

- **Internal Audit Report for January 2007**

## **Summary**

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One report was issued during the month:

- **Software License Tracking and Compliance Audit Report – Generally Satisfactory**
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## **Discussion Section**

This report highlights the significant activities of the Internal Audit Department during January 2007. 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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## **Software License Tracking and Compliance Audit Report**

### **Background**

The Client Service Unit (CSU) of the Information Technology Section is responsible for installing software on employee workstations, they provide technical assistance to the user community, and they resolve system installation problems. In addition, CSU is responsible for maintaining a software inventory and conducting software license compliance reviews. Software license compliance review is a process to ensure that Metropolitan complies with software copyright laws. Adequate procedures, effective processes, and an accurate software inventory are the key elements to successfully ensure compliance.

### **Opinion**

In our opinion, the administrative procedures over Software License Tracking and Compliance provide for a generally satisfactory internal control structure. However, we did note instances of inadequate software inventory tracking procedures that if ignored, could have an adverse effect on the District's internal control structure and resulting software license compliance. During the course of the review, CSU has initiated remedial actions by revising the procedures and implementing a new tracking mechanism to address our concerns.

### **Comments and Recommendations**

Our audit revealed the following concerns.

#### **SOFTWARE MANAGEMENT PROCEDURES**

Software Management Procedures (Procedures) should be established and adequately documented to provide guidelines to ensure compliance with software copyright laws stated in the Operating Policies I-05. The Procedures should be documented in details on how to (1) maintain an accurate software license inventory, and (2) conduct effective compliance reviews to identify and resolve unlicensed software on employee's workstations.

During our review, we noted that the existing Procedures, dated August 18, 2006, do not provide detailed guidelines for maintaining an accurate software license inventory and performing compliance reviews.

Inadequate guidelines and procedures could result in inaccurate software license inventory and financial loss to Metropolitan due to non-compliance with the software copyright laws.

We recommend that CSU develop detailed written procedures for maintaining software license inventory and performing compliance reviews. We also recommend that CSU centralize the software license tracking functions and document staff roles and responsibilities.

#### **ACCURACY OF SOFTWARE LICENSE INVENTORY**

The software license inventory should be accurately maintained to (1) account for employee software ownership, (2) identify unused licenses for reassigning, and (3) be used as the base to perform software license compliance reviews. The inventory should be regularly updated to reflect changes resulting from software purchases and assignment changes. We noted the following:

1. 18 of 37 software licenses selected from the TSCensus scan report, as of August 2006, were not tracked as part of the inventory. TSCensus is a software tool used to scan software inventory on individual workstations.
2. 17 of 86 software purchases selected from the software purchase orders report, covering the period September 1, 2004 thru August 31, 2006, were not recorded in the inventory. Further review of the software purchase order report showed that it includes purchases of non-software items such as service subscriptions and other IT related maintenance services.
3. 37 of 60 selected software purchases paid thru P-Card (direct purchases), between September 1, 2004 and August 31, 2006, were not included in the inventory.
4. 4 of 33 selected salvaged personal computers recorded in the inventory, from January thru August 2006, were still assigned with licensed software. In addition, 9 of 14 selected terminated employees recorded in the inventory for the same period were still assigned with licensed software.

Incomplete and inaccurate software inventory tracking system could result in financial loss to Metropolitan due to unaccounted software licenses and non-compliance with the software copyright laws.

We recommend that CSU develop reconciliation procedures for software license inventory against purchase records, change requests, and TSCensus scan report. We also recommend that CSU perform periodic reconciliations to ensure accuracy of the inventory.

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## Continuous Audit Activities (monthly reviews)

### **Inland Feeder Project**

Our review included agreeing actual costs reported to the Board to source documentation, including the general ledger, the Inland Feeder Project (IFP) Monthly Report, and selected contract payments; reviewing estimated costs at completion; analyzing changes in various cost components; and attending on-site meetings held to review actual costs and discuss current problems. Our review did not reveal any material differences between reported amounts and supporting documentation.

In addition, our ongoing review procedures for potential claims, liability exposures, and other pending issues have been designed to track such items in accordance with applicable reporting requirements under Financial Accounting Standards #5 (Accounting for Contingencies). Accordingly, for all pending legal claims, we consult with the Chief Financial Officer, IFP Management, or General Counsel's office to evaluate the magnitude of potential losses to Metropolitan. It should be noted that the IFP Project Manager reports on contractors' claims currently in litigation and other potential claim issues to the Engineering and Operations Committees monthly.

We also met with IFP Management to discuss the procedures utilized to review the Shea/Kenney invoices under the terms of the new agreement. Specifically, we discussed the review procedures for detailed transaction analysis of non-labor charges and Construction Contract Administration (Met staff) review responsibilities.

### **Center for Water Education**

Reviewed the monthly financial statements and attended monthly Board of Directors meeting. In addition, participated in discussions with the Center for Water Education Work Group on Center concerns.