

February 22, 1999

To: Board of Directors
From: Auditor
Subject: Audit Department Report for February 1999

RECOMMENDATION

For information only.

DETAILED REPORT

This report highlights significant activities or accomplishments of the Audit Department during February 1999. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

Final reports on our reviews of business development activities and revenue leases were issued to management. A summary report on our review of a consulting agreement pertaining to the Inland Feeder Project was provided to the Special Audit Committee upon receipt of management's written response to our detailed report on that assignment.

Among the many assignments in progress during February were various financial, compliance and information systems reviews. The Auditor provided assistance to the Special Audit Committee in connection with the committee's February 16, 1999, meeting. The Auditor also developed the department's proposed budget for fiscal 1999-00, and discussed a summary of that budget with the Special Audit Committee on February 16. Based on those discussions, budget adjustments were made to reflect changes in staffing and consulting services funding. The audit staff is continuing to provide requested assistance to representatives from Vargas, Lopez and Company, LLP, in conducting the Eastside Reservoir Project audit. Management support activities included, among other things, accounting matters, operating policies, contract matters, and information technology governance.

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Attachment 10-3A

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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.	
Petty Cash Counts	Review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Several petty cash funds were tested at the Soto Street and Eagle Rock facilities in February.	
Review of Revenue Lease Program	Review controls over revenue generating leases of District properties and test the accounting and recording of lease revenues.	The review of the Revenue Lease Program 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.	
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.	KPMG Peat Marwick staff continued its audit of the costs of the Water Quality Lab Expansion Project. The Auditor met with KPMG Peat Marwick representatives to develop the scope and objectives of the proposed Operational Review of the District's Use of Consultants. Meetings were held with the General Counsel and Special Counsel regarding legal issues impacting the proposed review.	A presentation on the scope and objectives of the proposed Consultant Usage Review was provided to the Special Audit Committee on February 16, 1999.

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 auditor met with the Y2K Project Steering Committee and project team members and provided input on project plans, development methodology, phase deliverables, and documentation requirements for maintaining an adequate audit trail to demonstrate MWD's due diligence in Y2K mitigation efforts.	
Post-implementation Review -- SCADA Project	Review the SCADA Systems to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	The assigned auditor conducted an entrance conference with the SCADA project manager and reviewed project documentation and toured one of the SCADA facilities.	
Monitor Business Development Activities	Monitor implementation of new Business Development efforts commencing in 1996.	The review of Business Development Activities 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.	
Pre-Contract Award Audits	Review consultant / contractor proposals to ensure that cost and pricing data is accurate and reasonable prior to the contract award.	Preliminary planning procedures for a pre-contract award review pertaining to an amended existing contract with a consultant for the Inland Feeder Project were commenced during the month.	

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 (ESRP); develop plan to ensure adequate audit coverage of ESRP in future years; perform audits of selected ESRP contracts.	The audit staff continued to provide assistance, as requested, to staff of Vargas, Lopez and Co., LLP, in connection with that firm's audit of the costs of the Eastside Reservoir Project. Two audit status meetings were also held in February.	
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.	Management's response to the recommendations in the detailed report on the review of Agreement No. 4705 with Parsons Infrastructure & Technology Group Inc. was received and evaluated.	The Auditor's summary report on the review of Agreement No. 4705, dated February 18, 1999, was issued to the Special Audit Committee.
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.	Detail testing pertaining to a review of Agreement No. 6523 with Munger, Tolles & Olson, which has been suspended during the past three months due to a conflict over access to the consultant's billing records, was resolved during the month and the detailed testing was resumed.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Detail testing pertaining to a review of Agreement No. 621 with EcoGroup, Inc. continued during the month. Preliminary planning and survey procedures were completed and detail testing pertaining to a review of Agreement No. 2112 with Carl Warren & Co. commenced during the month.	
JIT Contracts	Develop an ongoing plan for ongoing audits of JIT contracts; perform selected JIT Contracts audits.	Preliminary planning and survey procedures were completed and detailed testing of selected JIT contracts commenced during the month.	

ACTIVITIES IN PROGRESS			
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 communicated several issues or concerns about the HSE Project to the Information Technology Governance Council.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The assigned auditor met with the Project Manager to discuss project budget and project status issues.	
Monitor Electronic Documents Management System (EDMS) Project	Monitor the development and implementation of a new Electronic Document Management System to ensure that security, auditability and control issues are adequately addressed.	The assigned auditor performed a review of various EDMS Project deliverables at the end of the Limited Initial Deployment Phase and communicated several issues or concerns to the Information Technology Governance Council.	
Monitor Oracle Version 10 Upgrade	Monitor implementation of the Oracle Financials Version 10 Upgrade.	The assigned auditor met with staff to discuss post-implementation issues relating to the Fixed Assets and Purchasing sub-systems of the Oracle Financials application.	
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 met with project team members and the Purchasing Card software developers to outlined audit, control and security requirements for the Purchasing Card implementation.	
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 the month.	

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 Auditor and Assistant Auditor attended various meetings related to development of the staff action plan to finalize a District indirect cost plan, provide for staff training, and develop policies and procedures for federal grants management. Preliminary planning procedures to review the indirect cost plan after completion commenced at month end.	
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.	Support was provided to the Committee pertaining to its meeting of February 16.	
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.	
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.	
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 meetings with staff and the third-party administrators for the Workers Compensation and Liability programs.	
Audit Recommendation Tracking	Conduct follow-up activities and monitor the implementation of audit recommendations related to various assignments.	Continuing assignment.	

ACTIVITIES IN PROGRESS			
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 Operations Division	
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 years ended December 31, 1997 and 1998. Complete final cost/ contractor audits for the initial construction period (1990 through 1998).	Concluding analysis and review procedures, which are expected to be completed over the next several weeks, continued during the month.	
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.	

O&M Program Costs			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Amortization of SWP Participation Rights	Test the annual calculation of amortization of State Water Project Participation Rights for accuracy.	Testing of the calculation of FY 1998-99 amortization of State Water Project Participation Rights was completed during the month. No exceptions were noted during this review.	
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	A summary report on the Review of Automated Systems Development Costs 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			
External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	KPMG Peat Marwick completed Metropolitan's Single Audit Reports for the year ended June 30, 1998. These reports represent the firm's final deliverable under the FY 1997-98 audit services contract with the Board. The Auditor and KPMG partner met to discuss the extra hours required by the firm to complete all required audit services.	The Auditor transmitted the Single Audit Reports for FY 1997-98 to the Board of Directors on February 4, 1999.
Quarterly and Year-end Audits - FY 1998-99	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 1998-99.	Assistance was provided to the KPMG Peat Marwick pertaining to the quarterly audit of the District's interim cash basis financial statements as of December 31, 1998.	