

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 1, 1997

To: Board of Directors

From: Auditor Michael W. Hondorp

Subject: Audit Department Report for July 1997

RECOMMENDATION

For information only.

DETAILED REPORT

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

Responses were received from management to the reports issued in June and July on our reviews of the Oracle Asset Tracking System and Operating Equipment Inventories, respectively. Summary reports on those reviews will be transmitted to the Special Audit Committee in August. Deloitte & Touche, LLP, issued a report on its review of the Eastside Reservoir Project Owner Controlled Insurance Program on July 10. That report was transmitted to the General Manager, General Counsel, and various staff for information and consideration of the consultant's review recommendations. Upon receipt of management's responses to those recommendations, a summary report on the review will be provided to the Special Audit Committee.

Among the many assignments in progress during July were reviews of several consulting or construction contracts, including a review of a contract with Edelman Public Relations in response to a request by the San Diego County Water Authority Board. Two assignments being conducted by contract auditors are continuing.

Administrative matters handled in July included activities on behalf of the Special Audit Committee pertaining to its July 15 meeting. Management support activities included, among other things, accounting matters, operating policies, and risk management matters. Preliminary work was performed on the June 30, 1997, year-end audit and our assistance to KPMG Peat Marwick's staff in this effort will continue during August and September. Efforts to recruit another deputy auditor are continuing and panel interviews with qualified candidates are being scheduled for mid-August.

Attachment

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Miscellaneous Financial Reviews	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	
Miscellaneous EDP Assignments	Perform miscellaneous information systems reviews whenever required in the circumstances.	Continuing assignment.	
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.	Management's response to the findings and recommendations outlined in the audit report for this assignment was received. Follow-up discussions were then conducted with staff to clarify several response items.	
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 Inventories as of March 31, 1997, was completed and a report was issued to management in July. Follow-up discussions were also held with staff concerning the response to the audit report that was received at month-end.	
Monthly Petty Cash Counts	On a monthly basis, review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Six petty cash funds were tested at various Cal Plaza locations.	
Re-engineering of Purchasing Functions	Monitor activities to revise key purchasing functions and evaluate internal control impacts.	Input was provided to the project team that is in the process of implementing a new Purchase Card Pilot Program.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	A staff auditor participated in a quarterly meeting with staff and the third party administrator for the General Liability program.	

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Accounts Payable Process Review	Review Accounts Payable payments process and other concerns of the Controller; review the process for possible improvements in controls and effectiveness.	Preliminary planning and survey procedures pertaining to the Accounts Payable Process Review were completed and detailed testing commenced. This assignment will be deferred until the in-charge auditor completes the Edelman contract review.	

Construction and Contract Audits			
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.	Detail testing pertaining to a review of Contract No. 1452 with Atkinson-Washington-Zachry (AWZ) continued during the month. Detailed testing pertaining to a review of Agreement No. 903 with Southern California Associates continued during the month.	
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 final report on this review was received from Deloitte & Touche, LLP, and copies were submitted to management for consideration and response to the consultant's recommendations.	

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
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 were commenced pertaining to a review of Agreement No. 12259 with Edelman Public Relations Worldwide. The Chair of the SDCWA Board requested this review in a July 17 letter to Board Chair Foley.</p> <p>Planning and survey procedures pertaining to a review of two consulting agreements with KARO Enterprises continued during July.</p>	

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	
Overall Internal Control Assessment Project	Evaluate the District's internal control environment and review proposed Operating Policies in light of framework recommendations contained in the COSO Report.	Input was provided to staff on several new or revised Operating Policies during July.	
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 July.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
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.	
Board and Committee Activities	To provide Board and Committee support, as necessary, and attend and participate in meetings (other than the Special Audit Committee).	Continuing assignment. The Auditor attended the Board of Directors' Strategic Planning Workshop in San Diego on July 25.	
Computer Equipment Acquisition	Perform review of costs associated with acquisition of computer related equipment at the District.	Audit Observation Sheets outlining various review findings were issued and discussed with staff. This assignment will be completed in August.	
Administrative Assistance to MWD Management and Others	Provide advice and assistance to MWD management or staff, as needed, and participate in meetings or other activities.	Continuing assignments include 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

Water Resource Programs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
IID/MWD Water Conservation Program -- 12/31/96	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data.	The assignment was completed and a detailed report was issued to management in early July.	The Auditor's summary report, dated July 7, 1997, was issued to the Special Audit Committee.

O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly Review of Employees' and Directors' Expense Claims	Determine the propriety of expense claims of employees and directors.	A selection of employee and director expense reports processed during the quarter ended June 30, 1997 were reviewed.	
Utility Bills Audits -- Electrical Power / Telephone	Monitor testing of electrical utility and telephone bills by a contract vendor to ensure accuracy and propriety of billings.	Letters to the respective electrical utility and regular telephone service providers were prepared at the contract audit firm's request to satisfy audit notification requirements.	

External Financial Reports			
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	Preliminary work was performed on the June 30, 1997 year-end audit. Internal audit staff assistance on year-end audit matters will continue during August and September.	