

May 25, 1999

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

RECOMMENDATION

For information only.

DETAILED REPORT

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

The Auditor and Audit Department staff devoted extensive time during the month to completion of the external audit of the Eastside Reservoir Project by the firm of Vargas, Lopez and Company, LLP. The Auditor and General Counsel transmitted the firm's final audit report to the Board on May 4. Work also completed on a contract audit by KPMG of the costs of the Water Quality Laboratory Expansion Project. A summary report on the results of that audit was issued to the Special Audit Committee. In addition, a detailed report on our IID/MWD Water Conservation Program – Final Construction Audit was issued to management in May and a summary report on this audit was also provided to the Special Audit Committee.

Detailed reports were issued to management in May on the results of a pre-contract award review of an Inland Feeder management support services cost proposal, as well as a review of a consultant agreement for water conservation education. In addition, draft reports were issued to management on two Just-in-Time contract reviews at month-end.

Among the many other assignments in progress during May were various financial, compliance and information systems reviews. The Auditor provided assistance to the Special Audit Committee in connection with the Committee's scheduled June 1 meeting. He also summarized Audit Department accomplishments for fiscal 1998-99 for the Committee's information. Management support activities included, among other things, a review of the Indirect Cost Allocation Rate Proposal, 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.	Two petty cash funds were tested at the Glendora facility in May.	
Stores Quarterly Cycle Counts	On a quarterly basis, review and evaluate the overall accuracy cycle counts of Stores warehouse inventories; review and assess the recording of inventory adjustments.	A review of Stores Inventories cycle count activities for the quarter ended December 31, 1998 was completed during the month and a summary of the review results was provided to management and staff.	
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 staff completed an audit of the costs of the Water Quality Laboratory Expansion Project, and they continued their assistance in audit assignments pertaining to Water Program Monitoring and CalFed Category III agreements. Planning for an audit of the costs of the Garvey Reservoir Repair was commenced.	The Auditor's summary report on the results of KPMG's Water Quality Laboratory Expansion Project Audit, dated May 10, 1999, was issued to the Special Audit Committee.
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 IS auditor reviewed updated project plans and deliverables and participated in an MWD-wide test of the Double Jeopardy Y2K Contingency Plan. A presentation was also prepared to provide a Y2K assessment and update for the June 1, 1999, Special Audit Committee meeting.	

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Post-implementation Review -- SCADA Project	Review the SCADA Systems to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	Audit Observation Sheets describing potential control weaknesses were distributed to the SCADA project manager for his review and comments.	
Review of Drafts	Review drafts to ensure that physical, administrative, and accounting controls are adequate; test selected drafts at selected Metropolitan locations for compliance with established policies and guidelines.	Detail testing pertaining to the special review of draft system controls and compliance continued during the month. Audit Observation Sheets containing detail findings and recommendations were issued to draft custodians, accounting staff, and management for their review and comments.	
Pre-Contract Award Audits	Review consultant / contractor proposals to ensure that cost and pricing data is accurate and reasonable prior to the contract award.	The pre-contract award review pertaining to an amended existing contract with Parsons Infrastructure & Technology Group, Inc. for the Inland Feeder Project 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 has been received and evaluated.	

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 Auditor and Audit Department staff devoted extensive time during the month to assisting Vargas, Lopez and Company staff in the completion of the ESRP audit.	The Auditor and General Counsel transmitted Vargas Lopez and Company's final audit report to the Board of Directors on May 4, 1999.

ACTIVITIES IN PROGRESS			
Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	The review of Contract No. 1489 with Steve P. Rados, Inc. was substantially completed and a detailed report will be issued to management in June 1999.	
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 overall Union Station Headquarters Project costs continued during the month. Also, Representatives from Commercial Cost Control, Inc. continued their "close-out" audit of the \$98.1 million GMAX construction contract during the month.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	The review of Agreement No. 621 with EcoGroup, Inc. was completed and a detail 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.	
JIT Contracts	Develop an ongoing plan for ongoing audits of JIT contracts; perform selected JIT Contracts audits.	The reviews of Purchase Orders No. 8348 and No. 20264 with Barr Lumber Company and Purchase Orders No. 6356 and No. 19720 with Unisource Corp. were substantially completed during the month. Draft detailed reports on these two reviews were issued to management during the month.	

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
SOMMS -- Monitor Rollout Implementation -- System Life Cycle Review	Review implementation of the new Strategic Operations Maintenance Management System to determine if controls are adequate and output is authorized, complete, accurate, secure and reliable.	The assigned IS auditor continued to monitor project status.	
Monitor PeopleSoft Upgrade	Monitor implementation of upgrades to the PeopleSoft Human Resources Management System.	The assigned IS auditor participated in the project team kickoff meeting and reviewed the project work plan and budget.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The assigned IS auditor continued to monitor the project status and to provide input on audit related 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 IS auditor continued to monitor project status and discussed the project manager's response to recommendations outlined in previously issued Audit Observation Sheets.	
Environmental Compliance -- System Life Cycle Review	Monitor the implementation of the new Health, Safety and Environmental software applications.	The assigned IS auditor continued to monitor project status and work plans developed by the project manager.	
Purchasing Card Implementation -- System Life Cycle Review	Monitor the implementation of the new Purchasing Card system as specified in the project plan.	The assigned IS auditor provided input on audit and control issues relating to the Board business process and technical design.	
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 and accounting matters during the month.	
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.	A review of the District's Indirect Cost Allocation Rate Proposal (IDCRP) for form, reasonableness and conformance with requirements of OBM Circular No. A-87, was completed without exception during May . A summary report on this limited review was issued to management.	
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 scheduled June 1, 1999 meeting. Meetings were held with Special Audit Committee Chair Grandsen to discuss agenda and other matters.	
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.	
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 and evaluate the detailed testing being conducted by staff from the Operations Division to ensure Program compliance by member agencies.	
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).	A detailed report on our Final Construction Audit for this Program was issued to management in early May. Following our receipt and evaluation of management's response to the recommendations in the detailed report, a summary report was issued to the Special Audit Committee.	The Auditor's summary report on the review of the Review of IID/MWD Water Conservation Program – Final Construction Audit, dated May 21, 1999, was issued to the Special Audit Committee.
Reclamation and Groundwater Recovery Programs	Review reclamation and groundwater recovery programs for compliance with related agreements; evaluate program controls and effectiveness.	The detailed testing was substantially completed and a draft report was issued to management and staff for review and comment. This assignment has been delayed pending receipt of information from a participating agency.	

External Financial Reports		
Assignment Name	Description	Status or Estimated Completion
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 State Lobbying Report for the quarter ended December 31, 1998, was completed. The planned testing of the required Federal Lobbying Report for the six month period ended December 31, 1998, was deferred pending completion of that report. A summary memo on this assignment was transmitted to management in early May.

ACTIVITIES IN PROGRESS			
External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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 pertaining to the quarterly audit of the District's interim cash basis financial statements as of March 31, 1999.	