

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 27, 1993

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

I. Audit Reports

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

- o Review of Draft Disbursement System and Selected Drafts, dated September 3, 1993 (revised September 16, 1993).

II. General and Administrative Matters

General and administrative matters addressed during September included the following:

- o The Assistant Auditor and I met with Assistant General Manager Horne to discuss, among other things, Audit Department staffing, the department's 1993-94 work plan, and a proposed fraud survey. A draft copy of the Audit Work Plan was mailed to the Special Audit Committee (and all directors) in mid-September.
- o I met with General Manager Wodraska and Assistant General Manager Horne to discuss District practices for engaging consultants and managing professional services agreements.
- o I attended two meetings of the Information Systems Steering Committee. I also provided input on drafts of the Board letter to request funding for Phase One of the Information Systems Strategic Plan.
- o The Assistant Auditor attended the September 15, 1993, joint meeting of the State Water Contractors' Audit and Finance committees in Sacramento.
- o The Assistant Auditor and I attended two Executive Council meetings. I also participated in three meetings of the Productivity Council, as well as two meetings of the Council's Goals Subcommittee and one meeting of its Workplace Subcommittee. The Goals

Subcommittee, which I Chaired, developed a Productivity Council organizational structure in September which was submitted to General Manager Wodraska for his approval.

- o The Assistant Auditor represented the Audit Department at the initial meeting of the Division Action Plan Council, which is charged with the responsibility to ensure that the District Strategic Plan is fully incorporated into the upcoming budget process.
- o The Principal Auditor, who was selected as a member of the newly created Strategic Plan Integration Group, attended the first meeting of the Group in early September. The Group is charged with responsibility for ensuring that District employees are adequately involved in the implementation of the Strategic Plan.
- o I held various discussions with representatives of KPMG Peat Marwick, the Underwriters Counsel, and the District's financial advisors concerning the proposed Series C Revenue Refunding Bond issue and the "comfort" work required for that issue by the Audit Department and the external auditors.
- o I provided input to Legal Department staff on proposed nepotism policy language, as well as a draft letter on disclosure requirements for security transactions. I also requested input from Legal staff on certain provisions of the District's contract with the external auditor.
- o I provided input to various staff on financial or contract matters, including: proposed process change activities; a new expense report form; and various consultant agreements.

III. Completed Assignments

The following significant assignment matters were concluded during September:

- o We completed our review of the Draft Disbursement System and Selected Drafts. (See Audit Reports Section)
- o We completed our annual review of June 30 Compliance with Minimal Fund Requirements, as outlined in Sections 5201 and 5202 of the Administrative Code. No apparent violations of Board policy were noted during this review; however, some written comments were provided to staff for their information upon the completion of this assignment.

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

- o Review of Water Conservation Agreement with CTSI Corporation. Little time was spent on this assignment during the month due to the assigned Principal Auditor's other priorities, notably the year-end audit.
- o Review of Santa Margarita Pipeline Project. Little time was spent on this assignment during the month since we are awaiting the receipt of certain information previously requested from staff.
- o Review of the Draft Official Statement for the Water Revenue Refunding Bonds, 1993 Series C. During the month, a deputy auditor commenced testing the initial draft of the Preliminary Official Statement for the Water Revenue Refunding Bonds, 1993 Series C, which is being prepared by the Finance Division. This assignment will continue until the Official Statement is finalized.

B. EDP Auditor Activities:

At my request, both EDP auditors and the Principal Auditor reviewed the latest draft of the Phase One Project Management Plan. Their findings were subsequently summarized in a memo to me which was forwarded to the Director of Information Systems.

An EDP auditor attended two presentations by outside vendors, which pertained to the proposals by those firms for the Phase One Program Office consulting services.

The EDP auditors also worked on the following matters during September:

- o Director Travel Management System. During the month, an EDP auditor met with Information Systems Division staff to obtain background information regarding this PC-based system that is being developed by them for the Executive Secretary's office.
- o Seasonal Storage System. During September, an EDP auditor was directed to obtain information on this recently developed computerized system to handle electronic versions of seasonal storage certification forms for the Operations and Resources divisions.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor continued to provide assistance to the project team

continued to provide assistance to the project team during the parallel testing phase of this project. Among other things, the auditor started reviewing the data conversion approval documentation.

C. Recurring Assignments:

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

- o Test 1993-94 Tax Levy Calculations and Schedules. Work on this annual assignment continued during the month and should be completed in early October.

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 Directors' and Department Heads' Expense Claim Reviews (as required by Administrative Code Section 6329(a)).
- o Employee Expense Claim 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 substantially completed their assistance to the KPMG Peat Marwick staff on the audits of the District's cash basis and accrual basis financial statements as of June 30, 1993, and for the year then ended. A draft of the District's audited comparative financial statements, as of June 30, 1993 and 1992, and for the years then ended was transmitted to the Special Audit Committee (and all directors) for review and discussion at the September 28, 1993, Special Audit Committee meeting. Work related to year-end audit matters will continue during October.


Michael W. Hondorp