

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

June 30, 1997

To: Board of Directors
From: Auditor
Subject: Audit Department Report for June 1997

Michael W. Homberg

RECOMMENDATION

For information only.

DETAILED REPORT

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

Upon receipt of management's response to the report issued in May on our post-implementation review of the new Water Information System, a summary report on that review was transmitted to the Special Audit Committee. A summary report was also submitted to the Special Audit Committee at month-end pertaining to the review of SAWPA costs of the Arlington Basin Groundwater Project for the fiscal year ended June 30, 1996. Detailed reports pertaining to reviews of the Oracle Asset Tracking System and two consulting services agreements were completed during June and issued to management. Upon receipt of management responses to those reports, summary reports will be provided to the Special Audit Committee.

Among the many assignments in progress during June were reviews of several consulting or construction contracts. Due to delays in receiving staff input to its revised draft report, the final report on the review of the Eastside Reservoir Project Owner Controlled Insurance Program by Deloitte & Touch, LLP, is now expected to be issued in early July. Two other assignments being conducted by contract auditors are continuing.

Administrative matters handled in June included planning activities on behalf of the Special Audit Committee pertaining to its July 15 meeting, as well as meetings with new committee Chair Grandsen and committee member Huntley. Management support activities included, among other things, litigation support, accounting matters, operating policies, and risk management matters. Efforts to develop the Audit Work Plan for fiscal 1997-98 were also concluded and the proposed plan was submitted to the Special Audit Committee jointly by the Auditor and General Manager at month-end.

Our recruiting efforts to fill a vacant audit staff position suffered a setback in June. A well-qualified candidate had been hired to start employment in July; however, due to her husband's relocation she withdrew her acceptance of the employment offer. An executive search firm is now assisting in our efforts to locate a replacement candidate as soon as possible.

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	Staff assisted the information systems audit specialists from KPMG Peat Marwick in planning their review activities in connection with the year-end audit for fiscal 1996-97.	
Annual Audit of Arlington Desalter Project - FY 1995-96	Conduct annual audits of project costs in accordance with the terms of the participation agreements.	The assignment was completed and a detailed report was issued to management at month-end.	The Auditor's summary report, dated June 30, 1997, was issued to the Special Audit Committee.
Operating Equipment Inventories - Quarterly	On a quarterly basis, review and evaluate the overall accuracy of the physical cycle counts of District operating equipment inventories.	The review of operating equipment inventory activities during fiscal 1996-97 through March 31, 1997 was substantially completed during June.	
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
Overall Internal Control Assessment Project	Evaluate District's internal control environment in light of framework recommendations contained in COSO Report (Treadway Commission Recommendations Response).	Input was provided to staff on several new or revised Operating Policies during June.	

ACTIVITIES IN PROGRESS

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Assignment & Control of MWD Credit Cards	Review and evaluate internal controls over the assignment and usage of MWD credit cards by authorized individuals	The results of this limited review were summarized in memoranda form for the Auditor. Copies were provided to management and staff for information purposes.	

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 in June.	
IID/MWD Water Conservation Program -- 12/31/96	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data.	This assignment was substantially completed and a draft report was issued to staff during the month. This assignment will be completed in early July when information is available on final interest earnings for the fiscal year.	
Monitor Inland Feeder Project	Monitor contract costs and controls over construction activities related to the Inland Feeder Project.	The review of Agreement No. 4532 with Bechtel Infrastructure Corporation was completed and a report was issued to management in late June.	

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.	The review of Agreement No. 4857 with Ralph M. Parsons Co. was completed and a report was issued to management in late June.	
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.	<p>Planning and survey procedures pertaining to review of Contract No. 1452 with Atkinson-Washington-Zachry (AWZ) were completed and detail testing was commenced.</p> <p>Planning and survey procedures pertaining to a special review, requested by the Legal Department, of equipment used by AWZ for extra work performed on Contract No. 1452 were completed during the month.</p> <p>Planning and survey procedures pertaining to review of Agreement No. 903 with Southern California Associates were completed and detail testing was commenced.</p>	

Operational Audits/Program Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Owner-Controlled Insurance Program -- ERP	Monitor administrative controls and financial cost/benefit information related to new owner-controlled insurance program for Eastside Reservoir Project.	Input from staff to a revised draft report from Deloitte & Touche, LLP, was provided to the consultants in late June. The final report is now expected to be issued to the Auditor in early July, with distribution to management to follow.	

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.	Testing efforts on this assignment are continuing, although these efforts have been recently delayed due to the assigned auditor's other work priorities.	
Review of MWD Travel Desk Functions/Travel Expenses	Evaluate the MWD Travel Desk functions and utilization to assess its efficiency and effectiveness.	Contract audit staff from KPMG Peat Marwick continued their review efforts during June.	

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.	Management's response to the recommendations in the review report issued in May was received in June.	The Auditor's summary audit report, dated June 20, 1997, was issued to the Special Audit Committee.
Post Implementation Review of the Oracle Fixed Assets System (OATS)	Perform post-implementation testing to ensure that controls over District asset tracking and control systems are adequate and output is authorized, complete, accurate, secure and reliable.	The post-implementation review of the OATS was completed and a report was issued to management in early June.	
Computer Equipment Acquisition	Perform review of costs associated with acquisition of computer related equipment at the District.	Detailed testing was commenced during June.	

ACTIVITIES IN PROGRESS

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Disaster Contingency Plans- Information Systems	Monitor information systems disaster contingency planning activities and evaluate risks.	The assignment was completed during June. Monitoring of information systems business resumption plans will continue in fiscal year 1997-98.	
Post-implementation Review of Pilot of Preventative Maintenance System (SOMMS)	Perform post-implementation testing to ensure that controls over SOMMS are adequate and output is authorized, complete, accurate, secure and reliable.	The assignment was completed during June. Additional monitoring of the implementation of SOMMS roll-out will be conducted during fiscal year 1997-98.	
Minor EDP Assignments	Perform miscellaneous information systems reviews whenever required.	Continuing assignment.	

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	

ACTIVITIES IN PROGRESS

Other			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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	Administrative assistance was provided in support of the Committee's July 15, 1997 meeting, including meeting with the new Committee Chair.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	Staff attended various Risk Management staff meetings.	
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.	Follow-up procedures were performed without exception to verify the existence of selected employees who were not previously available to receive their paychecks or auto deposit stubs.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	