

- **Internal Audit Report for July 2005**

### Summary

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- **Water Inventory Process and Controls Audit Report**
  - **Official Statement for the Water Revenue Bonds, 2005 Series A, Series B-1, and Series B-2 Review**
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### Detailed Report

This report highlights significant activities of the Internal Audit Department during July 2005. In addition to presenting the opinions expressed in the audit reports, background information and discussions of findings noted during the reviews are presented.

### Water Inventory Process and Controls Audit Report

The Audit Department has completed a review of the water inventory process and its corresponding controls as of December 31, 2004.

#### Opinion

In our opinion, the accounting and administrative procedures over the water inventory 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 January 1, 2004 through December 31, 2004.

#### Background

Metropolitan's water supply includes deliveries of Colorado River and State Water Project water, as well as water received from water exchange and storage agreements with other agencies. The water inventory account consists of water stored at seven reservoirs and a groundwater storage basin. As of December 31, 2004, Metropolitan had 866,171 acre-feet of water in storage, with a total cost of approximately \$36.2 million.

The Accounting Operations team, within the Chief Financial Officer's Controller Section, is responsible for maintaining water inventory records. The information used to create the water inventory records is provided by the Eagle Rock Operations Control Center team and the Gene and Intake team, both within the Water System Operations (WSO) group, which are responsible for tracking, monitoring, and reporting water deliveries from the State Water Project and the Colorado River, respectively. Site personnel within various WSO Control System teams are also responsible for maintaining flow meters and level indicator equipment installed at their assigned intake and reservoir.

#### Comments and Recommendations

Comments were noted in the areas of maintenance records for elevation transmitters; manual tracking and reporting of Colorado River water deliveries; and the need to complete written

procedures for operations at the Desert Region's Gene Dispatch and the Eagle Rock Control Center.

Specifically, we were unable to locate maintenance records for elevation transmitters located at Diamond Valley Lake, Lake Matthews, Live Oak, and Orange County reservoirs. It should be noted that we did not identify any reporting discrepancies for these transmitters. In addition, we noted that the maintenance frequency for elevation transmitters has not been established and that the maintenance frequency for the Department of Water Resources flow meters is inconsistent between meters.

We recommended that WSO management establish written maintenance procedures for elevation transmitters. We also recommended that management encourage staff to adhere to the maintenance schedule and adequately document their maintenance activities in the MAXIMO system. Management concurred with these recommendations and has begun efforts to establish such procedures.

In addition, we noted that procedures related to tracking and reporting Colorado River water deliveries at the Gene Intake Pump Plant are largely manually performed, subject to the potential for human error, and could be improved by automation practices. It should be noted that the comparable data collection and entry process for State Water Project water deliveries was automated in 1997. We recommended that WSO management consider automating the Colorado River water delivery tracking and reporting process and noted that WSO has initiated an action plan to develop these processes.

Finally, we were unable to locate written procedures for the Desert Region's Gene Dispatch operations and the Eagle Rock Control Center related to monitoring, tracking, and reporting Colorado River water deliveries and the distribution system daily report, respectively. We recommended that WSO management establish a target date for the completion of the Policies and Procedures manual for the Gene Dispatch operations and for the preparation of the Eagle Rock Control Center's distribution system daily report. Additionally, we recommended that management provide training to employees to ensure that they understand how to perform the tasks indicated in the manual and periodically test to ensure compliance with those procedures.

## **Official Statement for the Water Revenue Bonds, 2005 Series A, Series B-1, and Series B-2 Review**

The Audit Department has also completed a review of the Official Statement for the Water Revenue Bonds, 2005 Series A, Series B-1, and Series B-2. This review was undertaken to provide the underwriters of the Water Revenue Bonds (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.