

June 29, 1999

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

RECOMMENDATION

For information only.

DETAILED REPORT

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

The Auditor devoted time during the month on follow-up matters related to the external audit of the Eastside Reservoir Project by the firm of Vargas Lopez and Company, LLP. Work was also completed on a review of reclamation and groundwater recovery programs, a consulting agreement audit, and two JIT contract audits during the month. Summary reports on the results of these assignments were issued to the Special Audit Committee in late June.

A detailed report was issued to management in June on the results of a Review of Drafts and Draft System Controls. A summary report on the results of this review will be issued to the Special Audit Committee upon receipt of management's response to that report. Memoranda were also issued to management and staff on the results of several other recurring audit assignments.

Among the many other assignments in progress during June were various financial, compliance and information systems reviews. The Auditor provided assistance to the Special Audit Committee in connection with the Committee's June 1 and June 29 meetings. 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.	Petty cash funds were tested at Metropolitan's Lake Mathews, Skinner, and Mills facilities. A total of 31 petty cash funds were tested during fiscal year 1998-99. This testing covered approximately 74% of the total funds held by Petty Cash custodians.	
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 continued their assistance in audit assignments pertaining to Water Program Monitoring, Califed Category III agreements, and an audit of the costs of the Garvey Reservoir Repair.	
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.	An Internal Audit assessment of the status of the Year 2000 Remediation Project was presented to the Special Audit Committee at its June 1 meeting.	
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 IS auditor continued to monitor project status and deliverables.	

ACTIVITIES IN PROGRESS			
Safeguards over District Assets			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	The Auditor provided input to management on a memorandum summarizing the status of responses to various internal and external auditors' recommendations. In addition, the Review of Drafts and Draft System Controls was completed and a detailed report thereon 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.	
Review of Permanent Cash Advances	Review the adequacy of controls over Permanent Cash Advances and evaluate propriety and accuracy of selected individual Permanent Cash Advances.	The Review of Permanent Cash Advances was substantially completed during June, and a detailed report thereon will be issued to management in July.	
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 and survey procedures were completed and detail testing pertaining to a pre-contract award review of P&D Consultants, Inc. for the Inland Feeder Project 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 Auditor provided assistance to management in developing a letter to the Board regarding closure of the ESRP audit process. The Auditor also handled Vargas Lopez billing matters.	A joint letter dated June 14, 1999, from the General Manager, General Counsel and Auditor, recommending acceptance of the final Vargas Lopez audit report and the General Manager's response thereto, was issued to the Special Audit Committee and the Executive Committee.
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 thereon will be issued to management in July 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 in June 1999. Audit Observation Sheets containing detail findings and recommendations were issued to appropriate staff for their review and comments. Also, representatives from Commercial Cost Control, Inc. continued their "close-out" audit of the \$98.1 million GMAX construction contract during the month.	

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Construction and Contract Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Management's response to the recommendation in the detailed report on the review of Agreement No. 621 with EcoGroup, Inc. was received and evaluated.	The Auditor's summary report on the review of Agreement No. 621 with EcoGroup, dated June 29, 1999, was issued to the Special Audit Committee.
JIT Contracts	Develop an ongoing plan for ongoing audits of JIT contracts; perform selected JIT Contracts audits.	Detailed reports on the results of reviews of JIT Purchase Orders No. 6356 and No. 19720 with Unisource Corp., and on JIT Purchase Orders No. 8348 and No. 20264 with Barr Lumber, were issued to management. Upon receipt and evaluation of management's responses to those reports, summary reports on those assignments were prepared for the Special Audit Committee.	The Auditor's summary reports on the reviews of JIT Purchase Orders No. 6356 and No. 19720 with Unisource Corp., dated June 28, 1999, and on JIT Purchase Orders No. 8348 and No. 20264 with Barr Lumber, dated June 28, 1999, were issued to the Special Audit Committee.

Management Advisory Services		
Assignment Name	Description	Status or Estimated Completion
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 reviewed and provided input on the implementation plans for interfaces between SOMMS and other enterprise systems.

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor PeopleSoft Upgrade	Monitor implementation of upgrades to the PeopleSoft Human Resources Management System.	The assigned IS auditor continue to monitor this project. Input was provided to the project team regarding several project deliverables.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The assigned IS auditor met with the Project Manager to discuss audit issues relating the planning stage of Phase 3 of the project (implementing the NT servers at the District).	
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. Audit issues concerning the LID Phase were discussed with the ITGC and the project manager. The auditor reviewed and provided input relating the project plans for the Ramp-Up Phase.	
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 deliverables.	
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 continued to monitor project status and deliverables.	
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 and accounting matters 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.	Support was provided to the Committee pertaining to its June 1 and June 29, 1999 meetings. Meetings were held with Special Audit Committee Chair Grandsen to discuss agenda and other matters.	

ACTIVITIES IN PROGRESS			
Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	

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	
Reclamation and Groundwater Recovery Programs	Review reclamation and groundwater recovery programs for compliance with related agreements; evaluate program controls and effectiveness.	A detailed report on the Review of Reclamation and Groundwater Recovery Programs was issued to management. Upon receipt and evaluation of management's response to that report, a summary report was prepared for the Special Audit Committee.	The Auditor's summary report on the Review of Reclamation and Groundwater Recovery Programs, dated June 29, 1999, was issued to the Special Audit Committee
Seasonal Storage Program Status	Review accounting and administrative controls over the seasonal storage program activities.	The review of the Seasonal Storage Program was substantially completed and a detailed report thereon will be issued to management in July 1999.	

ACTIVITIES IN PROGRESS			
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.	Reviews of the State Lobbying Report for the quarter ended March 31, 1999, and the Federal Lobbying Report for the six months ended December 31, 1998 were completed 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.	<p>A review of selected employee and director expense reports processed during the quarter ended December 31, 1998 was completed during the month.</p> <p>A review of selected employee and director expense reports processed during the quarter ended March 31, 1999 commenced at month end.</p>	