



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MAY 10 1994

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Harvey E. Ruff
EXECUTIVE SECRETARY

May 2, 1994

To: Board of Directors
From: Auditor
Subject: Audit Department Report for April 1994

I. Administrative and Other Matters

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

- o The Assistant Auditor and I attended one Executive Council meeting and he attended one Information Systems Phase One Steering Committee meeting.
- o A new employee, Sri Renganathan, joined the department as a Deputy Auditor II in mid-April. Recruiting efforts to fill the unexpected vacancy in the second Deputy Auditor II position were also commenced using a professional search firm.
- o I completed the department's final budget documents for fiscal 1994-95 in accordance with instructions from Budget Administration Branch.
- o I provided input to management staff on revisions to the District's draft Strategic Plan. I also prepared a draft Code of Ethical Conduct and submitted it to the General Manager, General Counsel, and various other management staff for review and comment.
- o I participated in a meeting with various staff concerning updating current policies on the disposal of obsolete or unneeded equipment and materials.

II. Completed Assignments

A review of 1993-94 Water Standby Charges-- Accounting/Collections/Refunds was completed in April with no significant exceptions noted. Written comments resulting from the assignment were provided to the Director of Finance and other staff for their information and appropriate action prior to June 30, 1994.

III. Assignments in Progress**A. Nonrecurring Assignments:**

- o District Fraud Prevention, Detection, and Investigation Policy. The Assistant Auditor and I met on two occasions with the Executive Assistant to the General Manager and staff from the Personnel Division and the Legal Department to discuss proposed revisions to the proposed fraud policy that the Assistant Auditor drafted last fall. Discussions concerning the proposed Code of Ethics document were also held during these meetings on the Fraud Policy. A revised draft fraud policy document was prepared at month-end by the Assistant Auditor for further discussion with staff.
- o Review of South County Pipeline Project. The preliminary findings from this review, which was substantially completed in March, were discussed at several meetings with Assistant General Manager Balcerzak, General Counsel Taylor, and their staff representatives during the month. The preliminary audit findings were also presented in closed session to the Special Audit Committee at its April 26 meeting.
- o Review of Just-in-Time Purchasing Pilot Program. The survey and planning work related to the implementation of the just-in-time purchasing pilot program has been deferred pending receipt of certain requested information from the Administrative Services Division staff.
- o Review of Compliance with Temporary Employment Agreement Limits. This assignment has been established to review and evaluate the control procedures used by the Engineering and Personnel divisions to monitor temporary agreement authority limit compliance, as well as to test for compliance with such approved limitations for selected periods. During the month, the assigned auditor discussed monitoring procedures with staff in the Personnel and Engineering divisions and commenced compliance testing.
- o Operating Equipment Inventory Matters. Our review of the results of the February 1994 special inventory of certain operating equipment at the Commerce Warehouse will proceed once the final inventory results are received from the Controller Branch. In addition, the Principal Auditor attended the first meeting of the

Operating Equipment/Asset Tracking Project. The project was initiated to facilitate the implementation of a new asset tracking system as part of the Fixed Assets portion of Phase One of the Information Systems Strategic Plan.

- o Draft Disbursement System Follow-up Matters. During the month, the assigned auditor reviewed the revised draft disbursements "Procedural Guidelines for the General Ledger Section" and provided comments and suggestions for improvements to the Assistant Controller. The assigned auditor will continue to work with the Controller Branch to monitor revisions to the Procedural Guidelines and other changes in the Draft Disbursement System.
- o Monitor Landscape Conservation Programs. During the month, the assigned auditor commenced detailed testing of selected landscape conservation programs.

B. Information Systems Auditor Activities:

Both Information Systems (IS) auditors attended several technical training courses during the month. These courses (ORACLE Data Base Administration I and II) are directly related to the new computer system and applications which were acquired as part of the Information Systems Division's Phase One Program.

One IS auditor made a brief presentation to the Special Audit Committee summarizing his activities and the results of our review of the implementation of the first phase of the new Investment Management System which was completed in February 1994.

The IS auditors also worked on the following matters during April:

- o Phase One--Material Management System. During the month, the assigned IS auditor issued a memo to the Project Managers and team members describing the Audit Department's role and involvement in this business reengineering/systems development project. The IS auditor also attended a reengineering workshop led by the outside consulting firm involved with this project.
- o Phase One--Payroll/Human Resources System. During April, an IS auditor attended a reengineering/implementation workshop lead by the consulting firm hired to help implement the new Human Resources Management system.

- o Expense Reporting System--At my request, an IS auditor contacted staff from Finance Division to research the causes of another loss of data from the existing Expense Claim System. Two staff auditors and I also met with staff from the Finance and Information Systems divisions to discuss the proposed project to reengineer the District's expense reporting processes and to upgrade the related systems software.
- o Local Area Network Manual--Both IS auditors met with staff from Information Systems to discuss and comment on the draft of the MWD Network Standards manual currently being developed by the LAN Technical Support Section in conjunction with an outside consultant.
- o Monitor Development of Treasurer's Branch Information Management System (IMS)--Phase II. The assigned IS auditor met with the Project Manager to discuss the various options for implementing additional modules of this application. In addition, the IS auditor provided input relating to some of the outstanding issues arising from the first phase of the Investment Management System, such as automatic market pricing of the portfolio and certain validation procedures for various reports required for the quarterly financial audit work.
- o Power Billing System (H-10). The assigned IS auditor met with users from the Resources and Information Systems divisions to discuss project status.

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 April 1994 Central Stores Inventory.

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:

In late April, the audit staff commenced our assistance to KPMG Peat Marwick on the review of the District's cash basis financial statements for the nine months ended March 31, 1994.

Michael W. Hondorp
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