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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 25, 1997

**To:** Special Audit Committee--Information  
Organization and Personnel Committee--Information

**From:** Auditor

*Michael W. Henderson*

**SUBJECT:** Report Under Administrative Code Sections 6452 and 2722--  
Quarter Ended March 31, 1997

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## RECOMMENDATION

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For information only.

## DETAILED REPORT

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Administrative Code Section 6452 grants limited authority to the Auditor to engage professional services so long as the amount to be expended in fees, costs, and expenses for any contract does not exceed \$25,000 in any year. Pursuant to that section, the Auditor is required to inform the Special Audit Committee whenever he exercises the authority granted therein. In addition, the Auditor is required under Administrative Code Sections 6452 and 2722 to report quarterly to the Organization and Personnel Committee on the exercise of any power delegated to him by Section 6452.

In February and March 1997, the Auditor entered into two agreements for contract audit services. The first, an agreement with TriStem Incorporated, dated February 24, 1997, calls for TriStem to audit certain electrical utility and regular telephone billings paid by the District during calendar year 1996 (prior periods may also be considered depending on the results of the 1996 billing audits). TriStem will be compensated for its services on a contingent fee basis of 49 percent of any refunds or credits that the District ultimately receives from the subject utilities based on such audits. TriStem will be compensated only if the billing audits result in refunds or credits and not until any such refunds or credits have been received by the District. According to TriStem representatives, the audits are expected to take at least six months to conduct. Staff from various divisions are assisting in the planning phase by providing copies of documents and other background information required by TriStem.

The second agreement, dated March 3, 1997, is with the firm of Deloitte & Touche, LLP (Deloitte). That agreement requires Deloitte to conduct a contract compliance audit pertaining to the administration and brokerage services for the Eastside Reservoir Project Owner-Controlled Insurance Program (ERP OCIP). Deloitte's review will address the ERP

OCIP broker/administrator services provided by the Sedgwick /McAllister/Dickerson joint venture during the initial three-year term of the District's contract with Sedgwick James and its joint venture partners. The audit will also evaluate internal contract administration and make an assessment of overall ERP OCIP performance as of February 1997. Deloitte is conducting the review for a not to exceed fee of \$24,800, including expenses, and the review is expected to be concluded by the end of April.

In addition to the aforementioned agreements, an audit services proposal has been requested from the District's external auditing firm of KPMG Peat Marwick, LLP, to conduct an operational review of the District's Travel Desk Function and an evaluation of the District's travel expenses. Preliminary discussions have also been held with a firm which specializes in conducting audits of commercial construction projects and real estate transactions concerning the District's headquarters building construction project. These two assignments, as well as those two for which agreements have recently been consummated, were identified as part of the Audit Department's overall work plan for fiscal 1996-97.

Sufficient funding for the contract audit services outlined in this letter is contained in the Audit Department's budget for fiscal 1996-97.