

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

April 2, 1993

To: Board of Directors
From: Auditor
Subject: Audit Department Report for March 1993

I. Audit Reports

The following audit reports were issued to the Special Audit Committee during the month:

- o Review of Official Statements for the 1993 Water Revenue Refunding and General Obligation Refunding Bond Issues, dated March 9, 1993.
- o Survey Review of Local Area Networks, dated March 16, 1993.

II. General and Administrative Matters

General and administrative matters addressed during March included the following:

- o A Special Audit Committee meeting was held on March 23. All members of the audit staff attended and were introduced to the new members of the committee.
- o I attended the special all day meeting of the Executive Committee on March 16 which dealt with the status of the Strategic Planning Process.
- o The Audit Department was relocated to the 19th Floor of the Two Cal Plaza Building at the end of the month.

III. Completed Assignments

The following significant assignment matters were concluded during March:

- o During March, we suspended further work on our ongoing survey review of the District's Local Area Networks (LANs) until fiscal 1993-94. A summary of the status of this assignment was provided to the Special Audit Committee in a report dated March 16, 1993. (See Audit Reports Section)

- o We completed our review of the Official Statements for the 1993 Refunding Water Revenue Bond Issues and issued a report thereon, dated March 9, 1993. I provided "comfort" letters, dated March 2, 1993, and March 4, 1993, respectively, in accordance with the terms of the bond purchase contracts. (See Audit Reports Section)
- o A staff auditor reviewed and tested documentation supporting the Directors' Travel Expense Reports Table attached to the General Manager's January 26, 1993, letter to the Board. The results of this testing and the format of the quarterly report were discussed with staff from the Financial Services Branch.

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 Costs of Information Systems Development Projects. During the month, our review of procedures were completed and a draft report summarizing the results was distributed to appropriate staff for review and comment. It is anticipated that our report will be finalized in April.
- o Follow-up Review of Draft Controls and Testing of Selected Draft Disbursements. This assignment is focusing on the current status of the Draft Disbursement System (DDS), compliance with procedural guidelines, and testing of selected draft transactions. During the month, the assigned auditor updated system documentation, began testing draft transactions, and visited various field office locations. This assignment will continue in April.

B. EDP Auditor Activities:

The Assistant Auditor and I, together with the EDP auditors reviewed various drafts of Phase Zero deliverable documents and continued to participate in various Phase Zero Project meetings where project status, Information Technology Transformation, and Phase I implementation issues were discussed.

The EDP auditors worked on the following matters during March:

- o EDP Review--Federal Reserve Bond Ordering System. An EDP auditor performed a cursory internal control review of this newly installed savings bond deduction

accumulation and bond ordering service that was recently acquired to replace the old Security Pacific Bank system. The auditor's findings and recommendations to enhance audit and control were summarized in a memo to me and copies were sent to various Finance Division staff.

- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor participated in a Project Steering Committee meeting. During the system testing phase, the EDP auditor continued to provide assistance to the Project Manager.
- o EDP Review - Monitor Development of Power Billing System. The assigned EDP auditor interviewed members of the project team in order to familiarize himself with the development process. The EDP auditor reviewed various system documentation drafts and provided his input relating to several audit and control issues.

C. Recurring Assignments:

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

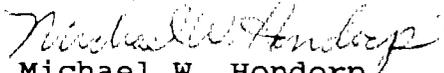
- o Review of IID Program for the year-ended December 31, 1992.
- o Review of the 1993-94 Annual Budget.

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, I assisted KPMG Peat Marwick in completing the annual management letter and transmitted it to the Special Audit Committee on March 16. The external auditor's report on the District's interim cash basis financial statements as of December 31, 1992, and for the six months then ended was also completed and issued to the Board in March.


Michael W. Hondorp

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