

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 25, 1998

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

Michael W. Handorp

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during August 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, summary reports were issued to the Special Audit Committee pertaining to our reviews of Operating Equipment Inventory cycle count activities during the year ended March 31, 1998; an Inland Feeder Project consulting agreement; and a legal services contract review. Draft reports on several other assignments nearing completion were issued to staff for review and comment.

Among the many other assignments in progress during August were reviews of several consulting or construction contracts, as well as various information systems reviews. Field work on the year-end audit of the District's financial statements was nearing completion at month-end. Management support activities included, among other things, accounting matters, operating policies, contract matters, and information technology upgrades and governance. An operational review of Purchasing commenced in late August by KPMG Peat Marwick staff as part of the firm's internal audit support services during fiscal 1998-99.

MWH:lo

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.	Audit testing procedures have been initiated for this assignment.	
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	Management's response to the recommendations contained in the report on our review of Operating Equipment Inventories for the year ended March 31, 1998, was received and evaluated.	The Auditor's summary report, dated August 21, 1998, was issued to the Special Audit Committee.
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.	Petty cash funds at the Soto Street and Crossroads facilities were tested during August.	
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 review of Stores Inventories cycle count activities for the quarter ended June 30, 1998 was completed during the month and a summary of the review results was provided to management and staff.	
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.	An operational review of Purchasing Functions commenced in late August. This is the first assignment under the master services agreement for fiscal 1998-99.	

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Review of Revenue Lease Program	Review controls over revenue generating leases of District properties and test the accounting and recording of lease revenues.	Preliminary planning and survey procedures have commenced for this assignment.	

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.	<p>The review of Agreement No. 4281 with Brand Farrar Dziubla Freilich & Kolstad, LLP was substantially completed and a draft report was issued to staff for comment.</p> <p>A draft report on the review of demolition costs, land costs and project administration matters related to the Long-Term Headquarters Project was issued to staff for comment.</p> <p>Preliminary planning and survey procedures pertaining to a review of Agreement No. 9427 with Ronald L. Krafska were completed and detailed testing commenced during the month.</p>	
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.	Management's response to the recommendations in the report on the review of Agreement No. 4588 with P & D Consultants, Inc. was received and evaluated.	The Auditor's summary report, dated August 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
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Management's response to the recommendations contained in the report on our review of Agreement No. 9291 with Muys & Associates was received and evaluated.	The Auditor's summary report on the review of Agreement No. 9291 with Muys & Associates, dated August 21, 1998, was issued to the Special Audit Committee
Desalination Pilot Project	Audit the costs associated with Metropolitan's completed Desalination Pilot Project for propriety and proper recording.	Detailed testing procedures were completed and a draft report was issued to staff for comment.	
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.	Fieldwork pertaining to the review of the Joint Desalination Project continued during the month.	

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.	
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 August.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Year 2000 Compliance Assessment / Monitoring	Monitor and assess staff efforts to ensure that potential Year 2000 systems problems are adequately addressed prior to 12/31/99.	The Auditor and an information systems auditor met with the newly appointed Y2K Project Manager to discuss project timing, accounting, funding and management issues.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The Auditor and information systems auditors continued to attend Project Steering Committee meetings and to provide input to management and consultants to the project.	
Monitor Board of Directors Voting System Upgrades	Monitor implementation of upgrades to the Board of Director Voting System being installed in Union Station.	The assigned auditor met with the project manager to review the project plan and deliverables.	
Monitor Travel Expense Reporting System Upgrades	Monitor implementation of upgrades to the Travel Expense Reporting System.	The assigned auditor attended project team meetings and provided staff with input on control and audit issues.	
Purchasing Card Implementation -- System Life Cycle Review	Monitor the implementation of the new Purchasing Card system as specified in the project plan.	The assigned auditor attended meetings where selected banking services vendors outlined their purchase card proposals.	
Environmental Compliance -- System Life Cycle Review	Monitor the implementation of the new Health, Safety and Environmental software applications.	The assigned auditor reviewed project documentation and provided staff with input on control and audit issues.	
Strategic Operations Maintenance Management System (SOMMS) -- System Life Cycle Review	Monitor the implementation of the new Strategic Operations Maintenance Management System (SOMMS).	The Auditor and an information systems auditor met with management to discuss project status and issues. The assigned auditor reviewed project documentation and provided staff with input on control and audit issues.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
CSA Program Implementation/ Facilitation	Monitor implementation of the District's Control Self-Assessment Projects, and participate as appropriate.	A final report to management on the CSA Pilot Project examining internal communications at the District was nearing completion a month-end.	
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.	
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. The Auditor provided assistance to staff in the preparation of several Board letters during August.	

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.	Staff is continuing to monitor the detailed testing being conducted by staff from the Planning and Resources and the Operations Divisions.	

ACTIVITIES IN PROGRESS

O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly Review of Employees' and Directors' Expense Claims	Determine the propriety of expense claims of employees and directors.	The special status review of director expense reports was interrupted by the in-charge auditor's jury duty service.	

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Staff continued to assist KPMG Peat Marwick in the audits of Metropolitan's year-end cash basis and accrual basis financial statements for fiscal year 1997-98.	