

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 30, 1997

To: Board of Directors**From:** Auditor

A handwritten signature in cursive script, reading "Michael W. Handberg", positioned above a horizontal line.

Subject: Audit Department Report for September 1997**RECOMMENDATION**

For information only.

DETAILED REPORT

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

A summary report on our review of an assignment with Bechtel Infrastructure Corporation was transmitted to the Special Audit Committee in September upon receipt of management's response to our report on that review. Significant staff time was devoted to assisting KPMG Peat Marwick's staff in completing the June 30, 1997, year-end audit and issuance of the various financial statements. These efforts will be completed in October.

Among the many assignments in progress during September were reviews of several consulting or construction contracts, as well as various information systems reviews. Two assignments being conducted by contract auditors are continuing.

Administrative matters handled in September included activities on behalf of the Special Audit Committee pertaining to the special September 2 meeting, as well as the scheduled October 21 meeting. Management support activities included, among other things, accounting matters, operating policies, and contract matters. The department's new staff auditor is scheduled to commence his employment on October 6.

Attachment

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Software Licensing Review	Evaluate the status of physical and accounting controls over microcomputer software; review compliance with software copyright and licensing laws.	Met with staff to initiate review and discuss review objectives. Began preliminary fieldwork to begin software inventory of selected workstations at the District.	
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.	
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 review of quarterly cycle count results through the quarter ended June 30, 1997.	
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.	One petty cash fund was tested at the Skinner Filtration Plant.	
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.	Detailed testing pertaining to review of the Accounts Payable payments process continued during the month.	

ACTIVITIES IN PROGRESS

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 resumed this month. This review is expected to be completed in October.	
Monitor Inland Feeder Project	Monitor contract costs and controls over construction activities related to the Inland Feeder Project.	Management's response to the recommendations in the report on the review of Agreement No. 4532 with Bechtel Infrastructure Corp. was received in September.	The Auditor's summary audit report, dated September 17, 1997, was issued to the Special Audit Committee.
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 response was received from management to the recommendations in Deloitte & Touche's June 1997 report during September.	The Auditor's letter, dated September 30, 1997, transmitted copies of the Executive Summary of the Deloitte & Touche report, and management's response letter, to the Special Audit Committee.
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Review procedures pertaining to a review of three consulting agreements with KARO Enterprises continued during August. This review is expected to be completed in October. Preliminary planning and survey procedures pertaining to a review of the San Dimas Lease agreement were commenced. Preliminary planning and survey procedures pertaining to a review of Agreement No. 2112 with Carl Warren & Co. were commenced.	

ACTIVITIES IN PROGRESS

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 Operating Policies.	
Review of MWD Travel Desk Functions/Travel Expenses	Evaluate the MWD Travel Desk functions and utilization to assess its efficiency and effectiveness.	A preliminary draft report on this review was received from KPMG Peat Marwick and distributed for management comments during September. A final report will be issued by KPMG following receipt and consideration of management comments.	
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	Continuing assignment.	
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.	
Computer Equipment Acquisition	Perform review of costs associated with acquisition of computer related equipment at the District.	This assignment was concluded and a final report was issued to management and staff at month end.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 Contract Administration Steering Committee, the Time and Labor Steering Committee, and litigation support services provided to the Legal Department.	

O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Staff from Operations, Planning and Resources, and the Legal Department assisted in responding to the contract auditors' questions on electrical billings during the month.	

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	The year-end audit field work was completed in September and the District's accrual basis and cash basis financial statements, together with the independent auditors' opinions thereon, were issued. Drafts of the independent auditors' annual Letter to Management and the Single Audit Reports were circulated to staff for review and comment prior to being finalized.	The Auditor transmitted the District's accrual basis and cash basis financial statements for the fiscal year ended June 30, 1997, to the Board of Directors.