

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 28, 1992

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

**I. Audit Reports**

The following audit report was issued to the Special Audit Committee during the month:

- o Review of Imperial/Metropolitan Water Conservation Program--Calendar Years 1990 and 1991, dated September 10, 1992.

**II. General and Administrative Matters**

General and administrative matters addressed during September included the following:

- o As part of his responsibilities to monitor State Water Project accounting and auditing matters, the Assistant Auditor attended the September 16, 1992, joint meeting of the State Water Contractors' Audit and Finance committees, which was held in Sacramento.
- o I met with Administrative Services Division personnel and a consultant to discuss the department's work space arrangements at the new Cal Plaza facility.
- o I met with new Assistant General Manager Horne to discuss certain audit matters.
- o I provided additional input to staff on a draft General Instruction on accounting for computer software costs prior to its publication in final form.
- o The Assistant Auditor and I, with input from all audit staff, completed the preparation of the department's Work Plan for Fiscal 1992-93. Copies were sent to all directors and various staff.
- o I met with Special Audit Committee Chairman Brewer and Vice Chairman Kazarian on several occasions to discuss audit and other matters, as well as the agenda for the September 29, 1992, meeting.

- o The Assistant Auditor and I each attended the one-day sexual harassment prevention training session that all District managers and supervisors are receiving.

### **III. Completed Assignments**

The following significant assignment matters were concluded during September:

- o We completed our review of the IID/MWD Water Conservation Program for calendar year ended December 31, 1991, and issued a combined report on our program reviews for calendar years 1990 and 1991, dated September 10, 1992 (see Audit Reports Section).
- o The review of the 1992-93 Tax Levy Calculations and Schedules commenced and was completed with no exceptions noted.

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

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

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

- o Participation on Operating Equipment Task Force. During September, one Operating Equipment Task Force meeting was held to continue discussing data processing system requirements. The Task Force also continued to evaluate bar code scanning systems offered by outside vendors. The Assistant Auditor and a financial auditor are representing the Audit Department at the various Task Force committee meetings.
- o Review of Costs of Systems Development Projects. During the month, I met with the Assistant Director of Information Systems and a member of her staff to discuss the scope of our continuing review of information systems development costs, including Phase Zero projects.
- o Inventory of Bearer Bonds and Bond Records and Controls Review. The District's exchange bearer bonds were transferred from Security Pacific National Bank (SPNB) to the custody of First Interstate Bank (FIB) during the latter part of September. The financial auditor in charge of this assignment accompanied the Treasurer to FIB to observe the physical counting of the transferred bonds by bank personnel and to review control procedures utilized. Reconciliations of bonds counted to records provided by SPNB and the District, which will be performed by FIB, will be evaluated by the Audit Department upon their completion.

B. EDP Auditor Activities:

The EDP auditors and financial auditors reviewed various drafts of Phase Zero deliverable documents created 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 acquired from the consulting firm of Deloitte and Touche.

The EDP auditors worked on the following matters during September:

- o Monitor Development of Treasurer's Branch Investment Management System (IMS). The EDP auditor attended the initial IMS implementation meeting. The project team discussed mandatory functionality, acceptance test criteria, and the project schedule.
- o Systems Development Review--Procurement System. In September, an EDP Auditor attended the Procurement Change Control Committee meetings and discussed control issues relating to system changes proposed for single-item Blanket Order processing.
- o EDP Review--Bond Inventory System Development Review. During the month, the assigned EDP auditor monitored the resolution of outstanding items as the Bond Inventory System was implemented into production in early September.
- o EDP Review--Bank of America Payroll Direct Deposit. An EDP auditor reviewed and provided input to a proposal that was forwarded to the Treasurer from the Manager of Information Systems relating to system changes necessary to facilitate the transfer of the payroll direct deposit from Security Pacific National Bank to Bank of America.
- o EDP Review--Monitor District Local Area Networks. As a follow-up to the presentation on this subject by the EDP auditors at the July 22 Special Audit Committee meeting, the General Manager issued a letter to the committee, dated September 14, 1992. The Assistant Auditor, the EDP auditors, and I subsequently met with the Director of Information Systems and his assistant to discuss staff's planned presentation to the Special Audit Committee on September 29 and issues stemming from our request for read access to the District's LANs.

C. Recurring Assignments:

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

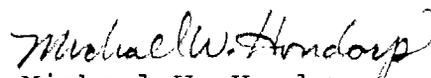
- o Review of the Draft Annual Financial Report--Fiscal Year Ended June 30, 1992.
- o Review of Compliance with Minimum Fund Requirements at June 30, 1992.

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:

The Assistant Auditor, a financial auditor, and I reviewed various drafts of the audited financial statements during the month. I also met with the partner from KPMG Peat Marwick on various occasions to discuss the financial statements, the external auditor's computer controls evaluation process, and other audit matters. A draft of the District's audited comparative financial statements, as of June 30, 1992 and 1991, and for the years then ended was transmitted to Special Audit Committee members for their review and comment. The draft will be discussed at the September 29, 1992, Special Audit Committee meeting.

  
Michael W. Hondorp