

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

July 6, 1993

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

I. Audit Reports

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

- o Review of Imperial/Metropolitan Water Conservation Program--Year-ended December 31, 1992, dated June 25, 1993.

II. General and Administrative Matters

General and administrative matters addressed during June included the following:

- o Assistant Auditor Lindhout and I attended the all day staff Strategic Planning workshop in Pasadena on June 9. I attended the all day Executive Committee meeting on June 29 to review the Preliminary Draft Strategic Plan.
- o The Assistant Auditor attended the June 16, 1993, joint meeting of the State Water Contractors' Audit and Finance committees in Sacramento.
- o I met with a representative from Information Systems and a consultant concerning revisions we requested to one of the Phase Zero Project deliverable documents.
- o The Assistant Auditor and I met with the Controller and Assistant Controller to discuss possible audit procedures pertaining to payroll.
- o The Assistant Auditor and I met with the Assistant Director, Information Systems to discuss the staff response to our review report on the District's Local Area Networks, as well as future LAN review efforts that are planned.
- o I attended the Institute of Internal Auditor's 1993 Annual Conference which was held in Chicago from June 20 to 23.

III. Completed Assignments

The following significant assignment matters were concluded during June:

- o Review of the 1993-94 Annual Budget. This assignment, which was completed in June, did not warrant the issuance of a formal report. There were no significant exceptions noted during our review.
- o We completed our review of the Imperial Irrigation District/Metropolitan Water Conservation Program for the year-ended December 31, 1992, and issued a report thereon, dated June 25, 1993. (See Audit Reports Section)

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

- o Follow-up Review of Draft Controls and Testing of Selected Draft Disbursements.
- o Review of the 1993 Refunding Water Revenue and Refunding General Obligation Bond Issues--Series B. This assignment was substantially completed at month end. We reviewed and tested several drafts of the Preliminary Official Statements for the refunding bond issues which were dated June 18, 1993. We will conclude this assignment in early July when the Official Statements are finalized and our required "comfort" letters to the underwriters have been issued.
- o Review of Water Conservation Agreement with CTSI Corporation. During the month, the assigned auditor commenced his survey and planning procedures on this assignment. The assignment was initiated to ensure that both the District and CTSI are complying with significant terms of the agreement.
- o Audit of Bicycle Program. During the month, a staff auditor performed some preliminary work on a review of the bicycle program at the Weymouth facility, which was requested by the Fleet Manager.

B. EDP Auditor Activities:

The Assistant Auditor and I, together with the EDP auditors reviewed various drafts of Phase Zero deliverable documents and continued to participate in various Phase One

committee meetings where technical platform selection, cost estimates and implementation issues for Phase One were discussed. The EDP auditors participated in a user site visit at the Los Angeles County Board of Education where the ORACLE financial application systems, which the District intends to acquire, was implemented.

Both EDP auditors also provided input into the final draft of System Testing Standards and Procedures developed by Information Systems Division which will be used in the future to help ensure that systems built are secure, maintainable, and auditable.

The EDP auditors worked on the following matters during June:

- o EDP Review--Procurement System. During the month, an EDP auditor performed audit and control testing on the new Solicitation subsystem that was being developed to handle the bidding process and price quotes from vendors. Control issues that were identified were communicated to the Project Manager and were resolved satisfactorily.
- o EDP Review--Treasurer Laser Check Printing System. During the month, an EDP auditor provided input to the Treasurer and Information Systems staff on userid and password, program change controls, and system administration issues relating to the laser check printing system located in the Treasurer's vault.
- o EDP Review--Payroll Direct Deposit System. During the month, an EDP auditor reviewed and provided input to draft user procedures developed for payroll staff describing how this system is to be used to electronically transmit biweekly payroll information to Bank of America.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor participated in a Project Status meeting and continued to provide assistance to the project team during the conversion phase of this project.
- o Monitor Development of Treasurer Water Invoice Collection System. During the month, the assigned EDP auditor and a financial auditor attended the first project meeting where system and user requirements were discussed. The system is being implemented by the Treasurer to enable the District to collect water sales invoices from member agencies electronically when they become due.

C. Recurring Assignments:

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

- o Review of Single Audit Act Compliance--Fiscal Year 1991-92.
- o May 1993 Central Stores Inventory.
- o Annual Review of SAWPA Cost of Arlington Project for the fiscal year ended June 30, 1992. Work on this assignment was substantially completed at month-end. A draft report summarizing results of our review was circulated to appropriate staff for their comments. The report will be finalized and issued in early July.
- o Review of Amortization of State Water Project Participation Rights.

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:

The District's interim cash basis financial statements as of March 31, 1993, and for the nine months then ended were finalized and issued in early June. In addition, a year-end audit planning meeting was held during the month with KPMG Peat Marwick staff and the Controller and Assistant Controller.


Michael W. Hondorp