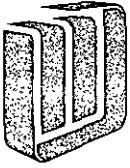


FILED by order
of the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held JAN 14 1992 9-5

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Drew E. Duff
Executive Secretary

January 2, 1992

To: Board of Directors
From: Auditor
Subject: Audit Department Report for December 1991

I. Audit Reports

There were no audit reports issued to the Audit Subcommittee during the month.

II. General and Administrative Matters

General and administrative matters addressed during December included the following:

- o I met with Audit Subcommittee Chairman Brewer to discuss the status of various audit assignments, as well as the new Special Audit Committee which was approved by the Board in December.
- o As part of his responsibilities to monitor State Water Project accounting and auditing matters, the Assistant Auditor attended the December 18, 1991, joint meeting of the State Water Contractors' Audit and Finance Committees, which was held in San Francisco.
- o During the month, I responded to two requests from the Los Angeles City Administrator's office for information on audits at the District.
- o The Assistant Auditor attended a three-day seminar in Orlando sponsored by The Institute of Internal Auditors.
- o I responded to the General Manager's request for input on the probable impacts to the Department's budget for fiscal 1992-93 if a water rate increase were not approved for such year.

III. Completed Assignments

The following significant assignment matters were concluded during December:

- o We completed our review of Permanent Cash Advances/ Petty Cash Funds. Written comments summarizing the results of this review, as well as related recommendations, were provided to various management and staff for their information and consideration.
- o We completed our review of drafts of the Annual Financial Report for Fiscal Year 1990-91. Our comments on the text and tables, including required data corrections, were provided to Financial Services personnel prior to publication of the final document.

IV. Assignments in Progress

A. Nonrecurring Assignments:

During the month, staff time was spent on the following nonrecurring financial and compliance reviews:

- o Review of the Draft System. Preliminary planning and survey procedures were concluded this month, although the "walk-through" of accounting and administrative procedures that we requested from the Assistant Controller to assist us in evaluating internal controls was deferred due to his other priorities.
- o Review of Water Conservation Credits Programs. During the month, the assigned financial auditor continued the detailed testing of selected water conservation credits agreements with participating member agencies and private business under the Water-wise Program.
- o Review of Security Contract Compliance. The work on this assignment was started and then deferred during the month based on a request from the Assistant Chief of Operations. Staff indicated that they want the audit to include contract costs through fiscal year 1991-92. This will facilitate adjustments to the contract costs through that date in the event the contract is not renewed for its final year.

B. EDP Auditor Activities:

The EDP auditors worked on the following matters during December:

- o Post-implementation Review of the Water Accounting Classification and Invoicing (WACI) System. The assigned EDP auditor continued to independently test the new water billing system. The primary goal of such testing is to identify and test various control points in the application in order to evaluate the system's ability to prevent, detect, and correct possible errors. The EDP auditor summarized his observations to date in two memos to staff which addressed control points identified in two main areas: (1) interface with the related meter reading application and (2) data input. More control points will be evaluated as this testing continues.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor participated in a training session in the Treasurer's office in Pasadena which covered some aspects of the recently acquired package. Implementation of initial system modules is continuing and additional system training is scheduled for February 1992.
- o EDP Review--New Bond Inventory System. During the month, an EDP auditor continued to perform testing on the recently completed bond interest check printing module. The EDP auditor also discussed with the project leader issues relating to the internal application security scheme of the Bond System and commenced audit testing of the security module.
- o Systems Development Review--Procurement System. In December, an EDP auditor attended a Procurement Change Control Committee meeting where issues relating to system enhancements and user requests were discussed.
- o Payroll System Modifications. During December, an EDP auditor performed a very cursory review of program modifications relating to the new 44/36 work schedule. This preliminary assessment was performed on a priority basis prior to implementation to obtain some assurance that program revisions were properly controlled and that system testing was adequately performed. Future review and testing of the modified payroll application is anticipated after implementation of the new work schedule.

- o EDP Review--Material Management System. During the month, an EDP auditor summarized his observations and findings in a memo to me regarding an out-of-balance condition which was identified which affected inventory stock items. We have been advised by staff that these discrepancies, which were reported in November, have now been resolved.

C. Recurring Assignments:

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

- o Review of IID Program as of December 31, 1990.
- o Single Audit Act Compliance--Fiscal Years 1989-90 and 1990-91.
- o Audit of SAWPA Costs of Arlington Desalter Project for the fiscal year ended June 30, 1991.

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 Financial Report Reviews.
- o Monthly Directors' and Department Heads' Expense Claim Reviews (as required by Administrative Code Section 6329(a)).
- o Employee Expense Claim Reviews (Quarterly).
- o Budget vs. Cost Report 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:

During the month, the Assistant Auditor and I reviewed various drafts of the cash basis financial statements as of September 30, 1991, and for the three months then ended. We

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January 2, 1992

also met with KPMG Peat Marwick personnel and Finance Division staff to discuss issues relevant to those statements. The parties agreed upon format revisions which will also affect certain presentations and disclosures in audited statements for the year ending June 30, 1992.


Michael W. Hondorp

MWH/LJO:lo