

- **Audit Department Report for December 2003**

## Summary

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- **Official Statement for the Water Revenue Refunding Bonds, 2003 Series C Review**
- **Property Tax Revenue Process and Controls Audit Report**
- **Payroll and Employee Benefits Processes Audit Report**
- **Major Construction Projects—Contract Award Audit Report**
- **The Center for Water Education Audit Report**
- **Software Licensing Audit Report**
- **Windows 2000 Implementation Risk Assessment Report**

## Detailed Report

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This report highlights significant activities of the Audit Department during December 2003. In addition to identifying the opinions expressed in the Audit Reports, or the risk exposure in the Risk Assessment Report, background information and a discussion of findings noted during the reviews are presented.

### **Official Statement for the Water Revenue Refunding Bonds, 2003 Series C Review**

This review was undertaken to provide the underwriters of the Bonds “comfort” that the Official Statement for the Bonds is complete, consistent with supporting financial records, and accurate in all material respects. The review was completed and no exceptions were noted. We issued letters describing the agreed upon review procedures performed, and the results obtained, to the underwriters of the Bonds.

### **Property Tax Revenue and Controls Audit Report**

#### Opinion

In our opinion, the accounting and administrative procedures over the property tax revenue process include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period July 1, 2002 through September 30, 2003.

#### Background

Metropolitan is authorized under the Metropolitan Water District Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code and the California Constitution. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year. Currently, property taxes levied are used to pay for Metropolitan’s general obligation bond debt

service and a portion of its obligations under its contract with the State for a water supply (the State Water Contract).

As of June 30, 2003, tax collections for property taxes levied in FY 2002-03 were \$94.2 million of the total tax levy of \$99.2 million. As of June 30, 2002, tax collections for property taxes levied in FY 2001-02 totaled \$96.0 million of the total tax levy of \$103.0 million. The write offs of prior years' tax receivables in FY 2002-03 and FY 2001-02 were \$5.3 million and \$3.7 million, respectively.

#### Comments and Recommendations

Comments were noted in the areas of assessed valuations and operational procedures related to the property tax levy process. Specifically, recommendations were made to establish procedures to verify boundary changes reported in assessed valuation reports. We also made recommendations to establish target dates and schedules for the completion of a Policies and Procedures manual. Management concurs with these recommendations.

### **Payroll and Employee Benefits Processes Audit Report**

#### Opinion

In our opinion, the accounting and administrative procedures for payroll and employee benefits processes provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period from July 2002 through June 2003. Although this report was issued with an acceptable opinion, we noted internal control concerns relating to employee data input inaccuracies and noncompliance with policies and procedures. Management has taken appropriate steps to improve these processes.

#### Background

The goals of the payroll process are to provide accurate, timely payments and reliable financial information; safeguard financial assets; and comply with regulatory requirements. The Payroll Team of the Controller Section is responsible for reviewing payroll information entered into the WorkTech Time system and for processing payroll transactions through the PeopleSoft application. The Classification/Compensations and Benefit Team from the Human Resources Section is responsible for establishing and maintaining employee records in PeopleSoft and securing personnel files and employee benefit files.

As of June 27, 2003, Metropolitan had a total of 1,883 employees: 1,794 were regular full-time employees; three were regular part-time employees; 47 were temporary full-time employees; ten were temporary part-time employees; and 29 were recurrent employees. Biweekly payroll expenses averaged \$5.8 million for the period under review. Metropolitan's contribution for medical, vision, dental, life and long-term disability benefits was approximately \$2.0 million for the month of June 2003.

#### Comments and Recommendations

Comments were noted in the areas of time records; employee information records and administrative procedures; and access to Metropolitan's payroll related systems. Specifically, recommendations were

made to establish procedures to reduce the number of unapproved timesheets; update employee benefit files timely; and establish target dates and schedules for the completion of a Policies and Procedures manual. We also made recommendations to enhance access controls to payroll related systems. Management concurs and has initiated changes to departmental procedures.

