

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 25, 1997

To: Board of Directors
From: Auditor
SUBJECT: Audit Department Report for March 1997

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during March 1997. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

One detailed audit report pertaining to our review of Bulk Fuel Usage and Accounting was completed and issued to management at month-end. Draft audit reports on two other substantially completed audit assignments; namely, a review of a consulting services agreement and a review of certain District-incurred costs for the Eastside Reservoir Project, were issued to staff for review and comment. One summary audit report was also issued to the Special Audit Committee which described the results of our post-implementation review of the PeopleSoft Human Resources Management System. Our review of the District's special \$70 million distribution to member agencies was satisfactorily completed without the issuance of a report.

Among the many assignments in progress during March are reviews of the annual physical inventory process at Central Stores warehouses and several consulting or construction contract audits. Staff also participated with Treasurer Branch staff in observing the two-day physical inventory of the District's exchange bearer bond certificates at Wells Fargo Bank prior to the transfer of those bonds to the Bank of New York in late March.

Administrative matters handled in March included data gathering and other activities on behalf of the Special Audit Committee pertaining to the Auditor's performance assessment process for 1996-97, as well as matters pertaining to the department's 1997-98 operating budget. Participation in various management meetings involved, among other things: litigation support, control self-assessment consultant qualifications and accounting issues. Agreements for contract audit services were entered into with two firms and discussions on two

other potential engagements were conducted with two other audit firms. Finally, extensive revisions to the Audit Department's internal Policies and Procedures Manual were completed. The new edition of the manual incorporates numerous process and documentation changes that the Audit Department has implemented during the past two years. It also emphasizes new working paper standards as a result of technology changes to improve auditor efficiencies in the future.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly and Year-end Audits - FY 1996-97	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 1996-97	A meeting was held with KPMG representatives to discuss cash and investments audit issues in advance of the next cash basis financial statement audit as of March 31, 1997.	
Annual Inventory of Central Stores	Monitor and evaluate the overall accuracy of Central Stores warehouse inventories; review and assess the recording of inventory adjustments	Audit staff assisted the finance staff in preparing for the annual inventory process. An auditor also observed the conduct of the physical inventory at the main warehouse in La Verne and performed independent test counts. A review of the final inventory results will be performed in April upon completion by the Controller Branch.	
Utility Bills Audits -- Electrical Power and Regular Telephone	Perform testing of utility bills (electrical power/telephones) to ensure accuracy and propriety of billings.	A meeting was held with various division representatives and representatives from TriStem, Inc. to discuss background and planning for the utility bill audits that TriStem will conduct.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment A review of the special \$70 million distribution to member agencies was completed with no exceptions noted. A staff member observed the physical inventory of the District's exchange bearer bonds held in safekeeping at Wells Fargo Bank. A reconciliation between the District's records and the physical count results is currently being prepared by the Treasurer's staff.	

ACTIVITIES IN PROGRESS

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Overall Internal Control Assessment Project	Evaluate District's internal control environment in light of framework recommendations contained in COSO Report (Treadway Commission Recommendations Response).	The Auditor provided input to the Executive Office staff on the request for qualifications and information from various consulting firms pertaining to future Control Self-Assessment services	

Contract Audits/Vendor Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
State Water Project Contract Matters	Perform general monitoring of State Water Project contract activities, including accounting, auditing and financial matters.	Continuing assignment. The Assistant Auditor attended a meeting of the State Water Contractors' Audit-Finance Committee meeting in Sacramento.	
Monitor Inland Feeder Project	Monitor contract costs and controls over construction activities related to the Inland Feeder Project.	Detailed testing pertaining to a review of Agreement No. 4532 with Bechtel Corp. continued during the month.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	A review of Agreement No. 3624 with Fay Tech Services was concluded and a draft report, which included several findings and recommendations, was prepared and transmitted to management for review at month end. The final report will be issued in April. Preliminary planning and survey procedures pertaining to review of Agreement No. 6012 with Inter-Con Security Systems, Inc. were commenced.	
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.	A review of District incurred costs (labor, materials, incidentals) pertaining to the Eastside Reservoir Project was completed and a draft report, including our findings and recommendations, was issued to staff for their review and comment. The final report will be issued in April.	

ACTIVITIES IN PROGRESS

Operational Audits/Program Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Ultra Low Flush Rebate Toilet Programs	Review status of Ultra-Low-Flow program by reviewing compliance with related agreements and evaluating program controls.	Little time was spent on this assignment due to the assigned auditor's other priorities, particularly support for pending trial with CTSI Corp.	
Bulk Fuels Usage and Accounting	Review controls over the recording and reporting of fuel usage at various District facilities	This assignment was completed and a detailed audit report was issued to management at month end.	
Owner-Controlled Insurance Program -- ERP	Monitor administrative controls and financial cost/benefit information related to new owner-controlled insurance program for Eastside Reservoir Project.	A staff member assisted the consultant from Deloitte & Touche, LLP, who is conducting this review, in obtaining requested supporting documentation.	

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Electronic Messaging Implementation -- SDLC Review	Monitor the implementation of the new Electronic Messaging system as specified in the project plans.	Meetings were conducted with project manager and information security staff to monitor progress of new e-mail software.	
Post Implementation Review of People Soft Human Resources Management System	Perform post-implementation testing to ensure that controls are adequate and output is authorized, complete, accurate, secure and reliable.	Satisfactory written responses to the recommendations outlined in the audit report were received from Director of Human Resources in early March.	The Auditor's summary report, dated March 6, 1997, was issued to the Special Audit Committee.
Post Implementation Review of the Water Information System (WINS)	Perform post-implementation testing to ensure that controls are adequate and output is authorized, complete, accurate, secure and reliable.	Audit observation sheets outlining control issues identified were distributed and discussed with appropriate staff.	
Minor EDP Assignments	Perform miscellaneous information systems reviews whenever required.	Continuing assignment.	

ACTIVITIES IN PROGRESS

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 assignments include Board and Committee Activities, Executive Council and Operating & Organizational Review Committee participation. Also includes participation in the Information Technology Committee, the Steering Committee for Policies and Procedures of Consulting and Professional Services Agreements and assistance to the Legal Department pertaining to the District's litigation with CTSI Corp.	
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	At Chair Frahm's request, the Auditor provided data and other input to Special Audit Committee member Hundley to facilitate the Committee's eventual consideration of the Auditor's performance during 1996-97.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	The Auditor and Assistant Auditor met with staff from Information Systems, Risk Management, Security and the Legal Department to discuss telephone system security and control matters.	
Monthly Cash Counts / Payroll Check Disbursements	Test a sampling of payroll check disbursements at various locations; review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Payroll checks and auto-deposit stubs were distributed to selected employees at the Soto Street and Eagle Rock facilities. A petty cash fund was also tested at the Soto Street location. No exceptions were noted during this testing.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	