

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

October 30, 1992

To: Board of Directors
From: Auditor
Subject: Audit Department Report for October 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 October included the following:

- o After meeting various requirements, Assistant Auditor Lindhout was designated a Certified Fraud Examiner (CFE) by the National Association of Certified Fraud Examiners, a professional association of attorneys, law enforcement officers, auditors and educators dedicated to the improvement of fraud detection and deterrence.
- o The Assistant Auditor and I updated the Audit Work Plan for fiscal 1992-93 to reflect the department's activities during the quarter-ended September 30, 1992.
- o The Assistant Auditor and I were interviewed by a representative of Camp Dresser & McKee in connection with the Strategic Planning Project that is currently in progress at the District. We also completed written questionnaires in preparation for a staff strategic planning workshop to be held during the first week of November.
- o I attended two meetings of the Information Systems Steering Committee for Phase Zero.
- o I discussed various audit matters with Special Audit Committee Chairman Brewer.
- o The Assistant Auditor and I, together with the EDP auditors, met with staff and a consultant to discuss our comments on a draft of the Request for Information document which was sent to software vendors during

October as part of the Phase Zero process. I also met with staff and the consultants to discuss the package selection process and our department's participation.

- o At the request of Ad Hoc Committee for the WCT Building Chairman Kazarian, I performed a cursory review of certain financial data and provided my perspectives to the District's special counsel for this matter, as well as Director Kazarian.
- o I provided input on a draft Board letter recommending certain Administrative Code changes pertaining to contracting matters.
- o I provided comments on the Environmental Compliance Division's proposed plan for a Health, Safety, and Environmental Auditing Program.

III. Completed Assignments

The following significant assignment matter was concluded during October:

- o We completed our review of the District's compliance with applicable minimum fund requirements as of June 30, 1992, as outlined in Administrative Code Sections 5201 and 5202. This review disclosed no significant exceptions. Written comments summarizing the results of this review will be issued to various management and staff in early November.

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 October, one Operating Equipment Task Force meeting was held to continue the evaluation of data processing system requirements and bar code scanning systems offered by outside vendors.
- o Review of Costs of Systems Development Projects. During the month, the assigned financial auditor commenced preliminary procedures on this review of information systems development costs, including Phase Zero projects.
- o Inventory of Bearer Bonds and Bond Records and Controls Review. The transfer of the District's exchange bearer bonds from Security Pacific National Bank (SPNB) to the

custody of First Interstate Bank (FIB) was completed in late October. The Audit Department will be evaluating the results of transfer procedures subsequent to FIB's completion of an inventory of the transferred bonds and a reconciliation of the count results to records provided by SPNB and the District.

- o Review of Revisions to Accounts Payable Procedures. This long-deferred assignment resumed in October. Among other things, documentation related to the implementation status of the recommendations resulting from the Accounts Payable Requirements Study and the 1991 Quality Circle Review was reviewed during the month.

B. EDP Auditor Activities:

Both EDP and staff auditors reviewed and provided comments on various drafts of Phase Zero deliverable documents created by IBM and Deloitte and Touche personnel. An EDP auditor attended a bar-coding seminar and a presentation on Electronic Data Interchange (EDI) concepts.

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 also worked on the following matters during October:

- o Systems Development Review--Procurement System. In October, 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 monitored the bond check reconciliation process and the resolution of modifications performed to the Bond Inventory System.
- o EDP Review--Accounts Payable (AP) Laser Check Printing. An EDP auditor participated in meetings where the Controller, Treasurer, and Information Systems staff discussed the transfer of the AP mainframe check printing process to a PC based laser check printing system located in the Treasurer's vault.
- o EDP Review--Monitor District Local Area Networks. During the month, the EDP auditors met with various staff from the Information Systems Division to coordinate their READ-only access to files on the network. Periodic status meetings were held with

Information Systems Division management to advise them of the auditors' observations to date. With the assistance and cooperation of the Information Systems Division staff, the auditors have also started a series of meetings with the network administrators for each division. These meetings are intended to address areas of audit concern, as well as to perform a survey of the applications running on each network.

C. Recurring Assignments:

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

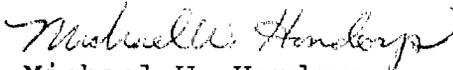
- o Review of the Draft Annual Financial Report--Fiscal Year Ended June 30, 1992.

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 comparative financial statements as of and for the year ended June 30, 1992. The final statements are expected to be issued next week. In addition, planning was performed for the audit of the cash basis statements, as of September 30, 1992, which will commence in November.


Michael W. Hondorp