



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report
Office of the General Auditor
August 31, 2012

Internal Audit Report for August 2012

Summary

Two reports were issued during the month:

- **Oracle Project Accounting and Grant Management Audit Report**
- **Quarterly Consulting Contracts Report Review**
- **Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during August 2012. In addition to presenting background information and the opinion expressed in the audit reports, a discussion of findings noted during the examinations is also provided.

Oracle Project Accounting and Grant Management Audit Report

Background

As a primary water supplier in Southern California, Metropolitan administers hundreds of projects annually, including Capital Improvement Projects (CIP), reimbursable projects, and Operation and Maintenance (O&M) projects. Metropolitan staff uses the Oracle Project Accounting and Grant Management (Oracle PAGM) application, along with other application systems to monitor and track these projects.

The implementation of the PAGM module in 2005 was a Metropolitan-wide effort including the Controller's Section, Information Technology Section, Engineering Services, Water System Operations, Water Resource Management, and Water Quality staff to increase efficiency of project monitoring, as well as tracking grants and reimbursement projects. The Oracle PAGM module provides the ability to monitor project costs in real time, which helps ensure only authorized charges are billed to projects. It also allows the ability to designate varying overhead and additive rates by project.

Opinion

In our opinion, the accounting and administrative procedures over Oracle PAGM 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 from May 2005 to February 2012.

Comments and Recommendations

USER DOCUMENTATION

User documentation should provide detailed information to describe how an application is used, and it should assist the user in realizing these features. Moreover, user documentation should also provide troubleshooting assistance designed to speed up the analysis and resolution of processing errors. Documentation should describe both automated and manual work flow diagrams and should provide for user training. User documentation also serves as a record as to how a system has been installed so that application programmers and system users can detect, analyze, and resolve unexpected results. For the Oracle PAGM System, adequate user documentation would allow users to readily identify reconciling items that exist between it and the General Ledger (GL) system, as well as describing the means to identify account balances that were not transferred during application conversion efforts.

During our review, we noted that documentation was not available to describe and annotate the flow of data elements between the Oracle PAGM and GL applications. Specifically, we noted that documentation was not available to:

- Describe the processes needed to identify items that are included in the general ledger but not in Oracle PAGM system (such as customer deposits, revenues, or contributed capital);
- Explain the timing recognition of expenses entered into the Oracle PAGM.

We recommend that the Controller's Office develop thorough documentation of the Oracle PAGM system.

Quarterly Consulting Contracts Report Review

We reviewed the Third Quarterly Report of Professional Services Agreement for fiscal year 2011/12 for Consulting and Professional Service Agreements published by the Professional Services Contracting Team. The purpose of this review is to gain reasonable assurance that information included on the Quarterly Consulting Contracts Report Review is accurate, complete, and in compliance with the Administrative Code.

Background

The Administrative Code Section 2720(a) requires that the General Manager report to the Engineering and Operations Committee on the employment of any professional and technical consultant, the extension of any professional and technical consulting agreement, and on the exercise of authority under Section 8121(c) and 8122(h) during the preceding calendar quarter. The report covering the last calendar quarter of the year may be combined with and included in the annual report. Each report shall indicate when a consultant is a former employee of Metropolitan.

During the third quarter of fiscal year 2011/12, the amount paid for consulting and professional services totaled \$10 million. This amount included \$9.1 million paid on agreements administered by the Department of the General Manager, and \$916,085 paid on agreements administered by the Legal Department. The General Manager reported 346 active agreements with 34 terminations, and the Legal Department reported 49 active agreements with 5 terminations.

TESTING PROCEDURES PERFORMED

Our procedures included validation of the actual costs, as reported to the Board, to the Oracle financial system reports for the third quarter of fiscal year 2011/12. We also reviewed the entries in the quarterly report for significant items. In addition, we performed a cursory review of vendors with multiple active agreements to determine whether a contract was split into smaller contract amounts to override the established authority approval limits.

TESTING RESULTS

Our review did not reveal any material differences between the reported amounts and the supporting documentation. In addition, our review did not reveal any contracts which appeared to be split to avoid established authority approval limits.

Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1

The Audit Department has completed a review of the Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1. This review was undertaken to provide the remarketers of the Bonds “comfort” that the Remarketing 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 remarketers of the Bonds.
