

October 27, 1998

To: Board of Directors

From: Auditor

Subject: Audit Department Report for October 1998

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during October 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, a summary report was issued to the Special Audit Committee pertaining to the review of the Seawater Desalination Pilot Project. Significant staff time was also devoted to assisting KPMG Peat Marwick's staff in completing their work on the annual Letter to Management and required Single Audit Reports for fiscal 1997-98. Other assignments concluded in October included a review of Operating Equipment Inventories for the quarter ended June 30, 1998, and a consulting services agreement pertaining to the Headquarters project.

Among the many assignments in progress during October were reviews of several consulting or construction contracts, as well as various information systems reviews. Administrative matters during October included support for the Special Audit Committee's October 20 regular meeting and a special joint meeting with the Legal and Claims Committee on this date to discuss Eastside Reservoir Project audit and legal issues. Management support activities included, among other things, business development issues, accounting matters, operating policies, contract matters, and information technology upgrades and governance.

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Attachment 9-3A

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ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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	The results of a limited review of inventory cycle count activities during the quarter ended June 30, 1998, were provided to management and staff for information and corrective action purposes.	
Petty Cash Counts	Review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Four petty cash funds at Cal Plaza were tested during October.	
Year 2000 Compliance Assessment / Monitoring	Monitor and assess staff efforts to ensure that potential Year 2000 systems problems are adequately addressed prior to 12/31/99.	The assigned information systems auditor met with the Y2K Project Manager to assess project progress. He also made a presentation with the Director of Information Technology on Y2K readiness to the Special Audit Committee.	
Review of Revenue Lease Program	Review controls over revenue generating leases of District properties and test the accounting and recording of lease revenues.	Preliminary planning and survey procedures were completed and detailed testing commenced during the month.	

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Purchasing Card Implementation -- System Life Cycle Review	Monitor the implementation of the new Purchasing Card system as specified in the project plan.	The assigned auditor provided input on purchase card software security requirements during the design phase of the purchase card implementation.	
Monitor Travel Expense Reporting System Upgrades	Monitor implementation of upgrades to the Travel Expense Reporting System.	The assigned auditor met with the project manager to discuss project status and attended a demonstration of the new TER System.	
KPMG Peat Marwick Internal Audit Support Services	Conduct Planning for contract audit assistance to be performed by KPMG Peat Marwick and monitor and administer such reviews.	The Auditor and staff met with the KPMG Peat Marwick partner and staff to discuss proposed audit assignments pertaining to the Eastside Reservoir Project.	
Monitor Board of Directors Voting System Upgrades	Monitor implementation of upgrades to the Board of Director Voting System being installed in Union Station.	The assigned auditor attended a Voting System training session conducted in the new Board Room at Union Station. Preliminary audit testing on the calculation module was initiated.	
Monitor Business Development Activities	Monitor implementation of new Business Development efforts commencing in 1996.	Preliminary planning and survey procedures were completed and detailed testing commenced during the month on a review of the Business Development Program.	

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.	Fieldwork pertaining to our review of the overall financial status of the ERP was terminated during the month as a result of the Board's decision to conduct an "external" audit of project costs and projected overruns, and the Special Audit Committee's decision on October 20 to engage KPMG Peat Marwick to perform such work.	
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.	Staff also commenced planning in a review of three agreements with Dangermond and Associates for engineering and environmental evaluations, and recreational planning.	
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.	Detail testing pertaining to a review of Agreement No. 4705 with Parsons Infrastructure & Technology Group, Inc. commenced during the month.	
Monitor Long-Term Headquarters Project	Document controls over Long-Term Headquarters Project (LTHP); develop plan to ensure adequate audit coverage of LTHP in future years; perform audits of selected LTHP contracts.	The review of Agreement No. 9427 with Ronald L. Krafka was completed and a detailed report was issued to management. A summary report will be issued to the Special Audit Committee after management's response to the recommendations contained in the detailed report have been received and evaluated.	

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 the agreements related to Metropolitan's joint participation in the Seawater Desalination Demonstration Project.	The review of the Seawater Desalination Demonstration Project was completed and a draft report was issued to staff for review and comment.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Beginning with fiscal year 1998-99, the approach to selecting consulting agreements for review has been revised to provide better overall audit coverage and to identify potential problems and risks. Under the new approach, a general review of all new consulting agreements is being performed on a quarterly basis.	
Desalination Pilot Project	Audit the costs associated with Metropolitan's completed Desalination Pilot Project for propriety and proper recording.	Management's response to the recommendations in the detailed audit report on the review of the Seawater Desalination Pilot Project was received and evaluated.	The Auditor's summary report on the review of the Seawater Desalination Pilot Project, dated October 9, 1998, was issued to the Special Audit Committee.

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Environmental Compliance -- System Life Cycle Review	Monitor the implementation of the new Health, Safety and Environmental software applications.	The assigned auditor met with the project manager to discuss the project plan and project status.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	
Federal Grants Management	Review and assess the adequacy of District policies and procedures related to the receipt, disbursement, recording and reporting for Federal grant funds.	The Assistant Auditor continued work on this assignment to assist management and staff in identifying all potential Federal source funding. This effort included input to staff on funding matters pertaining to the Alameda Corridor Project and performance of a survey of all divisions for federal source grants.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The information systems auditors continued to attend Project Steering Committee meetings and worked with the project team to resolve problems revealed during user acceptance testing. Meetings were also held with staff concerning a proposal to implement an increase in draft disbursements from a maximum of \$500 to a new level of \$2,500.	
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 provided general support, met with the Committee Chair and Vice-Chair to plan the agenda for the October 20 meeting, and prepared for a subsequent joint special meeting with the Legal and Claims Committee on October 27.	
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 assignment.	

Water Resource Programs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Interim Agricultural Water Program	Review procedures, controls and transactions related to the Interim Agricultural Water Program.	Staff is continuing to monitor the detailed testing being conducted by staff from the Planning and Resources and the Operations Divisions.	
IID/MWD Water Conservation Program – Final Construction Audit	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data for the year ended December 31, 1997. Complete final cost/contractor audits for the initial construction period (1990 through 1997)	Preliminary analysis and compilation of financial results for the Program resumed in October. Plans were finalized for downloading of all IID transactions related to the Program in electronic format for audit purposes. The downloading process will be accomplished and detailed testing of the data will commence in November.	
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.	

ACTIVITIES IN PROGRESS			
O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	Preliminary planning and survey procedures were completed and detailed testing commenced during the month.	
Employee & Director Expense Claims & Annual Report	Review a random selection of employee and Director expense claims on a quarterly basis for propriety, and test compliance with required annual expense reporting requirements.	A draft report on a special status review of director expense reports was issued to management for review and comment in late October.	

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly Lobbying Reports	Review lobbying reports filed with the state quarterly and with the federal government semi-annually for accuracy and compliance.	A review of the Federal and State Lobbying Reports for the six months and the quarter ended June 30, 1998, respectively, were completed.	
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.	Assistance was provided to KPMG Peat Marwick pertaining to issues affecting the firm's annual Letter to Management, as well as the required Single Audit Reports for fiscal 1997-98. These matters are expected to be concluded in November.	