



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-3

June 23, 1998

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

*Michael W. Hondorp*

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## RECOMMENDATION

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For information only.

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## DETAILED REPORT

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This report highlights significant activities or accomplishments of the Audit Department during June 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 responses to our detailed report recommendations, a summary report was issued to the Special Audit Committee pertaining to our review of the Just-in-Time Program and selected contracts. A summary report will also be issued by month-end on our audit of the Arlington Basin Groundwater Desalter Project for the fiscal year ended June 30, 1997. The Auditor also transmitted the audited cash basis financial statements as of and for the nine months ended March 31, 1998, to the Board of Directors. Other assignments concluded in June included a review of Central Stores Inventories cycle count activities during fiscal 1997-98, and a review of the Rebate Ultra Low-Flush Toilet Program and Agreements. 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.

Among the many other assignments in progress during June were reviews of several consulting or construction contracts, as well as various information systems reviews. Management support activities included, among other things, accounting matters, operating policies, contract matters, and information technology governance. Planning meetings were also held with KPMG Peat Marwick and Metropolitan staff regarding the upcoming year-end audit as of June 30, 1998, and the internal audit support services which may be required during fiscal 1998-99.

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Attachment

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Post-implementation Review --PMIS System	Review the Project Management Information System (PMIS) to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	System interfaces and balancing controls were identified and tested. Control issues identified were communicated to staff via Audit Observation Sheets.	
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.	
Operating Equipment Inventories - Quarterly	On a quarterly basis, review and evaluate the overall accuracy of the physical cycle counts of District operating equipment inventories	The review of Operating Equipment Inventories cycle count activities as of March 31, 1998 was completed. A draft report was issued to management and staff for their review and comments.	
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 Cal Plaza was tested during June. A total of thirty-four petty cash funds were tested during fiscal year 1997-98. This testing covered approximately 77% of the total funds held by Petty Cash custodians.	
Stores Quarterly Cycle Counts	On a quarterly basis, review and evaluate the overall accuracy cycle counts of Stores warehouse inventories; review and assess the recording of inventory adjustments.	A detailed report on our review of Stores Inventories cycle count activities during the year April 1, 1997 through March 31, 1998, was issued to management.	

**ACTIVITIES IN PROGRESS**

<b>Safeguards over District Assets</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
KPMG Peat Marwick Internal Audit Support Services	Conduct Planning for contract audit assistance to be performed by KPMG Peat Marwick and monitor and administer such reviews.	A draft audit support services contract with KPMG Peat Marwick was prepared, and initial planning discussions for this assignment were conducted with KPMG staff.	The selection of KPMG Peat Marwick to provide contract audit support services during fiscal 1998-99 was approved by the Board in June.

<b>Construction and Contract Audits</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
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.	<p>Planning work on this assignment was completed and a meeting with the contract auditor who will audit the project's GMAX construction contract was held in early June.</p> <p>Preliminary planning and survey procedures pertaining to a review of Agreement No. 4281 with Brand Farrar Dziubla Freilich &amp; Kolstad LLP were concluded and detail testing commenced during the month.</p>	The Auditor presented an overview of planning on this assignment at the Special Audit Committee meeting on June 2. He also introduced Mr. John Flaig, Partner, Commercial Cost Control, Inc., the contract audit firm which has been retained to audit the GMAX contract.
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.	<p>Preliminary planning and survey procedures pertaining to a review of Agreement No. 4570 with Parsons Infrastructure &amp; Technology Group, Inc. were commenced during the month.</p> <p>The review of Agreement No. 4588 with P&amp;D Consultants was substantially completed during June 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 July.</p>	

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Detailed testing pertaining to a review of the consulting agreement for legal services with Jerome C. Muys continued during the month.	
Desalination Pilot Project	Audit the costs associated with Metropolitan's completed Desalination Pilot Project for propriety and proper recording.	Preliminary planning and survey procedures pertaining to a review of the Desalination Pilot Project were completed and detailed testing commenced during the month.	
Joint Desalination Project	Review and document recording and reporting procedures, monitor costs and test for compliance with the agreements related to Metropolitan's joint participation in the Seawater Desalination Demonstration Project.	Preliminary planning and survey procedures pertaining to a review of the Joint Desalination Project were completed and detailed testing 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.	A detailed report on the review of JIT Program / Contracts was issued to management. Management's response to the recommendations in the report on this review was received and evaluated.	The Auditor's summary report, dated June 23, 1998, was issued to the Special Audit Committee.

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 June.	
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 the Auditor participated in various Steering Committee activities, including meeting with the consulting firm hired to assume management of the upgrade project.	
CSA Program Implementation/ Facilitation	Monitor implementation of the District's Control Self-Assessment Projects, and participate as appropriate.	As part of the CSA pilot project to evaluate internal MWD communications, the project team conducted final employee focus group sessions at Jensen and Cal Plaza during June. Data collected during the focus group sessions is now being analyzed and evaluated, and a report to the OORC is expected to be issued during July 1998.	
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.	Administrative support was provided in support of the Committee's June 2, 1998 meeting.	
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. The Auditor met with the Special Committee on Department Head Compensation on June 2 to discuss his performance and Audit Department accomplishments during FY 1997-98.	

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 assignment.	

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.	
Annual Audit of Arlington Desalter Project - FY 1996-97	Conduct annual audits of project costs in accordance with the terms of the participation agreements.	The assignment was completed and a detailed report was issued to management. A summary report will be issued to the Special Audit Committee by month-end.	
Monitor Ultra Low Flow Toilet Programs	Review and evaluate the procedures and controls related to the Ultra Low Flow Toilet (ULFT) programs.	A detailed report on the recently completed review of rebate ULFT program and contracts was issued to management at month-end.	
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**

<b>Water Resource Programs</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
Monitor Interim Agricultural Water Program	Review procedures, controls and transactions related to the Interim Agricultural Water Program.	Preliminary planning and survey procedures pertaining to a review of the Interim Agricultural Water Program were completed and staff is monitoring the detailed testing being conducted by staff from the Operations Division.	
CAL-FED Category III Agreement Compliance	Review selected MWD Category III contracts arising from the December 15, 1994 CAL-FED Agreement for compliance with contractual terms.	Preliminary planning and survey procedures pertaining to this assignment commenced during the month.	

<b>External Financial Reports</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
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.	Reviewed drafts of the Official Statements for the Water Revenue Refunding Bonds, 1998 Series A, and the Waterworks Refunding General Obligation Bonds, 1998 Series A, and Waterworks General Obligation Bonds, Election 1966, Series H. Required "comfort letters" will be issued to the underwriters next 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.	Initial planning discussions regarding completion of quarterly and year-end audit procedures as of June 30, 1998, were conducted with KPMG Peat Marwick and Financial & Business Services Division staff during the month.	The Auditor transmitted the audited cash basis financial statements as of March 31, 1998, to the Board of Directors in June.