



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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*Karen E. Duff*  
EXECUTIVE SECRETARY

November 28, 1995

**To:** Board of Directors  
**From:** Auditor *Michael W. Handberg*  
**Subject:** Audit Department Report for November 1995

## RECOMMENDATION

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For information only.

## DETAILED REPORT

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This report highlights significant activities or accomplishments of the Audit Department during November 1995. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

One contract audit pertaining to design services for the Eastside Reservoir Project was concluded during November and a summary report thereon was issued to the Special Audit Committee. Detailed memos outlining the results of our review of the contract for those services, including auditor recommendations, were also issued to appropriate management and staff during the month.

Upon receiving a response in late November from the General Manager to the recommendations from Ernst & Young Consulting on general risk management matters, as outlined in that firm's October 25 report, I prepared a summary report on this contract audit assignment for the Special Audit Committee's information.

Two meetings of the Special Audit Committee Workgroup to review the Audit Work Plan were held in November. The Assistant Auditor and I, with input from the audit staff, developed proposed revisions to the interim Audit Work Plan for fiscal 1995-96. These proposed revisions were communicated to management and copies of the revised Audit Work Plan were transmitted at month-end to the Special Audit Committee for consideration at its next meeting on December 5.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Assist External Auditor -- Annual Audit	Assist KPMG Peat Marwick in the audit of the accrual basis financial statements as of June 30, 1995.	The audited financial statements of three trustee agencies were received from KPMG Peat Marwick and mailed to all Special Audit Committee members. Preliminary management letter comments were received from KPMG Peat Marwick in late November. A final letter to management will be issued by the firm in December.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Director/Department Head Expense Claims	Determine the propriety of expense claims of directors and department heads, as required by Administrative Code Section 6329.	Completed review of expense reports processed during October, 1995.	
Quarterly Lobbying Reports	Review lobbying reports filed with the state quarterly for accuracy and compliance.	Completed review for the quarter ended September 30, 1995.	
Operating Equipment System/Reengineering	Assist staff as needed, including participation on Steering Committee, in reengineering efforts related to the District's operating equipment policies and procedures.	The Assistant Auditor and Principal Auditor met with project staff and their consultant and participated in Steering Committee meetings.	
Annual Financial Report & CAFR	Limited review of drafts of the FY 1994-95 AFR and CAFR prior to their publications to ensure that financial information and disclosures are accurate.	Commenced review of draft Annual Financial Report. This work and the review of the draft CAFR will be completed in December.	

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ACTIVITIES IN PROGRESS

Contract Audits/Vendor Reviews			
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.	Audit work was substantially completed on our review of Kasler Corp. Agreement No. 1414. Audit testing was also substantially completed for our review of Greenwood & Associates Agreement No. 3772. Detailed reports summarizing the results of these reviews are expected to be issued to management in December.	A report summarizing the results of our review of Ebasco's contract for Eastside Reservoir Project design services was issued to the Special Audit Committee. Two detailed memoranda on this review were distributed to management and written responses to the recommendations contained therein were requested.
Consulting Agreement Audits	Conduct selected consulting agreement audits during 1995-96.	A review of a consulting contract is currently in progress which is expected to be completed in December.	
Jensen Plant Expansion No. 1	Monitor contract costs and controls over construction activities related to the Jensen Plant Expansion No. 1.	A draft report summarizing our findings and recommendations was transmitted and discussed with staff during the month. Follow-up procedures will be completed and a final report will be issued in December.	
Mills Plant Expansion No. 2	Monitor contract costs and controls over construction activities related to the Mills Plant Expansion No. 2	Preliminary survey and planning efforts continued during November.	

ACTIVITIES IN PROGRESS

<b>Operational Audits/Program Reviews</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
Review of Consultant Procurement Procedures	Review the current policies and practices pertaining to consultant procurement to determine if they can be improved upon.	A report summarizing findings and recommendations will be presented to management in December for its consideration.	
Review Ultra-Low-Flush Toilet Program - Phase III	Review CTSI Corporation's management of Phase III of the non-rebate program and MWD's administration of the program.	All field work has been completed and a draft report summarizing findings and recommendations will be transmitted to staff for review and comments in early December.	
Review of District's Risk Management Program	Review the current status of the District's Workers Compensation, Public Liability and overall risk management practices, including external administrator activities and related financial records.	Management's written response to the consultant's recommendations on general risk management matters was received in late November.	The Auditor transmitted a summary letter on this review to the Special Audit Committee for its information.
Monitor Ultra Low Flush Rebate Toilet Programs	Review status of Ultra-Low-Flush rebate program by reviewing compliance with related agreements and evaluating program controls.	Commenced detail testing of Ultra-Low-Flush rebates applicable to agreements with selected member agencies. This work will continue in December.	

<b>Information Systems Audits</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
New Expense Claim System	Monitor the implementation of the new expense claim processing system in accordance with the project plan.	The assigned audit staff met with the Project Manager and project team to develop validation mechanisms for the data and file conversion process. They also provided input on control issues and discussed audit and user testing strategies.	
Monitor Implementation of New Water Information System	Monitor the development and implementation of a new Water Information System in accordance with the project plan.	The assigned auditor met with the Project Team to review project status and provided input relating to user testing activities.	

ACTIVITIES IN PROGRESS

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Phase One Program Office Activities	Monitor Information Systems' Phase One Program Office activities, including participation on Steering Committee, reviewing quarterly status reports, and assessing system integration matters.	Attended Steering Committee meetings.	
Minor EDP Assignments	Perform miscellaneous information systems reviews whenever required.	Work continued as time permitted to evaluate a cost-effective audit software package for use in the new Oracle systems environment.	

Other			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Administrative Assistance to Board/Management/ Staff	Provide advice and assistance to the Board, management or staff, and participate in meetings or other activities as required.	Continuing assignment. Two meetings were held with the SAC Workgroup and discussions were also held with management staff to discuss proposed mid-year revisions to the 1995-96 Audit Work Plan.	The Auditor transmitted the revised Audit Work Plan to the Special Audit Committee in late November for its consideration.
District Fraud Policy	Assist management in the implementation of fraud policy compliance procedures.	The Auditor and Assistant Auditor met with the Director of Human Resources to discuss final design of an Employee Hotline poster.	Completed design and distributed the Employee Hotline poster for posting on all District bulletin boards during the month.
Boulder Canyon Project Audit	Provide assistance, as needed, to MWD's representative on the Project Audit Committee.	Met with staff to discuss preliminary audit findings and recommendations provided by KPMG Peat Marwick. A draft audit report will be presented to the Project Audit Committee in December.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	

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