

April 23, 1999

To: Board of Directors
From: Auditor
Subject: Audit Department Report for April 1999

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during April 1999. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

The Auditor and Audit Department staff devoted extensive time during the month to closing conferences with Vargas Lopez and Company staff, District staff, and the Special Audit Committee Chair concerning the results of the firm's audit of the Eastside Reservoir Project. The Auditor and General Counsel transmitted Vargas Lopez and Company's draft report on the audit to the Special Audit Committee and Executive Committee for their consideration on April 20 and April 26, respectively. Work was also completed on a contract audit of selected electrical power and regular telephone billings conducted by TriStem, LLC, and the Auditor issued a summary report on the results of that audit to the Special Audit Committee. A detailed report on our review of a consulting agreement with Carl Warren & Co. was issued to management in April and a summary report on this review was also provided to the Special Audit Committee.

Detailed reports were issued to management in April on a pre-contract award review of an Inland Feeder Project construction support services proposal and on the completion of the information systems auditors involvement with the Oracle 10 Software Upgrade. In addition, draft reports were issued to management on several other assignments which are nearing completion at month-end.

Among the many other assignments in progress during April were various financial, compliance and information systems reviews. The Auditor provided assistance to the Special Audit Committee in connection with the committee's April 20 meeting. Management support activities included, among other things, accounting matters, operating policies, contract matters, and information technology governance.

MWH:lo

Attachment 10-13A

Attachment 10-3A

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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	A draft report on this review was issued to management for review and comment in late April.	
Petty Cash Counts	Review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Two petty cash funds were tested at Union Station in April.	
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 December 31, 1998 was substantially completed during the month and a summary of the review results will be provided to management and staff in early May.	
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.	KPMG Peat Marwick staff continued their assistance in audit assignments pertaining to construction contracts, Water Program Monitoring, and CalFed Category III agreements during the month. They also continued their efforts pertaining to consultant usage, which is being conducted under a separate contract with the General Counsel's Office.	

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
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 assigned auditor attended project team meetings and reviewed project status and deliverables. A presentation was given to the Special Audit Committee on April 20 on Internal Audit's assessment of Y2K progress to date.	
Review of Drafts	Review drafts to ensure that physical, administrative, and accounting controls are adequate; test selected drafts at selected Metropolitan locations for compliance with established policies and guidelines.	Preliminary planning and survey procedures were completed and detail testing pertaining to the special review of draft system controls and compliance was commenced during the month.	
Pre-Contract Award Audits	Review consultant / contractor proposals to ensure that cost and pricing data is accurate and reasonable prior to the contract award.	The pre-contract award review pertaining to an amended existing contract with Parsons Infrastructure & Technology Group, Inc. for the Inland Feeder Project was completed and a detailed report was issued to management at month-end. A summary report will be issued to the Special Audit Committee after management's response to the recommendations contained in the detailed report have been received and evaluated.	

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Eastside Reservoir Project	Document controls over Eastside Reservoir Project (ESRP); develop plan to ensure adequate audit coverage of ESRP in future years; perform audits of selected ESRP contracts.	The Auditor and Audit Department staff devoted extensive time during the month to closing conferences with Vargas Lopez and Co. staff, District staff and Special Audit Committee Chair Grandsen concerning the results of the firm's audit of the Eastside Reservoir Project.	The Auditor and General Counsel transmitted Vargas Lopez and Co.'s draft report, dated April 20, 1999, to the Special Audit and Executive Committees on April 19, 1999.

ACTIVITIES IN PROGRESS			
Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 were completed and detailed testing pertaining to a review of Contract No. 1489 with Steve P. Rados, Inc. commenced during the month.	
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.	The review of overall Union Station Headquarters Project costs continued during the month. Representatives from Commercial Cost Control, Inc. commenced their audit of the \$98 million GMAX construction contract on April 19.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	The review of Agreement No. 2112 with Carl Warren & Co. was completed and a detail report was issued to management. The review of Agreement No. 621 with EcoGroup, Inc. was substantially completed and a detailed report will be issued to management in May 1999.	The Auditor's summary report on the review of Agreement No. 2112 with Carl Warren & Co., dated April 26, 1999, was issued to the Special Audit Committee.
JIT Contracts	Develop an ongoing plan for ongoing audits of JIT contracts; perform selected JIT Contracts audits.	Detail testing pertaining to a review of Contract No. 8348 with Barr Lumber and Contract No. 6356 with Unisource Corp. continued during the month.	

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
SOMMS -- Monitor Rollout Implementation -- System Life Cycle Review	Review implementation of the new Strategic Operations Maintenance Management System to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	The assigned IS auditor participated in the Project Steering Committee and provided input to the Project team.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The assigned IS auditor continued to monitor the project status and to provide input on audit related issues.	
Monitor Electronic Documents Management System (EDMS) Project	Monitor the development and implementation of a new Electronic Document Management System to ensure that security, auditability and control issues are adequately addressed.	The assigned IS auditor communicated several audit observations and recommendations to the Information Technology Governance Council.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	This assignment was completed and a summary memorandum on the Oracle Version 10 software implementation project was submitted to executive management for its information.	
Environmental Compliance -- System Life Cycle Review	Monitor the implementation of the new Health, Safety and Environmental software applications.	The assigned auditor communicated several issues or concerns about the HSE Project to the Information Technology Governance Council.	
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 met with the Project Manager and team members to discuss controls over the technical environment and business processes during the application design phase of the project.	
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 and accounting matters during the month.	
Federal Grants Management	Review and assess the adequacy of District policies and procedures related to the receipt, disbursement, recording and reporting for Federal grant funds.	A review of the District's Indirect Cost Allocation Rate Proposal (IDCRP) for form, reasonableness and conformance with requirements of OBM Circular No. A-87, was commenced during April following receipt of the revised IDCRP from the consulting firm that prepared the IDCRP.	
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.	Support was provided to the Committee pertaining to its meeting of April 20. Meetings were held with Special Audit Committee Chair Grandson to discuss agenda and other matters.	
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.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	The staff auditor in charge of this assignment participated in quarterly meetings with staff and the third-party administrators for the Workers Compensation and Liability programs.	
Audit Recommendation Tracking	Conduct follow-up activities and monitor the implementation of audit recommendations related to various assignments.	Continuing assignment.	

ACTIVITIES IN PROGRESS			
Water Resource Programs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 Operations Division to ensure Program compliance by member agencies.	
IID/MWD Water Conservation Program – Final Construction Audit	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data for the years ended December 31, 1997 and 1998. Complete final cost/ contractor audits for the initial construction period (1990 through 1998).	This audit was completed and draft report was issued to management and staff for review and comment in mid-April. A detailed report to management will be issued in early May. Following our receipt and evaluation of management’s response to the recommendations in the detailed report, the Auditor will issue a summary report to the Special Audit Committee.	
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. As part of our joint planning efforts with Planning and Resources Division, two reclamation agreements were selected for detailed review. These agreements are related to Carlsbad Municipal Water District’s Encina Basin Reclamation Project and the City of Tustin’s Seventeenth Street Desalter Project. During the month, detailed testing was performed and reports on these audits will be issued in May.	

ACTIVITIES IN PROGRESS			
O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Utility Bills Audits -- Electrical Power / Telephone	Monitor testing of electrical utility and telephone bills by a contract vendor to ensure accuracy and propriety of billings.	As of April 1999, work was completed on this contract audit of selected electrical power and regular telephone billings conducted by TriStem, LLC.	The Auditor issued a summary report on the results of the TriStem audit, dated April 13, 1999, to the Special Audit Committee.