

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 31, 1993

To: Board of Directors*From:* Auditor*Subject:* Audit Department Report for August 1993**I. Audit Reports**

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

- o Review of May 1993 Physical Inventory of Central Stores, dated July 25, 1993.

II. General and Administrative Matters

General and administrative matters addressed during August included the following:

- o During the month, the Assistant Auditor, EDP Auditors and I met with staff to discuss a draft letter concerning process change projects. Subsequently, I provided written comments to Assistant General Manager Horne on this subject.
- o I provided input to staff on the form and content of the Board letter pertaining to the funding of Phase One of the Information Systems Strategic Plan.
- o The Assistant Auditor and I met with a member of Office Engineering to discuss the terms of a proposed water quality research agreement. I also provided input to staff on the terms of several other agreements I reviewed during the month.
- o The Assistant Auditor and I attended two Executive Council meetings and I participated in two meetings related to the newly established Productivity Council. I also prepared certain written material related to productivity council matters.
- o Assistant Auditor Lindhout and I completed a draft Audit Work Plan for fiscal year 1993-94 and submitted it to the General Manager and management staff for their review and comment. The Plan will be submitted to the Special Audit Committee in mid-September.

- o A financial auditor and I provided input to a member of the Phase One Program Office staff concerning project management and cost monitoring issues.
- o The Assistant Auditor and I were interviewed by a staff consultant who is assisting the Legal Department in an organizational assessment project.
- o Assistant Auditor Lindhout and I met with Assistant General Manager Horne, the Director of Finance and the Controller to discuss the preliminary results of our follow-up review of the Draft Disbursement System, as well as other draft system matters.
- o I issued a memo to Assistant General Manager Horne outlining certain contracting issues relating to Information Systems Phase One activities.

III. Completed Assignments

The following significant assignment matters were concluded during August:

- o We completed our review of the May 1993 Physical Inventory of Central Stores. (See Audit Reports Section)

IV. Assignments in Progress

A. Nonrecurring Assignments:

- o Review of Water Conservation Agreement with CTSI Corporation. Little time was spent on this assignment during the month due to the assigned auditor's other work priorities.
- o Review of Draft Disbursement System and Selected Drafts. Work on this follow-up to a 1991-92 review of the new draft disbursement system was nearing completion at month-end. At management's request, a special draft memo summarizing our preliminary review results was submitted for staff's information and assistance in determining needed system enhancements. A meeting was also held with staff to discuss proposed auditor recommendations. A final detailed memo on the review is expected to be issued soon and a summary report will be provided to the Special Audit Committee for its information.

- o Review of Santa Margarita Pipeline Project. During the month, a staff auditor continued certain preliminary work on the Santa Margarita pipeline project contract review. We are currently evaluating the contract administration work performed by a consultant in order to determine the scope of work that we should perform.

B. EDP Auditor Activities:

At the request of the Director, Information Systems, the EDP auditors performed some very cursory-level review procedures in an effort to assess the reasonableness of the cost estimates included in the Board letter for Phase One funding.

In anticipation of the new UNIX client-server computers that the District is acquiring, an EDP auditor attended a three-day UNIX auditing training session and a two-day workshop on audit and control techniques for UNIX-based computer systems.

During August, a more detailed response was received from Information Systems Division staff to the recommendations made by the EDP auditors in March pertaining to their review of the District Local Area Networks (LANs). Both EDP auditors were interviewed by consultants hired by Information Systems Division to develop District-wide LAN policies and procedures. This effort was initiated, in part, as a result of the LAN control issues that were identified during our previous LAN review work.

The EDP auditors also worked on the following matters during August:

- o New Bond Inventory System. An EDP auditor reviewed the testing results prepared by the project team for a programming enhancement that was designed to speed up bond transaction processing.
- o New Federal Savings Bonds (FedBOS) System. An EDP auditor met with staff from the Finance Division to document the FedBOS system used by the General Ledger Section to purchase U.S. Savings Bonds for District employees through automatic payroll deductions. The results of this analysis were discussed with the financial audit supervisor and were then provided to the District's external auditor, KPMG Peat Marwick, so that revisions could be made to that firm's quarterly payroll testing audit program.

- o Monitor Development of Treasurer's Investment Management System (IMS). Work continued on this implementation project during August. The assigned EDP auditor prepared a status memo to me which addressed various project issues which still require resolution. Copies of the memo were sent to the project manager, Treasurer and other Finance Division management.

C. Recurring Assignments:

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

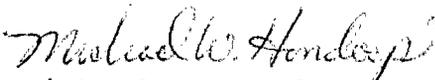
- o Test 1993-94 Tax Levy Calculations and Schedules. This annual assignment commenced in late August and should be completed in September.

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 Directors' and Department Heads' Expense Claim Reviews (as required by Administrative Code Section 6329(a)).
- o Employee Expense Claim 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, staff auditors commenced their assigned work pertaining to the external auditors' examination of the District's cash basis financial statements for the year ended June 30, 1993. Work was also commenced on the annual audit of the District's accrual basis financial statements for the year ended June 30, 1993. This work will continue during September.


Michael W. Hondorp