

- **Internal Audit Report for September 2006**

## Summary

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Two audit reports were issued during the month:

- **Interim Agricultural Water and Replenishment Service Programs Audit Report – Generally Satisfactory**
  - **Information Technology Quarterly Report Audit Report - Satisfactory**
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## Discussion Section

This report highlights the significant activities of the Internal Audit Department during September 2006. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

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## Interim Agricultural Water and Replenishment Service Programs Audit Report

### Background

Metropolitan's Board initially adopted the Interim Agricultural Water and Replenishment Service Programs (IAWP) in May 1994, as a three-year program to provide water to agricultural users at a discounted price reflective of the water's interruptible status during a shortage. The Board approved two extensions for the program, first through fiscal year 2000/01, and subsequently through fiscal year 2010/11. The discounted price reflects the water rate differential between the full service and IAWP rates effective for each fiscal year. For example, for fiscal year 2003/04, the rate differential was \$90 per acre-feet for untreated and \$114 per acre-feet for treated water. The IAWP requires that participating member agencies pass this discount on to the retail customers through their sub-agencies. Annually, Water System Operations Planning (WSOP) verifies the accuracy of this discount by assessing and reconciling IAWP credits issued to the participating member agencies during the year. At the conclusion of this assessment, WSOP notifies the participating member agency of the results. IAWP deliveries of treated and untreated water to participating member agencies totaled 697,576 acre-feet for the period 1999/00 thru 2003/04 (five years). This consists of approximately \$195 mm in water sales.

The Replenishment Service Program (RSP), as currently administered, began in July 2003, to maximize surplus water storage opportunities through "long-term storage" in local groundwater basins and reservoirs. The goals of the RSP are to encourage storage of surplus water when supplies are available, encourage construction of local production facilities, and reduce member agencies' demands on Metropolitan during periods of high demand, emergencies, or shortages. Under the RSP, member agencies purchase Metropolitan water for groundwater storage or replenishment purposes through direct or in-lieu deliveries. Direct delivery occurs when Metropolitan water is placed in a local reservoir for storage or used for groundwater replenishment through spreading or injection. In-lieu delivery occurs when Metropolitan water is

served into member agency's distribution system in place of that agency producing water from its local reservoirs or groundwater basins. Annually, WSOP verifies the accuracy of RSP credits issued and reports the results to the member agency. RSP deliveries of treated and untreated water to participating member agencies totaled 162,686 acre-feet for fiscal year 2003-04, corresponding to about \$44 million in water sales.

### **Opinion**

In our opinion, the operating and administrative procedures over IAWP and RSP include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period July 1999 through June 2006.

### **Comments and Recommendations**

Our audit revealed the need to develop detailed "desk procedures" for the IAWP and RSP programs. Some specifics are presented in detail.

#### IN-LIEU REPLENISHMENT SERVICE CREDITS CALCULATION

During our review, we noted that the application of procedures used for calculating in-lieu RSP credits varied according to the agency's unique operating environment and water resource portfolio. However, we could not locate written descriptions detailing how these procedures had been applied to various agencies. Furthermore, written procedures used by WSO Program Management to process, reconcile, and validate IAWP and RSP claimed credits could not be located. Program Management indicated that the detailed procedures for calculating in-lieu RSP credits specific to each agency will be addressed in "Desk Procedures" to be developed within six-months.

Written detailed agency specific methodologies for applying existing policies and procedures are necessary to ensure consistency of the baseline and in-lieu calculations, they assist Management in cross training staff on the intricacies of the differing calculation methods, and they decrease the chance of error in the billing process. Detailed certification procedures ensure that errors or omissions are identified and resolved on a timely basis.

We recommend that RSP staff develop written detailed agency specific procedures for calculating in-lieu RSP credits and that these methodologies be incorporated in the "Desk Procedures" manual currently being developed.

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## **Information Technology Quarterly Report Audit Report**

### **Background**

The Information Technology Section prepares a quarterly status report for the Board of Directors at the Engineering and Operations Committee. This report describes each active IT project, discusses the project status, and discloses year-to-date project expenditures against Board approved appropriations. The report includes Capital Improvement Projects (CIP) and other IT

activities such as the Personal Computer Replacement Project and Telecommunication Reliability Assessment. As of March 31, 2006, total appropriated Information Technology related CIP projects were \$35 million and the cost incurred to date equaled \$19 million. As part of the reporting process, the quarterly report is reviewed and approved by the manager of the Project Management Unit, IT Section Manager, and Corporate Resources Group Manager.

### **Opinion**

In our opinion, the administrative procedures over IT quarterly reporting 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 report covering the period October 1, 2005 through March 31, 2006.

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## Continuous Audit Activities (monthly reviews)

### **Inland Feeder Project**

Met with Inland Feeder Project Management to discuss the development of accounting procedures for reviewing contractor invoices under the negotiated cost reimbursable contract. In addition, met with Project Management to discuss the contractor incentive provisions of the contract. Provided recommendations on invoice testing and validation procedures, management reporting requirements, and documentation standards. Coordinated these efforts with the Office of the General Manager. Reviewed the monthly financial statements.

### **Center for Water Education**

Reviewed the monthly financial statements. Attend monthly Board of Directors Meetings.

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## Audits-in-Progress (nearly completed)

### **Review of Property Leases**

The Property Management Section is charged with the management of all Metropolitan's real property interests, including the revenue leasing of its properties, and the sale of its surplus properties. It also provides notices for possessory interest tax purposes. Procedures and guidelines are established in order that all laws, ordinances, regulations and policies relating to such activities are properly observed; confusion and delay are avoided; approvals are facilitated; and real property records are properly maintained. Audit objectives are:

- Test the adequacy of the accounting and administrative controls over the collection of lease income.
- Validate that tracking, recording, and reporting of leases are accurate and complete.
- Verify compliance with significant terms/conditions of lease agreements by Metropolitan and Lessee.
- Verify compliance with Metropolitan's Administrative codes and policies and procedures.

**Review of PeopleSoft/Work Tech Timekeeping**

PeopleSoft is an administrative software application that is used for Human Resource management and timekeeping accounting. WorkTech Time is a flexible electronic time system for entering and approving employee time information. Audit objectives are:

- Test the adequacy of accounting and administrative controls over the timekeeping software.
- Test compliance with timekeeping policies and procedures.
- Evaluate information security controls for the WorkTech Timekeeping application.