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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JAN 10 1995

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David E. Delfino
EXECUTIVE SECRETARY

January 3, 1995

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

This report highlights significant activities or accomplishments of the Audit Department during December 1994. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

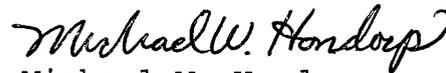
Audit work was completed on the review of the District's cash basis financial statements as of and for the three months ended September 30, 1994, and such statements were transmitted to the Board.

The Special Audit Committee met on December 6, 1994. The committee received a presentation on the annual Letter to Management from KPMG Peat Marwick and a presentation on the audit of the 1995 State Water Project invoices from Richardson & Company. Much of the meeting was devoted to a presentation and discussion of the results of the audit of certain agreements with CTSI Corp. pertaining to the non-rebate Ultra Low-Flow Toilet Program (ULFTP). The committee members expressed concerns over the ULFTP process and CTSI's performance, and additional information was requested of staff. Also, committee members Milne and Hill volunteered to meet with CTSI officials to discuss the committee's concerns and to obtain further information. That meeting was subsequently held on December 15 at CTSI's office in Irvine. In addition to participating in those discussions, the Principal Auditor and I were involved in various follow-up matters relating to this audit during December. I also made a presentation on this audit to the Finance & Insurance Committee on December 12.

The Audit Department, in coordination with KPMG Peat Marwick, completed its review work on the drafts of the Finance Division's Comprehensive Annual Financial Report (CAFR) for FY 1993-94 in late December. The Finance Division then submitted the CAFR to the Government Finance Officers Association (GFOA) for consideration of award of GFOA's Certificate of Achievement for Excellence in Financial Reporting.

January 3, 1995

Other department activities included the issuance of two draft audit reports to staff for review and comment. Audit staff attended training sessions on various aspects of the new information systems being developed during Phase One. I issued a memo to the Phase One Steering Committee expressing concerns over the current Program implementation schedule. I also reviewed proposals from KPMG Peat Marwick and the Institute of Internal Auditors, Inc. (IIA) to conduct a quality assurance review of the Audit Department. KPMG Peat Marwick also provided a separate proposal to conduct a comparative survey of various aspects of the Audit Department with other internal audit organizations. After consulting with Special Audit Chair Frahm and committee members Handelsman and Meyer, I decided to engage the IIA to perform the required quality assurance review and to engage KPMG Peat Marwick to perform the comparative survey assignment. Both of these engagements will be conducted during the first quarter of 1995.


Michael W. Hondorp

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Attachment

ACTIVITIES IN PROGRESS

Financial/Compliance Audits and Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Director/Department Head Expense Claims	Determine the propriety of expense claims of directors and department heads, as required by Administrative Code Section 6329.	Reviews completed for expense reports processed through October 1994.	
Selected Disbursements, Including Drafts	Test the validity of a sampling of disbursement transactions on a monthly basis.	Review is completed of transactions through October 1994.	
Employee Expense Claims	Determine the propriety of a selection of employee expense claims on a quarterly basis.	Reviews completed for expense reports processed through September 1994.	
Quarterly Lobbying Reports	Review lobbying reports filed with the state quarterly for accuracy and compliance.	Review of reports for quarter-ended September 30, 1994 was completed.	
State Water Project Contract Matters	Perform general monitoring of State Water Project contract activities, including accounting, auditing and financial matters.	Continuing assignment; Assistant Auditor attended quarterly State Water Contractors Joint Finance-Audit Committees meeting.	
Selected Work Orders	Test a selection of new work orders, change orders and completion orders on a quarterly basis for propriety and compliance.	Transactions review for quarter-ended September 30, 1994, will be completed in January.	
Water Inventory/Deferred Water Rights	Review the computations for water inventory and deferred water rights accounts for accuracy and compliance on a quarterly basis.	Review of accounts for quarter-ended September 30, 1994, was completed.	
Single Audit Act Compliance	Monitor program activities and federal source funding for fiscal years 1994 and 1995 to ensure compliance with requirements of the Federal Single Audit Act of 1984.	Review for FY 1993-94 is scheduled for completion by June 30, 1995.	
Amortization of SWP Participation Rights	Test calculations of amortization of SWP Participation Rights for accuracy.	Commenced work in December; to be completed in January	
Annual Financial Report and CAFR	Review the format and content, including text, tables and schedules, of the FY 1993-94 Annual Financial Report and Comprehensive Annual Financial Report.	Assignment was substantially completed.	The CAFR was submitted to the GFOA by the Finance Division.

