



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

FILED by order  
of the Board of Directors of  
The Metropolitan Water District  
of Southern California  
at its meeting held **MAR 10 1992**

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*[Signature]*  
Executive Secretary

March 3, 1992

To: Board of Directors  
From: Auditor  
Subject: Audit Department Report for February 1992

**I. Audit Reports**

There were no audit reports issued to the Special Audit Committee during the month.

**II. General and Administrative Matters**

General and administrative matters addressed during February included the following:

- o I submitted input to Financial Services concerning the department's personnel and operating equipment budgets for Fiscal Year 1992-93.
- o I prepared a letter to the Board (Special Audit Committee) which proposes a revision to the Administrative Code re Competitive Bidding to Address Consulting Services.
- o A member of my staff and I met with the Manager of Purchasing and Stores to discuss draft administrative procedures pertaining to the District's agreements for consultant services.
- o I held various meetings with staff from Office Engineering and the Legal Department concerning contract amendment issues. I also provided written input on various Administrative Code corrections or revisions re periodic reporting of consultant agreements to the Board.
- o I met with Special Audit Committee Chairman Brewer to discuss various auditing and accounting matters, including directors' expense report matters.
- o I submitted a letter to Assistant General Manager McGuire recommending a closing audit of the Workers Compensation and Liability Claims area due to a recent

personnel transfer. Risk Manager Gallagher subsequently informed me that a qualified firm will be engaged to perform such an audit.

- o The department's EDP auditors and I met with Assistant Director, Information Systems Brainerd and a member of his staff to discuss the District's local area networks and computer viruses.
- o I discussed the subject of accounting for District computer software, as well as Phase Zero of the Information Systems Strategic Plan, briefly with various staff and the outside auditors. Additional discussions on the subject are scheduled for March.
- o I issued memos to the Treasurer and Assistant Chief of Operations Malinowski during the month concerning audit requirements or controls concerns in connection with the computer systems development activities under their jurisdiction.
- o I met with Director of Finance Leddy to discuss my concerns over system development activities pertaining to the automated expense claim system which had not been communicated to my office.
- o I provided input to Board Chairman Krieger and Assistant General Manager McGuire pertaining to Board Goals for the audit function.

### **III. Completed Assignments**

The following significant assignment matters were concluded during February:

- o An EDP auditor completed a limited inquiry into a problem that was noted in the paychecks of certain employees on the new 44/36 work schedule wherein they did not receive the proper amount of overtime pay. Based on information obtained, the problem was traced to a programming problem which appears to have been satisfactorily corrected.

### **IV. Assignments in Progress**

#### **A. Nonrecurring Assignments:**

During the month, staff time was spent on the following nonrecurring financial and compliance reviews:

- o Review of the Draft System. Documentation related to accounting and administrative procedures for the new draft system was obtained and reviewed during the month. However, a "walk through" of the system was again deferred due to other priorities of the Assistant Controller and the auditor in charge of this assignment. This assignment will continue in March.
- o Review of Water Conservation Credits Programs. During the month, work related to the review of the Water-wise agreements was substantially completed. The assigned auditor prepared a status report to me summarizing his preliminary findings in this area, which outlined certain control concerns over the purchase, accountability, and distribution of showerhead retrofit kits. A meeting to discuss these findings will be held with staff in March. Work on other phases of this assignment is continuing.
- o Review of Costs of Systems Development Projects. During February, I continued working on this assignment to the extent that I had time available. A variety of accounting issues or problems have been identified and I now hope to issue a summary report on this assignment in March.
- o Review of Proposed Revisions to Accounts Payable Procedures. No time was spent on this assignment in February due to the in-charge auditor's other assignment priorities.
- o Review of Incremental Interruptible and Conservation Program (IICP). The assigned auditor continued testing various types of adjustments to the 1989-90 "base year" water delivery quantities. Work on the first phase of this assignment is now expected to be completed in late March.

B. EDP Auditor Activities:

The EDP auditors worked on the following matters during February:

- o Monitor District Local Area Networks. At my request, both EDP auditors met with members of the Information Systems Division staff to begin compiling information on MWD's Local Area Networks. The objective of this effort is to determine the extent of exposures, if any, of the various applications which have been developed or are currently being developed to run on the District's Local Area or Wide Area Networks.

- o Post-implementation Review of the Water Accounting Classification and Invoicing (WACI) System. The assigned EDP auditor and the Assistant Auditor participated in a WACI User Status meeting. During the review of the security and system access areas of control, various issues of audit concern have been identified and were discussed in a meeting with the WACI Project Team. The EDP auditor also looked into a WACI production problem at my request that occurred when the invoices for the January 1992 billing period were being prepared. He summarized his findings on this incident in a memo to me which was forwarded to WACI project management and others. Our independent on-line testing of the WACI production system remains on hold because the test environment has not yet been established by the programming staff.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). Little work was performed by the EDP auditor assigned to this project during February since the Treasurer's staff advised him that they had stopped testing the new system due to their other priorities.
- o EDP Review--New Bond Inventory System. During the month, the assigned EDP auditor worked with the project leader and programmer on application security issues relating to the Local Area Network environment where the new Bond Inventory System will be installed. The auditor also participated in meetings with the Treasurer and Principal Programmer Analyst from Financial Systems where matters such as system maintenance and support were discussed.
- o Systems Development Review--Procurement System. During February, an EDP auditor attended meetings where Stock Item subsystem testing issues were discussed. The EDP auditor reviewed system documentation prepared by the procurement project team, which described how this system is to be implemented. An EDP auditor has begun audit testing on the recently completed system modules.
- o EDP Review--Incident Reporting System. During the month, an EDP auditor performed audit and security testing on completed modules in conjunction with Information System Division's Data Security Officer's testing. Problems noted were forwarded to the project leader for resolution. These items will be retested when program modifications are completed.

C. Recurring Assignments:

Work is currently being performed on the following recurring annual financial and compliance reviews as time permits:

- o Review of IID Program as of December 31, 1990, and 1991.
- o Single Audit Act Compliance--Fiscal Years 1989-90 and 1990-91. Work on these assignments was essentially completed during February. Draft Schedules of Federal Financial Assistance for the years ended June 30, 1990 and 1991, and a draft report to the Special Audit Committee, were circulated to responsible staff at month-end. Our final report is expected to be issued during March.
- o Audit of SAWPA Costs of Arlington Desalter Project for the fiscal year ended June 30, 1991.

Work is performed on the following recurring financial and compliance reviews on a periodic basis (monthly or quarterly, as applicable) as staff availability permits:

- o Monthly Financial Report Reviews.
- o Monthly Directors' and Department Heads' Expense Claim Reviews (as required by Administrative Code Section 6329(a)).
- o Employee Expense Claim Reviews (Quarterly).
- o Budget vs. Cost Report Reviews (Quarterly).
- o Water Inventory and Deferred Water Rights (Quarterly).
- o Review of Quarterly Lobbying Reports.
- o Review of Work Orders (Quarterly).

D. Assistance to External Auditors:

During the month, the audit staff completed their assistance to KPMG Peat Marwick personnel in their examination of the District's interim cash basis financial statements for the six months ended December 31, 1991.

  
Michael W. Hondorp