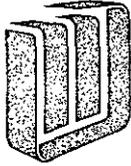


FILED by order
of the Board of Directors of
The Metropolitan Water District
of Southern California
at its meeting held APR 14 1992

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Darwin E. [Signature]
Executive Secretary

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 31, 1992

To: Board of Directors
From: Auditor
Subject: Audit Department Report for March 1992

I. Audit Reports

The following audit report was issued to the Special Audit Committee during the month:

- o Review of District Compliance with the Federal Single Audit Act of 1984, dated March 19, 1992.

II. General and Administrative Matters

General and administrative matters addressed during March included the following:

- o As part of his responsibilities to monitor State Water Project accounting and auditing matters, the Assistant Auditor attended the March 18, 1992, joint meeting of the State Water Contractors' Audit and Finance committees, which was held in Sacramento.
- o I submitted input to Financial Services concerning the department's program and O&M budgets for fiscal year 1992-93.
- o I met with Special Audit Committee Chairman Brewer to discuss certain director and department head expense report matters. I also provided him with a memo summarizing the results of our reviews of directors/department heads expense reports processed during the six-month period ended December 31, 1991.
- o I met with the Director of Finance, Controller, and Director and Assistant Director, Information Systems to discuss changes in the District's accounting for and funding of computer software costs, including the costs of Phase Zero of the Information Systems Strategic Plan. I assisted staff in preparing the memos outlining the accounting and funding changes, as well

as the informational letter to the Board on these matters. I also discussed the matter with the external auditors.

- o I drafted a letter to the Special Committee on Department Head Compensation outlining Audit Department work accomplishments in fiscal 1991-92 and other matters. This letter will be issued and discussed with the Special Committee on Department Head Compensation in April.
- o The Assistant Auditor and I met with staff from the Resources Division to discuss our comments and suggest revisions to the terms of the draft joint participation agreement between the District, the San Diego County Water Authority, and the City of Oceanside for recovery and treatment of contaminated groundwater. We have been advised that this agreement will serve as the model for about 40 similar agreements in the future.
- o The Assistant Auditor and I reviewed a draft of the Environmental Compliance Division's auditing program and provided input on the document.
- o The Assistant Auditor and I updated the Audit Department's 1991-92 Work Plan and worked on various planning matters during the month.
- o A member of my staff attended a four-day Computer Audit and Control Workshop, held in Anaheim, which was sponsored by the Audit and Control Training Group, Inc.

III. Completed Assignments

The following significant assignment matters were concluded during March:

- o We completed our review of the District's compliance with the Federal Single Audit Act and issued a report dated March 19, 1992, covering our reviews for the fiscal years ended June 30, 1990, and 1991 (see Audit Reports section).
- o A senior financial auditor completed a review of directors and department heads expense reports processed during the six months ended December 31, 1991. An interdepartment memo to me, dated March 17, 1992, summarizing exceptions or issues identified during this review, was transmitted to the Special Audit Committee Chairman on March 19, 1992, for his information.

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. The assigned auditor obtained a "walk through" of the system in late March from the Assistant Controller and staff member in the General Ledger Section responsible for recording and accounting for draft disbursements. This assignment will continue in April.
- o Review of Water Conservation Credits Programs. During the month, the assigned auditor continued the detailed testing procedures related to the conservation credits programs. Also, the assigned auditor, the Assistant Auditor, and I met with staff from the Water Conservation Branch to discuss the preliminary findings related to certain control concerns over purchase, accountability, and distribution of showerhead and retrofit kits under the Water-wise Program agreements. This assignment is expected to be completed during April.
- o Review of Costs of Systems Development Projects. During March, I continued working on this assignment to the extent that I had time available. I requested input from the Information Systems Division staff concerning the costs of programmer consultant services, as well as certain project cost estimates. I also started drafting a preliminary report on my work to date on this assignment.
- o Review of Proposed Revisions to Accounts Payable Procedures. Documentation related to the implementation status of the recommendations resulting from the Accounts Payable Requirements Study and the Quality Circle Review was reviewed during the month. This assignment will continue in April.
- o Review of Incremental Interruptible and Conservation Program (IICP). Our review of the IICP through completion of the program year-ended September 30, 1991, was substantially completed during March. At month-end, a draft report to the Special Audit

Committee was prepared for circulation to responsible staff. Our final report is expected to be issued during April.

- o Participation on Operating Equipment Task Force. During March, the Controller convened the first meeting of the Operating Equipment Task Force. Three Task Force meetings were scheduled during the month. The Assistant Auditor and a financial auditor are representing the Audit Department at the various Task Force committee meetings. The Task Force was formed to develop recommendations to management on ways to resolve problems identified in recent years with the accounting and controls for District operating equipment.

B. EDP Auditor Activities:

At my request, an EDP auditor updated the versions of antivirus software that were previously installed on Audit Department PCs. This was done to prevent infections by the Michelangelo virus which was widely reported by the media recently. The department's EDP auditors also assisted in the installation of certain new or replacement PC equipment and software during the month.

The EDP auditors worked on the following matters during March:

- o Post-implementation Review of the Water Accounting Classification and Invoicing (WACI) System. The assigned EDP auditor met with the Project Manager to discuss implementation of a new environment for user testing. The new testing environment, which is scheduled to be completed shortly, will isolate user testing from the programmers during modifications to WACI programs.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor assisted the Treasurer's staff with the testing plan during the first phase of the project. The EDP auditor also performed preliminary testing for selected types of investments to evaluate the accuracy of system transaction processing.
- o EDP Review--New Bond Inventory System. During the month, an EDP auditor worked with the project leader and a technical writer on control issues relating to the Treasurer's desk procedures required to support the installation of the new Bond Inventory System.

- o Systems Development Review--Procurement System. During March, an EDP auditor met with the project team members to discuss system testing issues. He also continued to perform audit testing on the portions of the Procurement Stock Item subsystem that were completed recently.
- o EDP Review--Environmental Compliance Systems. During the month, the Assistant Auditor and an EDP auditor reviewed a draft of the System Documentation Manual being prepared for the new Incident Reporting System and provided comments to the Environmental Compliance Division. Also, the EDP auditor completed the retesting of the system modules that were modified because of previous findings. The system will be reviewed for control exposures again when the security profiles for the production environment are established.
- o EDP Review--Laser Check Printing System. During the month, an EDP auditor performed audit testing on the Laser Check Printing System that was developed to enable the Treasurer to print Accounts Payable and Bond Interest checks on blank check stock. The EDP auditor will be reviewing desk procedures which are to be developed by the Treasurer to support the implementation of this check printing system. The system will be located in the Treasurer's vault in Pasadena.

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, and 1991.
- o Audit of SAWPA Costs of Arlington Desalter Project for the fiscal year ended June 30, 1991.
- o Review of March 1992 Central Stores Inventory. Staff observed the physical inventory at the La Verne location and the newly established warehouse at the City of Commerce. This assignment is expected to be completed during May.
- o Review of the 1992-93 Annual Budget Process.

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, I spent time planning for the audit staff's involvement in the next quarterly review by KPMG Peat Marwick. The examination of the District's interim cash basis financial statements for the nine months ended March 31, 1992, will commence in late April or early May.

Michael W. Hondorp
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