

- **Internal Audit Report for February 2004**

## Summary

---

- **Official Statement for the Water Revenue Refunding Bonds, 2004 Series A Review**
- **California Urban Water Agencies Category III Program Report**
- **Enterprise-wide Physical and Cyber Security Risk Assessment Report**
- **Water System Control Master Plan Risk Assessment Report**
- **Urban Park Concessionaire Report**

## Detailed Report

---

This report highlights significant activities of the Audit Department during February 2004. In addition to identifying the opinions expressed in the Audit Reports or the risk exposure in the Risk Assessment Reports, background information and a discussion of findings noted during the reviews are presented.

### **Official Statement for the Water Revenue Refunding Bonds, 2004 Series A 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.

### **California Urban Water Agencies Category III Program Report**

#### Opinion

In our opinion, the accounting and administrative procedures over the California Urban Water Agencies (CUWA) Category III Program 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 January 1, 2000 through June 30, 2003.

#### Background

With the signing of the Bay-Delta Accord (Accord) in December 1994, Interior Secretary Babbitt asked Metropolitan to jump-start the ecosystem restoration process with three annual \$10 million contributions. Over the following two years, other member agencies of CUWA added \$2.2 million, bringing the total urban commitment to \$32.2 million. The CUWA provided all the CALFED funding for the Category III restoration projects for the first three years of the Accord. These projects were designed to address non-outflow related factors that have contributed to the decline of the Bay/Delta ecological resources. These factors included unscreened water diversions; fish passage around dams; pollution from municipal, industrial, and agricultural

discharges; and over-fishing, illegal fishing, and degradation of habitat resulting from levees and channelization.

In December 1994, the Accord's Steering Committee designated Metropolitan as the contracting entity to execute and manage Category III projects. In September 1996, Metropolitan entered into an agreement with the CUWA, whereby Metropolitan would continue to manage the contracts and the CUWA would act as treasurer and disbursing entity. In September 2000, Metropolitan assumed the treasury functions, in addition to managing contracts, and the CUWA transferred the remaining Category III account balance of \$16 million to Metropolitan.

CALFED has selected 47 projects for Metropolitan to manage. The CUWA funded 43 of these projects (6 are on-going, 29 have been completed, and 8 are inactive or terminated). Category III Program expenditures totaled \$23 million as of June 30, 2003, with the remaining fund balance of \$9.2 million available for encumbrances (totaling \$6 million) and for contingencies (totaling \$3.2 million) of current and future projects.

#### Comments and Recommendations

Comments were noted in the areas of timely project deliverables, supporting documentation for contractors' invoices, and billings for contract administration services. Specifically, recommendations were made to encourage vendors to promptly submit required deliverables and supporting documentation for billings. We also recommended that Program management submit billings for contract administration services periodically.

### **Enterprise-wide Physical and Cyber Security Risk Assessment Report**

#### Current Exposure: Low

Current exposure was assessed to be low because project management controls continue to satisfactorily minimize implementation risks.

#### Background

Due to the events of September 11, 2001, Metropolitan implemented heightened security measures at all of its facilities. Subsequently, a comprehensive security assessment of District facilities was conducted to determine the potential physical and cyber security risks and to identify necessary modifications and improvements. The assessment resulted in the development of the Enterprise-wide Physical and Cyber Security Improvements Program that included eight projects. These projects were selected because they directly address necessary improvements as identified by security assessment studies, along with several from prior audit reviews. The eight projects are:

1. Facility Physical Security: *Status:* This Project is now in the design phase with completion of security enhancements for critical sites estimated in April 2005.
2. Landscape Screening Wheeler Avenue: *Status:* This Project is in the final stage and will be completed by the end of March 2004.

Internal Audit February 2004 Activity Report  
February 29, 2004

3. Water Quality Remote Monitoring: *Status:* This Project is now in the final equipment installation phase with completion estimated in March 2004.
4. Water Quality Contaminant Instrumentation Development: *Status:* This Project, initiation in June 2003, is currently in the sampling and research stage with completion estimated in June 2005.
5. Remote Computer Room Environmental Controls: *Status:* This Project is scheduled for completion in February 2006. A preliminary Design Report was completed in September 2003.
6. Cyber Intrusion Detection: *Status:* This Project is currently in the deployment phase. The Project Manager has purchased additional Intrusion Detection agents and the Project is scheduled for completion by the end of March 2004.
7. SCADA Operator Authentication: *Status:* This Project is scheduled for completion in August 2004. The project team completed testing for the network intrusion detection biometric pilot in November 2003.
8. SCADA Security Improvements: *Status:* This Project was completed in February 2004.

### **Water System Control Master Plan Risk Assessment Report**

#### Opinion

Current exposure was assessed to be low. Project management controls continue to be satisfactory in minimizing implementation risks.

#### Background

The purpose of the Water System Control Master Plan is to provide a coordinated, integrated, automation infrastructure that provides enterprise-wide water system management. The plan includes, but is not limited to, seven sub-projects, as follows:

1. Remote Terminal Unit (RTU) Upgrade. *Status:* Steering Committees are currently reviewing the Project to determine viability and future direction.
2. Automation of Distribution System and Treatment Plants. *Status:* This Project has been re-scoped to focus on developing requirements for four sub-projects, including the Rialto Pipeline and the Coyote Creek Hydro Electric Plant. These two sub-projects are scheduled for implementation in the first quarter of 2004.
3. Conversion of RTU Software to Windows 2000. *Status:* User training is on-going for this Project. Testing is scheduled to be completed in June 2004.
4. Hardware Upgrade. *Status:* This Project was completed in January 2004.

5. Oxidation Demonstration Plant and Distributed Control System Replacement. *Status:* This Project is in the design stage and is scheduled for completion in January 2005.
6. Power Management System. *Status:* This Project is in the RFP development stage.
7. Programmable Logic Controller Standardization. *Status:* This Project is in the design stage and is scheduled for completion in July 2005.

### **Urban Park Concessionaires Special Report**

#### Opinion

In our opinion, the accounting and administrative procedures over the Urban Park agreement include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such procedures provided effective control for the period August 1, 2003 (inception) through October 31, 2003.

#### Background

In July 2003, Metropolitan contracted with Urban Park Concessionaire (Urban Park) for marina concession and entry fee collection/reservation services to support recreational fishing at the Diamond Valley Lake East Marina. Urban Park is a certified small business enterprise based in Red Bluff, California that has experience working with drinking water utilities that allow recreation on storage reservoirs. Urban Park's primary objectives are to protect water quality, provide visitors with an array of recreational services, implement efficient cost controls and operational systems, and implement quality assurance measures resulting in positive recreation experiences.

The agreement allows Urban Park to collect and account for all fees and to retain sufficient monies to recover all direct and indirect expenses. Metropolitan and Urban Park will subsequently share net revenues equally, after monies have been set aside for a repair and replacement fund. For the three-months ended October 31, 2003, the Marina operations had a net operating loss of \$51,695, excluding \$85,854 of start up expenses.

#### Comments and Recommendations

There were no material findings to report.