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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUN 14 1994

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Lawrence E. Duff
EXECUTIVE SECRETARY

May 31, 1994

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

I. Administrative and Other Matters

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

- o The Assistant Auditor and I met with the Director and Assistant Director of Personnel to discuss salary survey matters. I also prepared a letter on Auditor and Assistant Auditor compensation for information and consideration by the Special Committee on Department Head Compensation.
- o The Assistant Auditor, Principal Auditor and I participated in meetings with staff and representatives of the Santa Margarita Water District to discuss the results of our audit of the South County Pipeline Project. A presentation on the preliminary results of the audit was also provided to the Legal and Claims Committee in May.
- o I presented the Audit Department's budget for fiscal 1994-95 to the Special Budget Committee.
- o The Assistant Auditor, Principal Auditor and I held panel interviews with four candidates for the vacant Deputy Auditor II position. An offer of employment was made to one of the candidates, which was accepted, and she will be starting work in mid-June.
- o I met with staff from Office Engineering and the Legal Department to discuss certain contract provisions. I also provided input to staff on various draft Board letters during the month.

- o The Assistant Auditor and I participated in Executive Council, Productivity Council and various other meetings with management or staff during May.

II. Completed Assignments

The audit of the South County Pipeline Project (The Metropolitan Water District of Southern California and Santa Margarita Water District Joint Venture) was considered substantially completed during May after presentations of preliminary audit results were given to the Special Audit Committee in late April and the Legal and Claims Committee in May. The Audit Department will continue to provide support to the General Manager and General Counsel's staff, as necessary, in resolving issues with the Santa Margarita Water District pertaining to the results of this audit.

III. Assignments in Progress

A. Nonrecurring Assignments:

- o District Fraud Prevention, Detection, and Investigation Policy. Very little time was spent on this assignment during May. A meeting with staff working on the project was held at month-end to discuss the latest draft fraud policy document which had been revised by the Assistant Auditor and submitted to staff for review and comment in late April.
- o Review of Just-in-Time Purchasing Pilot Program. During the month, part of the information previously requested from the Administrative Services Division staff was received. The assigned auditor is continuing the survey and planning work related to the implementation of the Just-in-Time purchasing pilot program as time permits.
- 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. Also, the Principal Auditor attended two meetings with staff from the Information Systems, Finance and Administrative Services Divisions to discuss a variety of topics, including: a pre-inventory of District operating equipment; the general correction of the data in the equipment master file; and interim solutions for asset tracking prior to the implementation of a new fixed asset tracking and activity system in Phase One (see next paragraph).

- o Operating Equipment Inventory System Revisions. The Principal Auditor attended a meeting of the Operating Equipment/Asset Tracking Project. This project has been 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. In addition, the Principal Auditor also attended the meeting in order to discuss issues pertaining to the PC hardware/software acquisition and installation reengineering process.
- o Draft Disbursement System Follow-up Matters. During the month, the assigned auditor reviewed the revised draft disbursements "Procedures for Use, Issue, and Control of Drafts" 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 Review of Directors' Activity Tracking System. A financial auditor and an information systems auditor attended a brief demonstration of the proposed Directors' Activity Tracking System, which is currently being developed by the Information Systems Division for use by the Executive Secretary's office. Further analysis of the impacts of this new system on internal controls will need to be performed. We are also currently awaiting information from the Finance Division on the pending project to reengineer the District's expense accounting and reporting systems.
- o Inventory of Bearer Bonds; Bond Records and Controls Review. In early December 1993, the Treasurer received a reconciliation from First Interstate Bank (FIB) of the count of the District's exchange bearer bonds transferred from Security Pacific National Bank to FIB in late 1992 and January 1993. The listing of differences was reviewed and investigated by a member of the Treasurer's staff. At the end of May, the assigned auditor attended a meeting with the Treasurer to discuss the current status of the count results. The staff auditor will perform follow-up procedures in early June to evaluate the results of the transfer procedures and the reconciliation of the count results.

B. Information Systems Auditor Activities:

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

The IS auditors worked on the following matters during May:

- o Phase One--Material Management System. During the month, the assigned IS auditor and Principal Auditor continued to be involved in this business reengineering/systems development project and attended several reengineering workshops led by the DMR Group, an outside consulting firm.
- o Phase One--Payroll/Human Resources System.
- o Local Area Network Manual--Both IS auditors provided comments on the revised draft of the MWD Network Standards manual currently being developed by a consultant on behalf of the LAN Technical Support Section.
- o Monitor Development of Treasurer's Branch Information Management System (IMS)--Phase II. The assigned IS auditor and the Principal Auditor participated in a Project Steering Committee meeting, and provided input on outstanding issues, including portfolio market valuation and upgrading of the software to a new version.
- o Integrated Computerized Maintenance Management System (ICMMS). The assigned IS auditor attended a Project Steering Committee meeting and provided input relating to various project accounting issues as well as the development methodology used by the Project Team.
- o Phase One--Chart of Accounts/General Ledger Implementation. The assigned IS auditor met with the Project Manager to discuss the status of the new Chart of Accounts structure and the General Ledger Implementation project.

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 May, the audit staff completed our assistance to KPMG Peat Marwick personnel in their examination of the District's interim cash basis financial statements for the nine months ended March 31, 1994. These statements were transmitted to the Board at month-end. A planning meeting pertaining to the June 30, 1994 year-end audit was also held at month-end with KPMG representatives and Finance Division staff.

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