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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

  
EXECUTIVE SECRETARY

March 31, 1994

To: Board of Directors

From: Auditor

Subject: Audit Department Report for March 1994

### I. Administrative and Other Matters

In addition to attendance at Board and Committee meetings, general and administrative matters addressed during February included the following:

- o The Assistant Auditor and I attended two Executive Council meetings, he attended one meeting of the Productivity Measurement Team, and I attended one Information Systems Phase One Steering Committee meeting.
- o The Assistant Auditor, the Principal Auditor, and I participated on the panel which interviewed ten potential candidates to fill the two vacant Deputy Auditor II positions on the Audit Department staff. Offers of employment were subsequently extended to two well qualified applicants. Both offers were accepted and these new staff members are expected to begin work by mid-April.
- o The Assistant Auditor and I met with Assistant General Manager Horne to discuss various subjects of mutual interest.
- o The Assistant Auditor attended the March 16, 1994, joint meeting of the State Water Contractors' Audit and Finance committees in Sacramento.
- o The Assistant Auditor and I met with a representative from the Administrative Services Division and a consultant who has been selected to assist a proposed Policies and Procedures Steering Committee. The Steering Committee will replace the task force which had initiated a review of District policies and procedures. The purpose of the Steering Committee is to oversee the simplification, coordination, and publication of new and existing District policies and procedures.

- o The Principal Auditor attended the first meeting of the personal computer hardware and software acquisition and installation reengineering process. He also attended one meeting of the Employee Integration Group which was formed to implement the Strategic Plan.
- o I prepared the Audit Department's O&M budget for fiscal 1994-95 and input the information into the on-line budget system.
- o I made a short presentation to the Finance and Insurance Committee on various Audit Department work activities.
- o I provided input to the Phase One Program Office staff and the Controller regarding guidelines on accounting for Phase One project costs. I discussed certain operating equipment matters with Engineering Division management. I also provided input to the Controller on the draft Expense Claim Handbook.
- o In accordance with a strategy in the District's Strategic Plan, I drafted an Audit Department Charter and transmitted it to the Special Audit Committee for its review and approval.

## **II. Completed Assignments**

A review of the calculations to amortize the District's State Water Project Participation Rights for Fiscal Year 1993-94 was completed in March with no significant exceptions noted. Written comments resulting from the assignment were provided to various staff for their consideration.

I issued a letter to the Special Audit Committee during March summarizing the results of the Audit Department's work on the implementation of the new Investment Management System.

## **III. Assignments in Progress**

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

- o District Fraud Prevention, Detection, and Investigation Policy. Very little time was spent on this assignment by Audit Department staff during March. We are currently awaiting input from the Executive Assistant to the General Manager, who has been circulating the draft policy document for review and comments by selected staff within the General Manager's department.

- o Review of Santa Margarita Pipeline Project. During the month, the Principal Auditor and a staff auditor spent two weeks at the offices of the Santa Margarita Water District examining records and interviewing various staff from that agency. Detailed testing of selected construction expenditures and related contract activities was substantially completed. The preliminary findings from this review were discussed at a meeting with Assistant General Manager Balcerzak and General Counsel Taylor at month end.
- o Review of Just-in-Time Purchasing Pilot Program. The survey and planning work related to the just-in-time purchasing pilot program has been deferred pending receipt of certain requested information from the Administrative Services Division staff. The assigned auditor will work on this assignment when the requested information is received.
- o Review of the Draft Official Statement for the Water Revenue Refunding Bonds, 1994 Series A. Audit work on this assignment was suspended in March pending receipt of a revised "final" draft of the Preliminary Official Statement once bond market conditions improve.
- o Operating Equipment Inventory Matters. The auditor assigned to review the special inventory of certain operating equipment at the Commerce Warehouse in February is awaiting information on the inventory results from the Controller Branch. During March, meetings were held with Assistant General Manager Horne, staff, and consultants concerning the inclusion of a fixed asset module in the Phase One program as well as the proposed physical inventory of operating equipment later in 1994. I subsequently issued a letter to Assistant General Manager Horne summarizing my views on this matter.
- o Draft Disbursement System Follow-up Matters. During the month, the assigned auditor met with the Assistant Controller and members of his staff to review the current status of the Audit Department's previous recommendations regarding the Draft Disbursement System (DDS). The assigned auditor will work with the Controller Branch and continue to monitor revisions made to the Procedural Guidelines and other changes in the DDS.

B. EDP Auditor Activities:

Both EDP auditors attended several technical training courses during the month. These courses (PeopleSoft, Human Resources Management System, and Introduction to ORACLE Material Management) are directly related to the new computer system and applications which are acquired as part of the Information Systems Division's Phase One Program.

The EDP auditors worked on the following matters during March:

- o Phase One--UNIX Conversion Project. During March, the assigned EDP auditor attended project team meetings and provided input on control issues in various project-related documents.
- o Phase One--Material Management System. During the month, an EDP auditor participated in project team meetings and attended the kick-off session for the Material Management Business Reengineering Project which will be led by an outside consulting firm.
- o Phase One--Payroll/Human Resources System. During the month, the assigned EDP auditor issued a memo to the Project Manager and team members describing the Audit Department's role and involvement in this system development project.
- o Monitor Development of Treasurer's Branch Information Management System (IMS)--Phase II. The assigned EDP auditor participated in a project team meeting. The team addressed some of the outstanding issues for the recently implemented module (Investment Management) as well as the various options for implementing additional modules of this application.
- o Integrated Computerized Maintenance Management System (ICMMS). During March, the assigned EDP auditor attended a Project Steering Committee meeting and met with an Information Systems Division Branch Manager to discuss Information Systems involvement in the development process.
- o Phase One--Chart of Accounts/General Ledger Implementation. The Assistant Auditor and an EDP auditor attended several working meetings for the Chart of Accounts Implementation project.
- o Power Billing System (H-10). The assigned EDP auditor participated in a status meeting for this project and provided input relating to the new proposed project schedule.

C. Recurring Assignments:

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

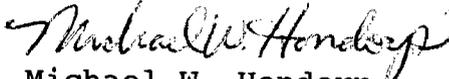
- o Review of Federal Single Audit Act Compliance for the years ended June 30, 1993 and 1994.
- o Review of the 1994-95 Annual Budget.
- o IID/MWD Water Conservation Program for the year-ended December 31, 1993.
- o Review of the 1993-94 Water Standby Charge--Accounting/Collection/Refunds.

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.
- o Monthly Review of Selected Disbursements, Including Drafts
- 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:

The external auditor's report on the District's interim cash basis financial statements as of December 31, 1993, and for the six months then ended was completed and issued to the Board in March.

  
Michael W. Hondorp