

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Office of Auditor

December 16, 1997

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

Michael W. Henderson

RECOMMENDATION

For information only.

DETAILED REPORT

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

Detailed reports were prepared and submitted to management and staff in December pertaining to our reviews of software copyright and licensing compliance and the Accounts Payable Process. Summary reports on these assignments will be provided to the Special Audit Committee after management's responses have been received and evaluated. Time was also spent reviewing financial and other data in the drafts of the Official Statements for the 1997 Water Revenue Bond Issue. "Comfort letters" were prepared and issued by the Audit Department for the benefit of the Underwriters pursuant to the contract of purchase for this bond issue. Staff also completed reviews of drafts of the Annual Financial Report and Comprehensive Annual Financial Report for fiscal 1996-97 prior to the publication of those reports.

Among the many other assignments in progress during December were reviews of several consulting or construction contracts, as well as various information systems reviews. Administrative matters handled in December included activities on behalf of the Special Audit Committee pertaining to its December 2 meeting. Management support activities included, among other things, accounting matters, operating policies, and contract matters.

MWH:lo

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.	This assignment was completed and a detailed report was issued to management.	
Post-Implementation Review of the PeopleSoft Payroll System	Review the PeopleSoft Payroll System to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	Preliminary planning and survey procedures relating to the PeopleSoft Payroll System were initiated in December.	
Information Technology Projects Status Assessment	Evaluate the adequacy and accuracy of project management efforts pertaining to District-wide Information Technology (IT) projects.	Staff provided information pertaining to the latest status report of District-wide IT project reporting. An evaluation of the current procedures used to collect and generate the reports was commenced.	
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.	
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.	Petty cash funds were tested at the Glendora facility during December.	
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.	The assignment was completed and a detailed report was issued to management.	

ACTIVITIES IN PROGRESS

Safeguards over District Assets			
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 was resumed during the month.	
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.	Audit observation sheets pertaining to a review of contract No. 4530 with Parsons Brinckerhoff Quade and Douglas, Inc. were provided to staff for review and comments. A draft report will be issued to management by month-end.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	During its December 2 meeting, the Special Audit Committee considered the San Diego County Water Authority's contract audit request. As a result, several contract reviews were added to this assignment and preliminary planning was commenced.	
Joint Desalination Project	Review and document recording and reporting procedures, monitor costs and test for compliance with agreements related to the District's participation in the Seawater Desalination Demonstration Project.	Preliminary planning and survey procedures pertaining to the review of the Joint Desalination Project were completed in December. Detailed testing will commence in January.	

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 December.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	Information systems auditors continued to monitor the activities of implementation team 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.	
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 support was provided in support of the Committee's December 2, 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.	

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 the IT Governance Development Team.	

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 and survey procedures were completed. Monitoring of review activities performed by staff from the Operations and Planning and Resources Divisions program review activity will commence in January.	

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Annual Financial Report and CAFR	Review the format and content, including text, tables and schedules, of the Annual Financial Report and Comprehensive Annual Financial Report.	Completed reviews of drafts of the FY 1996-97 Annual Financial Report and Comprehensive Annual Financial Report.	

ACTIVITIES IN PROGRESS

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Review of 1997/98 Debt Issues	Review drafts of text and tables of Preliminary Official Statements/ Official Statements related to any debt issues during 1997-98; issue "comfort letters" to underwriters if required.	Completed reviews of drafts of the Official Statement for the 1997 Water Revenue Bond issue and issued required "comfort letters" to the underwriters.	Certificates (letters) dated November 20 and December 9, 1997, were issued to Smith Barney Inc., as Underwriters Representative, by the Auditor.