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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

November 16, 1993

To: Board of Directors (Special Audit Committee--Action)
(Organization & Personnel Committee--Action)

From: Auditor

Subject: Audit Department Staffing Requirements

Report

During a discussion of the Audit Work Plan for fiscal year 1993-94 at the Special Audit Committee meeting on September 28, 1993, several directors commented on the amount and nature of deferred audit work. Those comments led to additional discussion concerning the Audit Department's staffing needs, both currently and in the future. This letter has been prepared to respond to directors' questions about the department's staffing requirements. It also requests approval to increase the Audit Department's table of organization from eight to ten positions.

The need for at least two additional audit staff was identified by Assistant Auditor Lindhout and I during the development of the Audit Department budget for fiscal year 1991-92. The positions in question were considered essential to allow us to meet our Code-mandated responsibilities in a timely manner. While the Special Audit Committee's predecessor, the Audit Subcommittee, was supportive of the need for two additional staff, only one position was recommended for inclusion in the final budget for that year due to the District's financial constraints at the time. Ultimately, approval to fill even that one position was deferred as a result of the implementation of a "freeze" on authorized but unfilled positions throughout the organization. Due to the District's continuing financial difficulties, as well as the ongoing position freeze, I elected not to include a request for additional staffing in the Audit Department's budget for fiscal year 1992-93.

In considering the Audit Department's personnel needs for the current fiscal year, the Assistant Auditor and I concluded that continuing to delay the addition of at least two auditors to our staff was not prudent. As we had indicated previously in 1991, the District's business activities have expanded significantly in recent years, thus increasing business risks and audit-related issues. Increases in construction activities, contracts and water

agreements, the use of consultants and the overall level of expenditures, as well as the advent of distributed information systems and the many new business applications running on those systems, have literally overwhelmed our department and its ability to respond effectively, or timely, to the audit issues arising from these areas. Accordingly, the department's work backlog has continued to increase and many areas of audit interest or concern have had to be postponed or ignored altogether. New activities arising from the District's recently developed Strategic Plan, such as productivity and business process changes only serve to exacerbate our current predicament.

In preparing for the 1993-94 budget process in late 1992, I submitted information to the Special Audit Committee concerning our staffing situation. At its December meeting, that committee endorsed our request to add two positions to the audit staff during fiscal 1993-94, and recommended to the Special Budget Committee that the request be approved during the budget process for such year. Subsequently, management decided not to seek an increase, for 1993-94 budget purposes, to the 2,166 personnel authorized by the 1992-93 budget. This strategy, which was adopted in the final 1993-94 budget, essentially means that the two new audit positions have to be provided from the General Manager Department's authorized positions since the Audit Department's table of organization was not increased in the budget document.

This audit staffing matter has been the subject of numerous discussions with the General Manager's office, as well as the Special Audit Committee, over the past several months, but remains unresolved at this time. Even though sufficient funds exist in the Audit Department's O&M budget this year for such personnel, I do not have the authority to hire staff in excess of the current authorization of eight positions (seven professional, one administrative) in the department's table of organization. Therefore, this letter seeks approval to increase that table of organization by two positions without regard to the existing District-wide personnel limit of 2,166.

With respect to the question of Audit Department staffing needs in the future, Assistant Auditor Lindhout and I are convinced that the need for a staffing level of ten will not decline over time. We also believe that additional permanent audit staff positions may be needed in future years based on District construction, financial and administrative activities or other factors. It may be possible to mitigate audit workloads to some extent by supplementing our permanent audit staff through selected outsourcing arrangements with independent auditors or consultants, particularly in areas which require some specialized expertise for a limited period of time. However, this strategy could be

relatively expensive and would require further evaluation as the circumstances dictate. The use of outsourced services will also require the restoration of the Audit Department's consulting budget, which has been eliminated in recent years as part of the District's overall austerity program. Outsourcing will also necessitate granting me the appropriate authority to enter into consultant agreements in a manner similar to the authority currently granted by the Board to its other department heads.

Board Committee Assignments

This letter is referred for action to:

The Special Audit Committee pursuant to Administrative Code Section 2561(a)(2) granting it authority regarding the Audit Department's annual budget.

The Organization and Personnel Committee pursuant to Administrative Code Section 2471(b) granting it authority regarding the Audit Department's organization.

Recommendation

SPECIAL AUDIT COMMITTEE AND ORGANIZATION AND PERSONNEL COMMITTEE FOR ACTION.

It is recommended that the two audit staff positions outlined in the Audit Department's budget for 1993-94 be authorized for inclusion in the Audit Department's table of organization without regard to the current District-wide personnel limit of 2,166 positions.


Michael W. Hondorp

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