

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 1, 1993

To: Board of Directors
From: Auditor
Subject: Audit Department Report for February 1993

I. Audit Reports

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

II. General and Administrative Matters

General and administrative matters addressed during February included the following:

- o Assistant Auditor Lindhout and I met with new Special Audit Committee Chairman O'Neil and Vice Chairman Milne to discuss various District matters, as well as Special Audit Committee agenda and scheduling matters.
- o The Assistant Auditor and I attended a two-day Strategic Planning Study Objective Development Retreat in Pomona. We subsequently provided written input on objectives, strategies, and performance measures.
- o The Assistant Auditor and I met Assistant General Manager Horne to discuss the Audit Department's proposed personnel budget for fiscal 1993-94.
- o I met with a representative from Office Engineering and the District's Affirmative Action Officer to discuss my proposed revisions to the procedure manual for A-Agreements pertaining to obtaining consulting services.
- o The Assistant Auditor and I attended various meetings pertaining to Information Systems Phase Zero activities. We also met with a representative from Deloitte & Touche to discuss various aspects of the Phase Zero process.

III. Completed Assignments

The following significant assignment matter was concluded during February:

- o We completed our review of the drafts of the Annual Financial Report for Fiscal Year 1991-92. Our comments on the text and tables, including required data corrections, were provided to Financial Services Branch 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 1993 Refunding Water Revenue Bond Issues. We substantially completed our review of the Preliminary Official Statements for the Water Revenue Refunding Bonds, 1993 Series A, and the Waterworks General Obligation Refunding Bonds, 1993 Series A1, A2, and A3 in late February. Draft "comfort" letters were provided to the underwriters for their review and comments in accordance with the terms of the bond purchase contracts. This assignment will be finalized in early March.
- o Review of the 1992-93 Refund of Water Standby Charges. Little work was performed on this assignment in February due to other assignment priorities.
- o Review of Report on Directors' Travel Expenses for the Six Months Ended December 31, 1992. A staff auditor reviewed and tested documentation supporting the Directors' Travel Expense Reports Table attached to a January 26, 1993, letter to the Board. The results of this testing will be discussed with staff in the Financial Services Branch in March.
- o Review of Costs of Information Systems Development Projects. During the month, procedures related to our review of selected accounting transactions were substantially completed and preparation of a draft report was commenced. It is anticipated that this assignment will be completed in March.

B. EDP Auditor Activities:

The Assistant Auditor and I, together with the EDP auditors continued to participate in various Phase Zero meetings where package selection and technology architecture issues were discussed. The EDP auditors participated in various Technical Evaluation Subcommittee meetings where hardware platforms to be used to support the proposed

application packages were being considered. The EDP auditors also attended the in-depth vendor demonstrations for the Payroll/Human Resources, Finance, Material Management, and Health Safety & Environmental systems.

The Assistant Auditor and EDP auditors attended a half-day seminar on techniques for streamlining multiplatform information security through the use of a single point-of-entry identification and authentication which was presented by a security software vendor.

The EDP auditors worked on the following matters during February:

- o EDP Review--Accounts Payable (AP) Laser Check Printing. An EDP auditor participated in meetings with the Treasurer and Information Systems staff to discuss backup and recovery issues relating to the testing of the Laser Check Printing System located in the Treasurer's vault.
- o EDP Review--Federal Reserve Bond Ordering System. An EDP auditor performed a cursory internal control review of this newly installed savings bond deduction accumulation and bond ordering service that was recently acquired to replace the old Security Pacific Bank system. The auditor's findings and recommendations to enhance audit and control were summarized in a memo to me and copies were sent to staff. The impacts of these system changes on future financial audit activities are currently being evaluated.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor assisted the Project Manager with the development of a test plan and participated in the system testing phase.

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 for the year-ended December 31, 1992.

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 audit staff completed their assistance to KPMG Peat Marwick personnel in their examination of the District's interim cash basis financial statements for the six months ended December 31, 1992. In addition, various staff members and I reviewed a preliminary draft of the external auditor's annual management letter and prepared comments for discussion in early March.

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