

- **Internal Audit Report for April 2007**

Summary

Discussion Section

This report highlights the significant activities of the Internal Audit Department during April 2007.

KPMG Annual Audit of The Metropolitan Water District of Southern California – as of June 30, 2006.

Provided audit assistance to KPMG to complete the June 30, 2006 annual audit of The Metropolitan Water District. This assistance consists of approximately 780 hours internal audit staff time.

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 issues. 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 & Capital Programs Committee monthly.

We met with IFP Management to discuss findings noted in our report on our Review of Shea-Kenny Reimbursable Costs performed in March 2007. IFP Management concurred with all findings and recommendations and made revisions to field office and offsite procedures for reviewing monthly cost reimbursement requests from Shea-Kenny. These revised procedures were effective April 2007. In addition, IFP Management is in discussion with Shea-Kenny Project Management and Metropolitan consultants to address audit findings regarding minor materials inventory comments. The material inventory consists of permanent and construction materials such as precast concrete, pipes, cement, chemicals, tunnel boring machine parts, etc., stored at three local locations and one out-of-state location. It should be noted that inventory levels for these materials are dynamic and change daily.

Center for Water Education

Reviewed the monthly financial activity and financial statements. In addition, participated in discussions with the General Manager's Office on transition processes.