

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

January 27, 1998

To: Board of Directors
From: Auditor
Subject: Audit Department Report for January 1998

Michael W. Hondorp

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during January 1998. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

Upon receipt of management's responses to our detailed report recommendations, summary reports were issued to the Special Audit Committee pertaining to our reviews of Software Copyright and Licensing Compliance and the District's Accounts Payable Process. A detailed report was prepared and submitted to management and staff pertaining to a review of a consulting agreement for the Inland Feeder Project with the firm of Parsons Brinckerhoff Quade & Douglas, Inc. A summary report on this assignment will be provided to the Special Audit Committee after management's response has been received and evaluated. Other assignments concluded in January included a review of the calculation of amortization of State Water Project Participation Rights for fiscal 1997-98, and annual bond statement update compliance.

Among the many other assignments in progress during January were reviews of several consulting or construction contracts, as well as various information systems reviews. The Audit Department held a one-day off-site workshop in Long Beach on January 16 to discuss, among other things, mid-year audit work status and priorities for the balance of the year. The Auditor and Assistant Auditor have scheduled a presentation on January 30 to the Audit Committee of the Board of the San Diego County Water Authority. Management support activities included, among other things, accounting matters, operating policies, contract matters and information technology governance.

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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.	Management's response to the recommendations in the report on the review of software licensing compliance was received during the month.	The Auditor's summary report on the review of Software Licensing Compliance, dated January 26, 1998, was issued to the Special Audit Committee.
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.	The testing of various areas of system controls was performed, and the results of such testing were discussed with staff.	
Information Technology Projects Status Assessment	Evaluate the adequacy and accuracy of project management efforts pertaining to District-wide Information Technology (IT) projects.	Information provided by staff on the status of various Information Technology projects is currently being analyzed.	
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.	Two petty cash funds were tested at Cal Plaza during January.	

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.	Management's response to the recommendations in the report on the review of the accounts payable process was received during the month.	The Auditor's summary report on the review of the District's Accounts Payable Process, dated January 26, 1998, was issued to the Special Audit Committee.

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 was completed during the month and a draft report was provided to the Legal Department at month end for comments. Preliminary planning and survey procedures relating to a review of Agreement No. 3773 with Infotec Research, Inc were completed. Detailed testing has commenced.	
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.	The review of Agreement No. 4530 with Parsons Brinckerhoff Quade & Douglas, Inc. was completed and a detailed report thereon was issued to management.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Detailed testing pertaining to a review of Agreements No. 4604 and No. 13502 with J.R. Maloy was commenced during January.	

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 work has been completed. Detailed testing has been deferred by the auditor assigned until he completes several consulting agreement reviews requested by the Board of the San Diego County Water Authority.	
JIT Programs / Contracts	Review and evaluate the procedures and controls related to the JIT program; review compliance with selected JIT contracts.	Preliminary planning and survey procedures relating to the JIT Program were completed in January. Detailed testing of selected contracts will commence in February.	

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 January.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The information systems auditors continued to monitor the activities of the implementation team during the month.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The information systems auditors continued their review of this implementation process during the month.	

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	Planning for the committee's February 17, 1998, meeting was commenced.	
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.	
Monitor Risk Management Activities	Monitor Risk Management Office activities and coordinate audit efforts accordingly.	The staff auditor in charge of this assignment participated in a quarterly meeting with staff and the third party administrator for the Workers Compensation program.	
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.	

ACTIVITIES IN PROGRESS

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.	Preliminary planning has been completed. These programs will be reviewed in conjunction with the separate efforts of the staffs of the Operations and Planning and Resources Divisions. A joint audit planning memo has been prepared. Detailed review of project records is scheduled to commence in February.	

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 review of selected employee and director expense reports processed during the quarter ended December 31, 1997 was commenced during the month.	
Amortization of SWP Participation Costs	Test calculation of FY 1997-98 amortization of State Water Project Participation Rights for accuracy.	Testing of the calculation of FY 1997-98 amortization of State Water Project Participation Rights was completed during the month.	

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.	A review of drafts of the Preliminary Official Statements for the Waterworks General Obligation Refunding Bonds, 1998 Series A, and the Water Revenue Refunding Bonds, 1998 Series A issues, was completed and work on required comfort letters for the Underwriters was commenced.	
Annual Bond Statement Update	Review the annual bond statement report for accuracy and compliance.	Based on documentation provided by the Legal Department, a review was completed on the District's contractual secondary market disclosure obligations. No exceptions were noted and no formal report was issued on this assignment.	