



## **Internal Audit Report for September 2022**

### **Summary**

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This report highlights the significant activities of the Internal Audit Department during March 2022.

### **RFP for External Auditors**

The RFP for engaging new external auditors for the fiscal years ending June 30, 2023, June 30, 2024, June 30, 2025, and June 30, 2026, was issued with proposals due by November 30, 2022.

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### **Review of Quarterly Board Reports for the period ending June 30, 2022**

We reviewed the reports for consulting and routine services contracts for the period ending June 30, 2022, issued by the Chief Financial Officer. This review included the Annual Report of Professional Services Agreements (Professional Services Report) for the Fiscal Year 2021/22 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 2021/22. 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 fiscal year ending June 2022, the Professional Services Report disclosed that \$56.08 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 a decrease of \$455,595.

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 fiscal year 2021/22, 51 of 512 agreements, totaling \$4,406,786, were sole-sourced. This represents 8% of total fiscal year-to-date expenditures for 2021/22. In the fiscal year 2020/21, 56 agreements totaling \$4,467,038 were sole-sourced.

Of 512 agreements, 149, totaling \$2,126,466, were small purchases of less than \$74,999. In 2020/21, there were 141 of 473 such agreements, totaling \$1,589,807. See the tables below for details:

**Fiscal Year 2021/22**

Fiscal Year-to-Date	General Manager	General Counsel	General Auditor	Ethics Officer
Contract Expenditures	\$55,363,429	\$2,290,337	\$460,423	\$254,020
Active Agreements	366	*191	1	-
Terminated Agreements	144	23	-	1

\* Agreements with transactions during the current fiscal year.

Govt. Agencies	RFP	RFQ	Small Purchases	Sole Source
\$715,078	\$27,546,887	\$21,282,654	\$2,126,466	\$4,406,786
15	54	243	149	51
1%	49%	38%	4%	8%

Note: The categories do not include General Counsel Expenditures

**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

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. 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 year ending June 2022 was issued to the Board on September 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 June 30, 2022, the Contracts Report disclosed seventeen contracts that fit these criteria. We noted the total maximum amount payable for these contracts was \$20.78 million. Eleven contracts were awarded through competitive bidding under Administrative Code Section 8140 – Competitive Procurement; one was a cooperative agreement, and five 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, and sole source agreements are in place. Finally, the Contracts Report for the quarter ending June 30, 2022, was issued to the board on September 13, 2022.