

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

April 28, 1998

To: Board of Directors
From: Auditor
Subject: Audit Department Report for April 1998

Abraham W. Hondorp

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during April 1998. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

Upon receipt of management's response to our detailed report recommendations, a summary report was issued to the Special Audit Committee pertaining to our review of two consulting agreements with John R. Maloy. An initial pre-contract award audit of a cost proposal for contract management services for the Inland Feeder Project was completed and a report thereon was issued to management to facilitate negotiations with the contractor. Other assignments concluded in April included a review of a consultant contract related to the Eastside Reservoir Project, a review of the now terminated San Dimas office lease, as well as a review of several consulting agreements with Burson-Marsteller. Reports on these assignments will be issued to the Special Audit Committee after management's responses to our detailed reports have been received and evaluated. Other assignments nearing completion at month-end include a review of Central Stores cycle count activities during fiscal 1997-98 and a Unix-host computer security review.

Among the many other assignments in progress during April were reviews of several consulting or construction contracts, as well as various information systems reviews. Administrative matters during April included the development of a proposed rolling three-year Audit Work Plan commencing in fiscal 1998-99. Copies of this plan were distributed to management and staff for review and comment. Management support activities included, among other things, accounting matters, operating policies, contract matters, and information technology governance.

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Attachment

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Unix Host Security Review	Perform review of operating system controls/security for Unix based hosts at MWD.	This assignment was substantially completed and a draft report outlining findings and recommendations was issued to staff.	
Miscellaneous Financial Reviews	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	
Miscellaneous EDP Assignments	Perform miscellaneous information systems reviews whenever required in the circumstances.	Continuing assignment.	
Monthly Petty Cash Counts	On a monthly basis, review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	A petty cash fund at the Diemer Filtration Plant was tested during April.	
Central Stores Quarterly Cycle Counts	On a quarterly basis, review and evaluate the overall accuracy cycle counts of Central Stores warehouse inventories; review and assess the recording of inventory adjustments.	The review of Central Stores Cycle Count activities during fiscal 1997-98 through March 31, 1998 was substantially completed during April and Audit Observation Sheets outlining review findings were distributed and discussed with staff. A draft report will be issued to management and staff in early May.	

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Eastside Reservoir Project	Document controls over Eastside Reservoir Project (ERP); develop plan to ensure adequate audit coverage of ERP in future years; perform audits of selected ERP contracts.	Fieldwork pertaining to a review of Agreement No. 3773 with Infotec Research, Inc. was completed. Audit Observation Sheets outlining various review findings were distributed and discussed with staff. A draft report was issued to management and staff for their review and comments.	
Monitor Inland Feeder Project	Document controls over Inland Feeder Project (IFP); develop plan to ensure adequate audit coverage of the project in future years; perform audits of selected IFP contracts. The scope of this assignment was expanded to include pre-award audits of cost proposals by potential consultants.	Preliminary planning and survey procedures pertaining to a review of consulting Agreement No. 4588 with P&D Technologies were concluded and detail testing commenced during the month. The pre-contract award review of cost proposal for construction management services for the project was completed and a report was issued to management.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	The review of the now-terminated San Dimas Office Lease was completed and a draft report was issued to the Legal Department for review at month end. The review of consulting agreements with Burson-Marsteller was completed and a report was issued to management. Fieldwork for the review of a consulting agreement with Solution Strategies, Inc, was completed and a draft report was issued to management and staff.	The Auditor's summary report on the review of two consulting agreements with John R. Maloy, dated April 24, 1998, was issued to the Special Audit Committee.

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Long-Term Headquarters Project	Document controls over Long-Term Headquarters Project (LTHP); develop plan to ensure adequate audit coverage of LTHP in future years; perform audits of selected LTHP contracts.	Preliminary planning and survey procedures pertaining to scoping audit work pertaining to the new Headquarters Project commenced during the month.	
Monitor Ultra Low Flow Toilet Programs	Review and evaluate the procedures and controls related to the Ultra Low Flow Toilet (ULFT) programs.	Detailed testing pertaining to a review of procedures and controls related to the ULFT rebate program commenced during the month.	
JIT Programs / Contracts	Review and evaluate the procedures and controls related to the JIT program; review compliance with selected JIT contracts.	Fieldwork was completed and Audit Observation Sheets outlining various review findings were distributed and discussed with staff. A draft report will be issued to management and staff in early May.	

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Overall Internal Control Assessment Project	Evaluate the District's internal control environment and review proposed Operating Policies in light of framework recommendations contained in the COSO Report.	Input was provided to staff on various Operating Policies during April.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The information systems auditors participated in various project team meetings and provided input on issues related to the project plan and project costs. The Auditor participated in several Steering Committee activities, including meetings with Oracle Corp. representatives.	
CSA Program Implementation/ Facilitation	Monitor implementation of the District's Control Self-Assessment Projects, and participate as appropriate.	The CSA Project Team continued development of the CSA Pilot Project. A final Focus Group Pilot was conducted with OptionFinder cadre at month-end.	
Special Audit Committee Support	Provide administrative and logistical support to the Special Audit Committee as necessary, including preparation for and participation in all Committee meetings	The Auditor met with the Committee Chair to discuss various matters scheduled for discussion at the Committee's June 2, 1998, meeting, including the RFP for internal audit support services for FY 1998-99.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	The staff auditor in charge of this assignment participated in a quarterly meeting with staff and the third party administrator for the Workers Compensation program.	
Board and Committee Activities	To provide Board and Committee support, as necessary, and attend and participate in meetings (other than the Special Audit Committee).	Continuing assignment.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Administrative Assistance to MWD Management and Others	Provide advice and assistance to MWD management or staff, as needed, and participate in meetings or other activities.	Continuing assignments include Executive Council and Operating & Organizational Review Committee participation. Also includes participation in the Information Technology Committee, the Contract Administration Steering Committee, the Time and Labor Steering Committee, the IT Governance Development Team, and the Trainers Network Board.	

Water Resource Programs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Reclamation and Groundwater Recovery Programs	Review reclamation and groundwater recovery programs for compliance with related agreements; evaluate program controls and effectiveness.	Staff is continuing to monitor the detailed testing being conducted by staff from the Planning and Resources and the Operations Divisions.	
Monitor Interim Agricultural Water Program	Review procedures, controls and transactions related to the Interim Agricultural Water Program for compliance.	The Auditor reviewed and approved the Planning Memo prepared by Operations Division staff for the coordinated audit of the Interim Agricultural Water Program.	
Seasonal Storage Program Status	Review accounting and administrative controls over the seasonal storage program activities.	Staff is continuing to monitor the detailed testing being conducted by staff from the Operations Division.	

ACTIVITIES IN PROGRESS

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Review of 1997/98 Debt Issues	Review drafts of text and tables of Preliminary Official Statements/ Official Statements related to any debt issues during 1997-98; issue "comfort letters" to underwriters if required.	Reviews of drafts of the Official Statement for the Water Revenue Refunding Bonds, 1998 Series A, and the Waterworks General Obligation Bonds, Refunding 1998 Series A, and Election 1966, Series H continued during the month.	
Quarterly and Year-end Audits - FY 1997-98	Assist KPMG Peat Marwick in quarterly audits of interim cash basis financial statements and year-end audit of accrual basis financial statements for fiscal year 1997-98.	Planning commenced for the audit of the cash basis financial statements as of March 31, 1998.	