

July 30, 1999

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

RECOMMENDATION

For information only.

DETAILED REPORT

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

Work was completed on a variety of assignments during July. Draft reports on these assignments were issued to management and staff for review and comment prior to final report issuance in August. A copy of a report from KPMG, LLP, on its audit of the Costs of the CalFed Category III Butte Creek Siphon Project was issued to management. Upon receipt of management's response to that report, a summary report on that audit will be issued to the Special Audit Committee.

Memoranda were also issued to management and staff on the impacts of the new reorganization on Metropolitan's overall internal control structure and compliance with Government Code Section 53065.3 regarding expense reporting.

Among the many other assignments in progress during July were various financial, compliance and information systems reviews. The Auditor provided assistance to the Special Audit Committee in connection with the Committee's July 20 meeting. Management support activities included, among other things, Office of Ethics issues, accounting matters, operating policies, contract matters, and information technology governance.

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Attachment 10-2A

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.	
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.	The Review of Stores Inventories cycle count activities for the quarter ended March 31, 1999 was substantially completed during July and a detailed report thereon will be issued to management in August.	
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 CalFed Category III agreements and an audit of the costs of the Garvey Reservoir Repair. These assignments will be completed in August.	
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 July 20 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 and test selected draft funds to determine that controls are adequate and that draft usage complies with established policies and guidelines.	<p>A response is pending from management to the detailed report on the Review of Drafts and Draft System Controls which was issued in June, 1999. A summary report will be issued to the Special Audit Committee after management's response has been received and evaluated.</p> <p>Preliminary planning and survey procedures commenced during the month to review and test selected drafts on a quarterly basis.</p>	
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 completed during July and a draft report thereon was issued to staff for their review and comments at month-end.	
Pre-Contract Award Audits	Review consultant / contractor proposals to ensure that cost and pricing data is accurate and reasonable prior to the contract award.	<p>A response is pending from management to the detailed report on the pre-contract award review pertaining to a management support services proposal for the Inland Feeder Project, which was issued in May 1999.</p> <p>A pre-contract award review pertaining to an amended existing contract with P&D Consultants, Inc. for the Inland Feeder Project was completed and a detailed report thereon will be issued to management in August.</p>	

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.	Planning to identify the Eastside Reservoir Project contracts and other assignments to be conducted during FY 1999-00 was performed. The Auditor handled various Vargas Lopez billing matters.	
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 Agreement No. 4588 with P&D Consultants, Inc. was substantially completed and a detailed report thereon will be issued to management in August. The review of Contract No. 1489 with Steve P. Rados, Inc. was completed and a detailed report thereon will be issued to management in August. Preliminary planning and survey procedures commenced during the month for the review of the Overall Inland Feeder Program Status.	
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 was substantially completed and a detailed report thereon will be issued to management in August 1999. Also, representatives from Commercial Cost Control, Inc. continued their "close-out" audit of the \$98.1 million GMAX construction contract 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 provided input to staff relating to the interface between the SOMMS project and other Metropolitan information systems.	
Monitor PeopleSoft Upgrade	Monitor implementation of upgrades to the PeopleSoft Human Resources Management System.	The assigned IS auditor reviewed several project deliverables and continued to monitor the project status.	
Monitor Windows NT Implementation	Monitor implementation and District-wide rollout of the Windows NT operating system.	The assigned IS auditor provided input to staff relating to the plans to migrate data to the new NT servers.	
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 deliverables. At month-end an interim audit report on project status was being prepared for distribution to management in August.	
Environmental Compliance -- System Life Cycle Review	Monitor the implementation of the new Health, Safety and Environmental software applications.	The assigned IS auditor reviewed project deliverables relating the Permits module and continued to monitor project status.	
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 and provided input on various controls issues regarding the Purchasing Card Program Pilot which is scheduled for implementation in August.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	
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 July 20, 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. The Auditor met several times with Assistant General Manager Tait to discuss Audit Work Plan development and priorities. The Assistant Auditor provided input to management concerning the Office of Ethics.	

ACTIVITIES IN PROGRESS

Management Advisory Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	The detailed testing was completed and a draft report was issued to management and staff for review and comment.	
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 August 1999	
CalFed Category III Agreement Compliance	Review selected MWD Category III contracts arising from the December 15, 1994 CalFed Agreement for compliance with contractual terms.	Preliminary planning and survey procedures commenced during the month for the overall review of the CalFed Category III Program.	

ACTIVITIES IN PROGRESS

External Financial Reports			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Reviews of the required Annual Report to the state of California for the year ended December 31, 1998, and of selected employee and director expense reports processed during the quarter ended March 31, 1999, were completed.	
Assist External Auditor: Quarterly and Year-end Audits – FY 1998-99	Assist KPMG in quarterly audits of interim cash basis financial statements and year-end audit of accrual basis financial statements for fiscal year 1998-99.	Planning for the June 30, 1999, year-end audit was performed. The audit staff will begin their assistance to KPMG in August.	