

- **Internal Audit Report for October 2006**

## Summary

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One report was issued during the month:

- **Official Statement for the Water Revenue Refunding Bonds, 2006 Series B Review**
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## Discussion Section

This report highlights the significant activities of the Internal Audit Department during October 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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## Official Statement for the Water Revenue Refunding Bonds, 2006 Series B Review

The Audit Department has completed a review of the Official Statement for the Water Revenue Refunding Bonds, 2006 Series B. This review was undertaken to provide the underwriters of the Water Revenue Refunding 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.

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## Continuous Audit Activities (Monthly Reviews)

### Inland Feeder Project

Reviewed monthly financial statements and traced to supporting documentation. Met with Inland Feeder Project Management to discuss the development of accounting procedures for the contractor incentive provisions of the contract. Coordinated these efforts with the Office of the General Manager.

### Center for Water Education

Reviewed the monthly financial statements and attended monthly Board of Directors Meeting. In addition, fieldwork is continuing on an audit of the Center as of June 30, 2006.

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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. 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.

Audit fieldwork is complete and a draft audit report was issued. The Audit Exit Conference was held on October 31, 2006. The final report will be issued in November with Management's response to the comments and recommendations.

### **Review of PeopleSoft/WorkTech 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.

Audit fieldwork is complete and a draft audit report will be issued in the beginning of November.

### **Review of Agreement #68898 with Western Municipal Water District of Riverside County (Western)**

In March 2005, Metropolitan initiated the Perris Valley Pipeline (PVP) Program to meet the projected water demands in Riverside County; maximize capacity of the Mills plant; offset peak demands on the Skinner Plant; strengthen water delivery system reliability; and increase operational flexibility. The PVP Program consisted of two phases: (I) Design and construction of Mills Water Treatment Plant/PVP Tie-In, and (II) Design and construction of the Perris Valley Pipeline connecting Western, Eastern, and Metropolitan. As of September 30, 2006, Metropolitan's Board has appropriated \$110 million for the two phases.

Integral to Phase I of the PVP Program, Metropolitan executed a cost-reimbursement agreement with Western effective January 30, 2006. Under this agreement, Western manages the design and

construction of the tie-in and Metropolitan agrees to reimburse Western for its share of project costs. Project cost for Phase I of the PVP Program is estimated at \$7.2 million and, as of September 30, 2006, the project has incurred \$6.9 million. Metropolitan's share of these costs is \$5.9 million and Western has been reimbursed \$0.5 million to date.

Furthermore, it should be noted that on August 31, 2006 Metropolitan entered a cost sharing agreement (#76293) with Western, and Eastern to complete Phase II of the project. Audit objectives are:

- To test the adequacy of the controls over the Construction of Piping and Turnout Agreement, including the identification of any improvement opportunities.
- To test compliance with the provisions of the agreement.
- To evaluate the reasonableness and propriety of charges to Metropolitan under the agreement and whether amounts billed are properly calculated and adequately documented.

Audit fieldwork is complete and a draft audit report will be issued in the beginning of November.