

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

November 4, 1997

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

Michael W. Handberg

RECOMMENDATION

For information only.

DETAILED REPORT

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

During October, audit staff concluded their assistance to KPMG Peat Marwick's staff on that firm's audit and issuance of final reports for the District's fiscal year ended June 30, 1997. The Auditor transmitted KPMG's Annual Letter of Recommendations to Management to the Board of Directors on October 9, and their Single Audit Reports were transmitted on October 13, 1997. These final deliverables, as well as KPMG's reports on the District's primary audited financial statements which were issued in September, were presented and discussed, along with management's comments, at the Special Audit Committee meeting on October 21, 1997.

Among the many other assignments in progress during October were reviews of several consulting or construction contracts, as well as various information systems reviews. Two detailed audit reports which provided results of completed contract reviews were issued to management during October. One additional assignment pertaining to the District's travel desk functions and related travel costs was completed by contract auditors and transmitted to management. Upon receipt of management's responses to recommendations contained in those reports, a summary report on each will be provided to the Special Audit Committee.

Administrative matters handled in September included activities on behalf of the Special Audit Committee pertaining to its October 21 meeting. Management support activities included, among other things, accounting matters, operating policies, and contract matters. The department's new staff auditor commenced his District employment on October 6. Finally, one Deputy Auditor remains on extended disability leave while she recovers from injuries suffered in an automobile accident in September.

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.	An inventory of software installed on selected District workstations at the District was nearing completion at month-end. Audit Observation Sheets outlining various review findings were distributed and discussed with staff.	
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.	A review of the results of the quarterly cycle count as of September 30, 1997 is in progress.	
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.	Five petty cash funds were tested at Cal Plaza during October.	
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.	Fieldwork was completed, and Audit Observation Sheets outlining various review findings were distributed and discussed with staff. A draft report will be issued to management and staff in early November.	

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.	<p>Review procedures pertaining to a review of Agreement No. 903 with Southern California Associates was concluded and a final report was issued to management and staff at month end.</p> <p>Detail testing pertaining to a review of Contract No. 1452 with Atkinson-Washington-Zachry has been deferred due to other priorities. This review is expected to resume in November.</p>	
Monitor Inland Feeder Project	Document controls over Inland Feeder Project (IFP); develop plan to ensure adequate audit coverage of the project in future years; perform audits of selected IFP contracts.	Preliminary planning and survey procedures pertaining to a review of Agreement No. 4530 with Parsons Brinckerhoff Quade & Douglas were completed, and field work commenced during the month.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	<p>Management's response to the recommendations in the report on the review of Agreement No. 4857 with Ralph M. Parsons Co. was received during the month.</p> <p>Review procedures pertaining to a review of three consulting agreements with KARO Enterprises were concluded and a final report was issued to management and staff at month end.</p> <p>Preliminary planning and survey procedures pertaining to a review of the lease at the San Dimas facility continued during the month.</p>	The Auditor's summary audit report on the Parsons contract review, dated October 15, 1997, was issued to the Special Audit Committee.

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 various Operating Policies during October, as well as the revised Travel Policy Handbook..	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	Information systems auditors continued their review of this implementation process during the month.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	Information systems auditors continued their review of this implementation process during the month.	
Review of MWD Travel Desk Functions/Travel Expenses	Evaluate the MWD Travel Desk functions and utilization to assess its efficiency and effectiveness.	A final report on this review was received from the contract auditor, KPMG Peat Marwick. Copies were then submitted to management and staff for consideration and response to the firm's recommendations.	
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 October 21, 1997 meeting.	
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.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Comments were provided to management on a draft of their response to the detailed audit report that was issued in September on this assignment.	
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.	

Water Resource Programs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Reclamation and Groundwater Recovery Programs	Review reclamation and groundwater recovery programs for compliance with related agreements; evaluate program controls and effectiveness.	Planning meetings were held with management and staff to discuss the scope and timing of this review effort, as well as other water resource program reviews.	

ACTIVITIES IN PROGRESS

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 September 30, 1997 were reviewed during the month. This review will be completed in November.	

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	This assignment was completed and final deliverables were received from KPMG Peat Marwick during October.	The Auditor transmitted KPMG's Annual Letter of Recommendations to Management, and the District's Single Audit Reports for the fiscal year ended June 30, 1997, to the Board of Directors.
Quarterly and Year-end Audits - FY 1997-98	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 1997-98.	A planning meeting was held with KPMG Peat Marwick to discuss their audit of the District's quarterly cash basis financial statements as of September 30, 1997. This work will commence in early November.	