totaling \$1,046,801. This represents 12% of total year-to-date expenditures for the fiscal year 2022/23. We also noted that 111 of 409 agreements were small purchases of less than \$74,999, totaling \$352,273. See the tables below for detail:

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Year-to-Date Q1	General Manager	General Counsel	Equal Employment Opportunity	General Auditor	Ethics Officer
Contract Expenditures	\$8,755,251	*\$760,416	*\$83,685	\$93,647	-
Active Agreements	372	179	5	1	-
Agreements Terminated	36	6	0	-	-

*For agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source	Total**
\$47,346	\$3,213,799	\$4,188,680	\$352,273	\$1,046,801	\$8,848,898
13	44	202	111	39	409
1%	36%	47%	4%	12%	100%

**Total does not include General Counsel's and Equal Employment Opportunity 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 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 and did not reveal any material differences between the reported

amounts and supporting documentation. Further, we noted the Professional Services Report identified the five consultants that are former Metropolitan employees, representing 1% of the total agreements. Finally, we noted the Professional Services Report for the Quarter ending September 2022 was issued to the Board on December 13, 2022.

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 September 30, 2022, the Contracts Report disclosed ten contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$174.4 million. Six contracts were awarded through competitive bidding under Administrative Code Section 8140 – Competitive Procurement, whereas four 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. Policies and procedures for competitive bidding and sole source agreements are in place. Finally, the Contracts Report for the Quarter ending September 30, 2022, was issued to the Board on December 13, 2022.