



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-3

March 31, 1998

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

Michael W. Hendry

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during March 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 response to our detailed report recommendations, a summary report was issued to the Special Audit Committee pertaining to our post-implementation review of the PeopleSoft Payroll System. Other assignments concluded in March included a review of the Official Statement for the Water Revenue Bonds, 1997 Authorization, Series B and C, which resulted in the issuance of "comfort letters" to the underwriters of such bond issues. At management's request, staff also performed a limited review of the calculations and underlying data for various weighted voting alternatives being considered by the Board of Directors as part of its governance assessment process.

Among the many other assignments in progress during March were reviews of several consulting or construction contracts, as well as various information systems reviews. Administrative matters during March included completion of the department's budget for fiscal year 1998-99 and the Auditor's attendance at the Board's two-day governance workshop in San Pedro. 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
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.	Management's response to the recommendations in the report on this review was received and evaluated.	The Auditor's summary report on this assignment, dated March 27, 1998, was issued to the Special Audit Committee.
Information Technology Projects Status Assessment	Evaluate the adequacy and accuracy of project management efforts pertaining to District-wide Information Technology (IT) projects.	This assignment was completed in March and a report thereon was issued to management for information and corrective action.	
Unix Host Security Review	Perform review of operating system controls/security for Unix based hosts at MWD.	Preliminary planning and survey procedures pertaining to a review of security over the MWD Unix host servers were concluded and detail testing was commenced during the month.	
Review of Information Systems Security Policies, Procedures & Standards	Review the IS Policy and Procedure Manual to ascertain that it is complete and adequate.	This assignment was completed and a summary memorandum to the Auditor was forwarded to management for its information.	
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.	Three petty cash funds at the Weymouth Filtration Plant were tested during March.	

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.	Detailed testing pertaining to a review of Contract No. 3773 with Infotec Research, Inc. was resumed. Work on this assignment had been temporarily deferred due to the assigned auditor's other job priorities.	
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 scope of this assignment was expanded to include pre-award audits of cost proposals by potential consultants.	Detailed procedures pertaining to a management-requested "pre-award audit" of a proposal by Parsons Brinckerhoff Construction Services, Inc. to provide construction management services for the IFP were completed. A draft report on that review was distributed to staff for information and comments during the month.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	<p>Preliminary planning and survey procedures pertaining to a review of the now-terminated San Dimas Office Lease agreement were concluded and detail testing commenced during the month.</p> <p>The review of two consulting agreements with John. R. Maloy was completed and a report was issued to management.</p> <p>Fieldwork for the review of consulting agreements with Burson-Marsteller 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 April.</p>	

ACTIVITIES IN PROGRESS

Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Consulting Agreement Audits (cont'd)	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Preliminary planning and survey procedures pertaining to a review of consulting Agreement No. 8653 with Solution Strategies were concluded and detail testing commenced during the month.	
JIT Programs / Contracts	Review and evaluate the procedures and controls related to the JIT program; review compliance with selected JIT contracts.	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 April.	

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 March.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The Auditor and the information systems auditors continued to monitor project implementation activities during the month. These activities included project steering committee meetings and meetings with Oracle Corp. Representatives.	
CSA Program Implementation/ Facilitation	Monitor implementation of the District's Control Self-Assessment Projects, and participate as appropriate.	The CSA Project Team continued development of the CSA Pilot Project, and received management approval to proceed with its proposed project plan following its presentation at the March 18 OORC meeting.	
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.	
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	The Auditor commenced planning for the June 2, 1998, meeting and met with the Committee Chair to discuss various agenda issues.	
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.	

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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, the IT Governance Development Team, and the Trainers Network Board. Detailed testing of the calculations and underlying data for various weighted voting alternatives being considered by the Board as part of its governance process was completed. A memorandum on the review results was issued to management.	

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.	Staff is continuing to monitor the detailed testing being conducted by staff from the Planning and Resources and the Operations Divisions.	
Seasonal Storage Program Status	Review accounting and administrative controls over the seasonal storage program activities	Staff is continuing to monitor the detailed testing being conducted by staff from the Operations Division.	

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.	Reviews of drafts of the Official Statement for the Water Revenue Bonds, 1997 Authorization, Series B and Series C, were completed and required "comfort letters" were issued to the underwriters.	Certificates (letters) dated March 6 and March 18, 1998, were issued to E. J. De La Rosa & Co., Inc. and Prager, McCarthy & Sealy, Underwriters of the Series B and Series C issues, respectively, by the Auditor.
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.	The Auditor worked with KPMG Peat Marwick's Senior Manager to obtain an electronic-form version of the District's cash basis financial statements, as of December 31, 1997, for the Board's agenda package.	The Auditor transmitted the audited cash basis financial statements to the Board of Directors in March.