ACTIVITIES IN PROGRESS

Financial/Compliance Audits and Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Water Standby Charges/Refunds	Review the propriety of the transactions to record fiscal 1994-95 water standby charges and refunds.	Currently scheduled for March 1995 completion.	
Assist External Auditor -- Annual Audit	Assist KPMG Peat Marwick in the audit of the accrual basis financial statements as of June 30, 1994.	All work is completed except any Single Audit Act reports for FY 1993-94 which must be completed by June 30, 1995.	
Assist External Auditor -- Quarterly Audits	Assist KPMG Peat Marwick in the fiscal 1994-95 quarterly audits of cash basis financial statements.	Completed assistance required for quarter-ended September 30, 1994.	The audited statements were transmitted to the Board.
Completed Minor Capital Projects	Evaluate the adequacy and propriety of financial and administrative records pertaining to capital projects under \$250,000.	Scheduled for completion in January.	Draft report sent to staff for comment.
Monitor Domenigoni Valley Reservoir Project	Document controls over Domenigoni Valley Reservoir Project (DVR); develop plan to ensure adequate audit coverage of DVR in future years; perform audits of selected DVR contracts.	Initial planning phase was completed; first contract audit to commence in January.	
CTSI Corp Agreements	Test contract compliance by vendor assisting MWD with Ultra-Low-Flow toilet rebate program and controls over program administration.	Phases I and II follow-up work was performed; to continue until open audit issues are resolved.	Meeting with CTSI officials and MWD directors on December 15.
Just-in-Time Purchasing Pilot Program	Monitor rollout of Just-in-Time (JIT) pilot program and subsequent additions to the scope of the JIT program.	Scheduled for completion in January.	
Review Kosmot & Assoc. Contract	Test compliance with services agreement relating to search for new headquarters facility	Scheduled for completion in January.	
Landscape Conservation Program Compliance	Review activities and compliance related to landscape conservation programs sponsored by the District.	Scheduled for completion in January.	Draft report sent to staff for comment.
Operating Equipment Inventory (Biennial)	Test the accuracy of the 1994 comprehensive physical inventory of District operating equipment.	Continued monitoring reconciliation process; independent testing to commence in January.	

ACTIVITIES IN PROGRESS

Financial/Compliance Audits and Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	Completed detailed testing; draft report to be sent to staff in January.	
Develop District Fraud Policy	Assist management in the development of a comprehensive fraud policy document and implementation of related compliance procedures.	Near-final version of draft General Instruction exists; issues pending discussions with management. Completion expected in early 1995.	Copy provided to Special Audit Committee on December 6.

Information Systems Audits and Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Phase I -- General Ledger/Cost Accounting Systems	Monitor the implementation of the Oracle Financial Systems software pertaining to General Ledger, Cost Accounting and Budget as specified in the project plans.	Continuing assignment; monitored user acceptance testing and data conversion	Audit staff training -- new chart of accounts.
Human Resources/Payroll Systems	Monitor the implementation of the Peoplesoft System software pertaining to Human Resources/Payroll as specified in the project plans.	Continuing assignment; project has been delayed until mid-1995.	
Materials Management Systems	Monitor the implementation of the Oracle Systems software pertaining to Procurement, Accounts Payable and Materials Inventory as specified in the project plans.	Continuing assignment; monitored user acceptance testing.	
Phase One Program Office Activities	Monitor Information Systems' Phase One Program Office activities, including participation on Steering Committee, reviewing quarterly status reports, and assessing system integration matters.	Continuing assignment; discussions with Program Office re interface, testing and schedule concerns.	Issued memo to Steering Committee re concerns over schedule; memo to Program Office re testing.

ACTIVITIES IN PROGRESS

Information Systems Audits and Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Conversion to UNIX Environment	Monitor the conversion to the new Unix operating system environment in connection with the IS Phase One Program and assess controls, security and other relevant areas.	Continuing assignment; attended several meetings on pre-production planning to discuss system security.	
Fixed Asset System	Monitor the implementation of the Oracle Systems software pertaining to Fixed Assets and Equipment Tracking as specified in the project plan.	Continuing assignment; meetings with project manager to review status.	Some audit staff attended user training sessions.
Preventive Maintenance System	Monitor the development and implementation of computerized preventive maintenance management system in accordance with the project plan.	Continuing assignment; attended user requirement JAD sessions.	
Travel Expense Accounting System	Monitor the development and implementation of a new travel expense accounting and reporting system in accordance with the project plan.	Continuing assignment; attended preliminary design meetings.	
Monitor Implementation of New Water Information System	Monitor the development and implementation of a new Water Information System in accordance with the project plan.	Continuing assignment; reviewed draft project plan.	
Minor EDP Assignments & Contingencies	Perform miscellaneous information systems reviews whenever required; contingency time for new priorities and budget adjustments.	Continuing assignment; LAN matters and miscellaneous technical support.	

ACTIVITIES IN PROGRESS

Special Audits and Other Services			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Administrative Assistance to Board/Management/Staff	Provide advice and assistance to the Board, management or staff, and participate in meetings or other activities as required.	Continuing assignment.	Special Audit Committee meeting on December 6; CTSI audit report to F&I on December 12.
Business Resumption Task Force	Participate in the development of a District-wide comprehensive Business Resumption Plan for responding to natural disasters or other emergency situations.	Participated in Task Force discussions; Business Resumption Plan is due by June 1995.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment; review revised General Instruction on termination procedures.	