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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 3, 1992

To: Board of Directors

From: Auditor

Subject: Audit Department Report for July 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 July included the following:

- I met with Special Audit Committee Chairman Brewer and Vice-Chairman Kazarian concerning agenda matters for the July 22 meeting.
- I attended three meetings of the Information Systems Steering Committee for Phase Zero.
- I met with the Risk Manager and a member of the Legal staff to discuss various concerns about District contracting practices for consultants.
- I issued an informational letter, dated July 6, 1992, to the Board as a supplement to a letter from the General Manager, dated June 15, 1992 regarding the costs of certain information systems development projects.
- The Assistant Auditor attended the AICPA's National Accounting and Auditing Advanced Technical Symposium in Tucson on July 20-21.
- A Senior Deputy Auditor and I attended a two-day seminar in Phoenix on governmental auditing sponsored by the AICPA.

III. Completed Assignments

There were no significant audit assignments completed during July.

IV. Assignments in Progress

A. Nonrecurring Assignments:

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

- Participation on Operating Equipment Task Force. During July, one Operating Equipment Task Force meeting was held to continue discussing data processing system requirements and potential changes to operating equipment policies and procedures. The Assistant Auditor and a financial auditor are representing the Audit Department at the various Task Force committee meetings.

- Review of the Draft Official Statement for the Water Revenue Bonds, Issue of 1992. During the month, the assigned auditor concluded testing of various drafts of the Preliminary Official Statement for the Water Revenue Bonds, Issue of 1992, which was issued on July 17, 1992. A preliminary "comfort" letter was drafted and transmitted to the Underwriter's Counsel for review. This assignment is expected to be concluded in August.

B. EDP Auditor Activities:

Both EDP auditors participated in various ISD Phase Zero discussion sessions conducted by IBM and Deloitte and Touche personnel.

Both EDP auditors were also involved in the Technical Advisory Committee meetings relating to the implementation and customization of the System Development Life Cycle methodology which the District acquired from Deloitte and Touche.

The EDP auditors worked on the following matters during July:

- Post-Implementation Review of the Water Accounting Classification and Invoicing (WACI) System. The assigned EDP auditor received a status update from the Project Manager. After reviewing the list of the remaining tasks to be completed, the EDP auditor performed a brief analysis relating the nature of these tasks compared to the initial scheduled tasks. In order to clarify the magnitude of the scheduled future work on this system, I issued a memo to the Information System Division requesting information on the total cost estimate for the remaining work.

- o Monitor Development of Treasurer's Branch Information Management System (IMS). The EDP auditor met with the newly assigned Project Manager and his assistant, at their request, to provide background and details regarding the latest activities. The EDP auditor will continue to provide assistance to the implementation team, as needed.

- o Systems Development Review--Procurement System. In July, an EDP auditor attended the Procurement Change Control Committee meetings.

- o EDP Review--Bond Inventory System Development Review. During the month, the assigned EDP auditor and audit staff reviewed and commented on the draft of desk procedures developed by a consultant technical writer to support the implementation of the Bond Inventory System. A memo was sent to the Treasurer summarizing the results of our review, together with suggested changes and additions. Similar input was also provided pertaining to the desk procedures for the proposed Treasurer Branch Laser Check Printing application.

- o EDP Review--Payroll Transmission. In July, an EDP auditor participated in discussion meetings relating to the conversion of the District's payroll direct deposit processing from Security Pacific Bank's SPACIFICS system to Bank of America's EPS system.

- o EDP Review--Monitor District Local Area Networks. During July, both EDP auditors presented their preliminary observations on this assignment to the Special Audit Committee on July 22. In view of the Special Audit Committee's action on this matter, I issued a memo to the Assistant Director of the Information System Division after the meeting requesting his assistance in presenting our findings to management and in obtaining their cooperation to facilitate our completion of this review.

C. <u>Recurring Assignments</u>:

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, 1991. During the month the Assistant Auditor met with staff from the Controller Branch to discuss District accounting for IID Program transactions. An audit report covering calendar 1990 and 1991 is now expected to be issued in late August.

- o Audit of SAWPA Costs of Arlington Desalter Project for the fiscal year ended June 30, 1991. The work on this assignment is substantially completed. A report summarizing our findings and recommendations was awaiting my final review at month-end and is expected to be issued in August.

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 July, the Assistant Auditor and I met with the Controller and his assistant, along with KPMG Peat Marwick personnel to discuss technical issues related to the District's year-end financial statements.

At month-end, the internal audit staff began assisting external auditors in their examination of the District's financial statements for the year ended June 30, 1992.

Michael W. Hondorp

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