### **Major Construction Projects—Contract Award Audit Report**

#### Opinion

In our opinion, the accounting and administrative procedures over the contract award phase for major construction projects include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period November 1, 1999 through June 30, 2003.

#### Background

Metropolitan's Administrative Code Section 8100 requires competitive bidding for any project with an estimated cost of \$25,000 or greater. Prior to bid opening, Program Management prepares an engineer's estimate, which is a detailed analysis of potential project costs. Bidders utilize drawing and specification documents provided by Metropolitan as a basis for preparing their bid proposals. These bid documents stipulate that the contract will be awarded to the "lowest responsible bidder" and that Metropolitan reserves the right to reject any bidding proposal. Lowest cost constitutes the main criteria for contractor selection; the lowest bidder usually receives the contract award. Additional internal controls are utilized to determine that the bidder is properly licensed; that the bidder has appropriate past project experience; that the small business requirement was met; that proper approval has been obtained for award; that the agreement is properly executed; and the bond and insurance meets prescribed Metropolitan requirements.

#### Comments and Recommendations

Comments were noted in the areas of reporting rejected low bids and staff engineers' construction estimates to the Engineering & Operations committee. Management has initiated corrective action on these items.

### **The Center for Water Education Audit Report**

#### Opinion

In our opinion, the accounting and administrative procedures over the Center for Water Education (The Center) include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period February 1, 2002 through September 30, 2003.

#### Background

In 2001, Metropolitan formed an independent entity known as The Center related to the construction of a water education center at Diamond Valley Lake. In order to begin design of the facilities, Metropolitan awarded The Center a \$2 million grant. In May 2003, Metropolitan approved an additional \$14 million grant to The Center. The Center leases their site location from Metropolitan,

and Metropolitan also provides administrative and financial services support to The Center for a monthly fee.

#### Comments and Recommendations

Comments were noted in the areas of administering vendor agreements and adopting a conflict of interest code. Specifically, recommendations were made for management, as part of the administrative support process, to establish procedures to monitor The Center's vendors to ensure compliance with the terms and conditions of the agreements. We also made recommendations related to drafting, adopting, and complying with a conflict of interest code.

### **Software Licensing Audit Report**

#### Opinion

In our opinion, the administrative procedures over monitoring compliance of software licensing and copyright laws provide for a generally satisfactory internal control structure.

#### Background

In January 1998, an audit was completed of the District's software licensing policies and procedures. At that time, comments and recommendations were presented to improve the internal control structure over these practices. In June 2000, a follow up audit was conducted to review and assess efforts to resolve known weaknesses and additional comments were made to address control concerns. This audit (November 2003) considered previous reviews and evaluated management's action plans and efforts made to improve the controls over software licensing monitoring and reporting.

#### Comments and Recommendations

The current review revealed that progress has been made in addressing the concerns of the previous audits related to formalizing administrative procedures; reconciling installed software to accounting records; and informing staff of appropriate purchasing, licensing, and storage procedures. We encourage management to complete these processes and will continue to monitor these efforts.

### **Windows 2000 Implementation Risk Assessment Report**

#### Current exposure: Low

Current exposure was assessed to be low, as Project Management has made satisfactory progress in moving the Project forward into the implementation stage.

#### Background

The Windows 2000 Project (Project) was initiated to migrate Metropolitan's network servers to the Windows 2000 operating system. Migration is necessary to support application architecture and to move these servers to an industry standard operating system, ensuring future compatibility and vendor support.

In 1997, capital program costs for the Project were estimated at approximately \$6.3 million, with the Project to be completed in three stages. Subsequently, estimated total Project costs were

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reduced to approximately \$4.7 million. Currently, the Project is in the third stage with an estimated completion date of mid-2004.

In December, the Project Team provided documents to the Audit Department, which effectively addressed initial Project issues. In addition, server installation and configuration testing in the lab environment were completed. Procurement and contract negotiations progressed with the vendor for the Active Directory tool during the month. Finally, Project Management selected a team to head up the data reorganization pilot and work on the pilot was initiated.