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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

*Baron E. Wolf*  
EXECUTIVE SECRETARY

September 29, 1994

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

**I. Administrative and Other Matters**

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

- o The 1994-95 Audit Work Plan was revised and submitted to the Special Audit committee and all directors during September via a joint transmittal letter from myself and General Manager Wodraska. I met with Deputy General Manager Wiley Horne on several occasions to discuss requested audits to be included in the Audit Work Plan, as well as to discuss other District business. Mr. Horne was also my guest at a luncheon meeting sponsored by the Los Angeles Chapter of the Institute of Internal Auditors.
- o The Assistant Auditor attended the September 14, 1994, joint meeting of the State Water Contractors Audit and Finance Committees in Sacramento.
- o A new employee, Ms. Charisse Brooks, CPA, joined the department as a Deputy Auditor II in early September.
- o The Assistant Auditor participated in a staff Transition Committee meeting. This committee is charged with responsibility to identify District policy documents which will require revision as a result of reorganization and reengineering activities underway throughout the District.
- o The Assistant Auditor and I met with Director of Administrative Services Ivey to provide input on proposed space plans for the new headquarters building and a draft policy document on an automobile allowance option for District managers.

**II. Completed Assignments**

The following audit reports were issued to the Special Audit Committee on assignments which were completed during September:

- o Review of Delegation of Authority Compliance-- Engineering Services and Temporary Employment Services Agreements, dated September 7, 1994.
- o Treasurer's Accountability Audit, dated September 8, 1994.

The following assignment was completed which did not require the issuance of a formal report:

- o Test 1994-95 Tax Levy Calculations and Schedules. Work on this annual assignment was completed with no exceptions noted.

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

- o Review of Just-in-Time Purchasing Pilot Program. The assigned auditor is continuing to monitor the implementation of various Just-in-Time purchase/delivery programs as time permits.
- o Review of Consulting Agreements with CTSI. During the month, a draft report summarizing the results of the review was distributed to appropriate staff for review and comments. This assignment was initiated to review certain Ultra-Low-Flow Toilet Program agreements.
- o District Fraud Policy. The Assistant Auditor and I met with the Executive Assistant to the General Manager and Legal Department staff to discuss our comments on the latest revised draft fraud policy document. A final draft of this policy document, in the form of a General Instruction, is expected to be submitted for consideration by the management Executive Council in October.
- o Monitor Landscape Conservation Programs. This review was substantially completed during the month and is awaiting review. A report summarizing the results of this review will be prepared in October.

- o Review of Completed Minor Capital Projects (Projects Costing Under \$250,000). This assignment was established to review and evaluate procedures and financial records related to the administration and control over so-called "minor" capital projects. During the month, the assigned auditor discussed the administration of these projects with staff in the Operations and Engineering divisions and performed other preliminary survey work.
- o Review of Agreements with Kosmont & Associates, Inc. During the month, the assigned auditor completed his survey work on the review of consultant services agreements pertaining to the selection of a new headquarters facility. Detailed testing will commence in October.
- o Domenigoni Audit Project--Survey, Plan, and Monitor. During the month, the assigned auditor began her survey work and developed a preliminary audit work plan for the Domenigoni Valley Reservoir Project. This assignment serves as the overall risk analysis assignment, and control for individual Domenigoni Valley Reservoir contract audits, which will be performed, over the next several years, throughout the term of reservoir construction.
- o Review of Automated Systems Development Costs. The assigned auditor commenced the preliminary planning and survey work on this assignment, which is being performed to review the costs of selected information systems development projects, including various Phase One Projects.

B. Information Systems Auditor Activities:

The Information System (IS) auditors worked on the following matters during September:

- o Monitor Transition of Treasurer in Finance Division. An IS auditor completed the remaining procedures necessary to establish the status of substantive records and accounts at the time of transition between former Treasurer Richard D. Sjoberg and incoming Acting Treasurer Roger N. Marumoto, as of the end of business on August 2, 1994. A detailed supplemental memo on our work, dated September 2, was distributed to the General Manager, General Counsel, and various staff for their information. I also issued a summary report on this assignment to the Special Audit Committee and Finance and Insurance Committee for information purposes.

- o Phase One--Technology Project. The assigned IS auditor continued to provide input to Information Systems staff who are developing security standards for the Phase One UNIX operating system and ORACLE database management system.
- o Phase One--Material Management System. During the month, the assigned IS auditor participated in the conference room pilot phase of the Oracle Material Management implementation. Various audit and control strategies affecting the processing of purchase orders, material receipts, and vendor invoices were evaluated in a test environment where the application software was installed.
- o Phase One--Human Resources Management System. The assigned IS auditor attended various project team and HRMS Steering Committee meetings. The potential impacts, on both this and other Phase One projects, resulting from recent changes in the management of this project were discussed with the Auditor and Assistant Auditor.
- o Phase One--Asset Tracking System. During September, the Principal Auditor and an IS auditor reviewed a draft of the implementation plan and a draft of the procedures developed for conducting the operating equipment inventory.
- o Phase One--Chart of Accounts/General Ledger Implementation. The Assistant Auditor participated in a meeting of the Finance Application Project Steering Committee. The assigned IS auditor attended one Steering Committee meeting and several project team meetings. The IS auditor also reviewed draft documents of several sections which will be included in the Application Usage Book. Input was provided to the implementation team regarding the proposed process flows for activities performed by the General Ledger Section using the ORACLE application. In addition, the IS auditor participated in the conference room pilot phase of the General Ledger Implementation project where various transactions were tested for the purpose of prototyping the new Chart of Accounts structure.
- o New Water Information System (WINS)--An IS auditor attended various workshops where the project team developed data modeling for this project which is sponsored by the Operations Division. The project includes implementation of a new remote meter reading system and development of a new water information database which will be used to provide data for water billing and planning.

- o District LAN Review--The IS auditors initiated an audit entrance conference meeting in late September with the Assistant Director of Information Systems and various Information Systems Division staff to explain the objectives and scope of the follow-up review of the District's Local Area Networks. This assignment will include a review of the status of issues raised during the previous LAN review performed in 1992, as well as other work which has been deferred since that time.

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 year ended June 30, 1994.

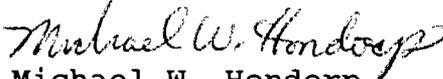
Work is performed on the following recurring financial and compliance reviews on a periodic basis (monthly or quarterly, as applicable) as staff availability permits:

- 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:

Field work was completed by the external auditors on the annual audit of the District's financial statements for the year ended June 30, 1994. The Principal Auditor, Assistant Auditor, and I reviewed the latest draft of the District's comparative accrual basis financial statements and provided input to the Controller prior to the transmittal of such draft statements by the General Manager to the Special Audit Committee (and all directors) for review and discussion at the committee's September 27, 1994, meeting. I also transmitted the District's audited cash basis financial statements for the year then ended to all directors during

September. Work on finalizing the comparative financial statements and various other year-end audit matters will continue during October and November.

  
Michael W. Hondorp

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