

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

April 29, 1997

To: Board of Directors
From: Auditor *Michael W. Hordorp*
SUBJECT: Audit Department Report for April 1997

RECOMMENDATION

For information only.

DETAILED REPORT

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

Two detailed audit reports pertaining to reviews of a consulting services agreement and certain District-incurred costs for the Eastside Reservoir Project, respectively, were completed and issued to management. Summary audit reports on these reviews, as well as the review of Bulk Fuel Usage and Accounting which was completed in March, were issued to the Special Audit Committee in April. Draft audit reports on three other substantially completed audit assignments; namely, a post-implementation review of the new Water Information System, our review of the annual physical inventory process at Central Stores warehouses, and a review of an agreement for protective services at District facilities were issued to staff for review and comment. Our review and verification of the physical transfer of the District's exchange bearer bonds from Wells Fargo Bank to the Bank of New York's Western Trust Company was completed in April without the issuance of a report.

Among the many assignments in progress during April are a review of the physical inventories of District operating equipment and several consulting or construction contract audits. The contract audit of the Eastside Reservoir Project Owner Controlled Insurance Program by Deloitte & Touch, LLP, was substantially completed in April and a report is expected to be issued by that firm in May. Selected telephone and electrical bills were copied and mailed to TriStem, Inc., in April in order to facilitate that firm's contract audit of such billings for 1996. An agreement was entered into in April with KPMG Peat Marwick, LLP, to conduct a review of the District's Travel Desk functions and travel expenses for a not-to-exceed fee of \$25,000. The review was commenced in late April.

Administrative matters handled in April included completion of the third quarterly status report on the 1996-97 Audit Work Plan and activities on behalf of the Special Audit Committee pertaining to the Auditor's performance assessment process for 1996-97. A revised version of the Special Audit Committee Directors' Handbook was also completed and transmitted to all committee members in early April. Participation in various management meetings involved, among other things: litigation support, control self-assessment project scoping matters and various accounting issues. Finally, recruiting efforts were commenced in April to hire a qualified professional on permanent basis to replace a former staff member who had been on extended medical leave since March 1996.

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	Met with District Controller staff and KPMG representatives to discuss Controller's proposed changes to the formula for amortizing Participation Rights in State Water Project.	
Water Inventory/Deferred Water Rights	Review the computations for water inventory and deferred water rights accounts for accuracy and compliance on a quarterly basis.	Completed the reviews for the quarters ended September 30 and December 31, 1996.	
Annual Inventory of Central Stores	Monitor and evaluate the overall accuracy of Central Stores warehouse inventories; review and assess the recording of inventory adjustments	The review of final inventory results was completed and a draft report was transmitted to management at month-end. This assignment will be completed in May.	
Utility Bills Audits -- Electrical Power and Regular Telephone	Perform testing of utility bills (electrical power/telephones) to ensure accuracy and propriety of billings.	Selected electrical utility and regular telephone billings were copied and mailed to the contract audit firm.	
Operating Equipment Inventories - Quarterly	On a quarterly basis, review and evaluate the overall accuracy of the physical cycle counts of District operating equipment inventories.	Completed the survey and planning phase; commenced detailed testing of selected inventory transactions. A detailed report will be issued to management in May.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment; completed a verification of the physical transfer of exchange bearer bonds from Wells Fargo Bank to Bank of New York's Western Trust Co.	

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).	Assisted management in requesting and evaluating a proposal for a Control Self-Assessment engagement from a national consulting firm.	

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.	
IID/MWD Water Conservation Program -- 12/31/96	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data.	Substantially completed preliminary planning procedures during April. Field work will be completed in May.	
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. Payroll records for Bechtel Corp. and several subconsultants were tested at their field office locations. This assignment is expected to be concluded in May.	

ACTIVITIES IN PROGRESS

Contract Audits/Vendor Reviews			
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.	<p>Preliminary planning and survey procedures pertaining to review of Agreement No. 4857 with Ralph M. Parsons were commenced.</p> <p>The review of Agreement No. 6012 with Inter-Con Security Systems, Inc. was substantially completed and a draft audit report was issued to management at month end.</p> <p>The report on our review of Agreement No. 3624 with Fay Tech Services was issued to management. Management responded to the recommendations in the detailed audit report by month-end.</p>	The Auditors' summary audit report, dated April 28, 1997, was issued to the Special Audit Committee
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 report on our review of District incurred costs (labor, materials, incidentals) pertaining to the Eastside Reservoir Project was issued to management. Management responded to the recommendations in the detailed report by month-end.	The Auditors' summary audit report, dated April 23, 1997, was issued to the Special Audit Committee
Monitor Long-Term Headquarters Project	Monitor the primary financial activities related to the development of a permanent headquarters facility at Union Station.	Received requested financial data and contract copies from staff in order to start planning phase; received requested data regarding the Sunset facility sale.	

ACTIVITIES IN PROGRESS

Operational Audits/Program Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Bulk Fuels Usage and Accounting	Review controls over the recording and reporting of fuel usage at various District facilities	Management's response to the detailed audit report which was issued in March was received and evaluated.	The Auditors' summary audit report, dated April 29, 1997, was issued to the Special Audit Committee

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Assignment was substantially completed and a draft report was issued to management at month-end.	
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 litigation support services provided to the Legal Department	
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	Commenced planning for the May 20, 1997 Special Audit Committee meeting; prepared and submitted information to committee members on the Auditor's 1996-97 performance evaluation process.	
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 report meetings with staff and the third party administrators for the Workers Compensation and General Liability programs.	
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.	At month end, payroll checks and auto-deposit stubs were distributed to selected employees at the Mills Plant. A petty cash fund was also tested at that location.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	