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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-3

January 3, 1994

To: Board of Directors

From: Auditor

Subject: Audit Department Report for December 1993

I. Audit Reports

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

II. General and Administrative Matters

In addition to attendance at Board and Committee meetings, general and administrative matters addressed during December included the following:

- o The Assistant Auditor and I participated in one Executive Council meeting and a meeting of the Employee Guidebooks Task Force. I also participated in other staff meetings, including an Information Systems Steering Committee meeting and several meetings related to productivity matters.
- o In matters relating to the draft Strategic Plan, the Assistant Auditor and the Principal Auditor represented the Audit Department in meetings of the Division Action Plan Council and the Strategic Plan Integration Group. The Assistant Auditor also attended the initial meeting of the Productivity Measurement Team.
- o The Assistant Auditor attended the December 15, 1993, joint meeting of the State Water Contractors' Audit and Finance committees in Sacramento.

III. Completed Assignments

At month-end, a memo was issued to the Director of Finance outlining the results of our review of the Water Standby Charges for fiscal 1992-93, including several recommendations pertaining to accounting issues.

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

- o District Fraud Prevention and Security Policy. During the month, the Assistant Auditor and I held discussions with the General Counsel and Assistant General Counsel, respectively, to consider certain matters related to District policies regarding fraud prevention, detection, investigation, and prosecution.
- o Domenigoni Audit Survey/Project Scoping. During the month, the Assistant Auditor began initial planning for this assignment, which is intended to provide for review and documentation of general accounting and administrative controls that relate specifically to the Domenigoni Valley Reservoir Project. This assignment will also serve to identify and control specific financial, compliance, and contract audits related to the project which will be completed in the future. The Assistant Auditor and I met with a Principal Engineer from the Domenigoni Valley Reservoir Branch to discuss management concerns and identify potential contract audits which management may want us to address at the inception of this assignment.
- o Review of Water Conservation Agreement with CTSI Corporation. Little time was spent on this assignment in December due to the assigned auditor's other activities. Detailed testing of selected transactions pertaining to this agreement will commence in January.
- o Review of Santa Margarita Pipeline Project. During the month, the Principal Auditor and I met with Assistant General Manager Balcerzak to discuss the audit approach and the status of our previously requested information for this assignment. It is now expected that the requested information will be provided in early January and our detailed testing will then be commenced.
- o Review of Information Systems Development Costs. During the month, the Principal Auditor provided assistance to the Information Systems Division for implementation of our recommendations pertaining to the Phase Zero Program efforts.
- o Review of the Draft Official Statement for the Water Revenue Refunding Bonds, 1993 Series C. Audit work on this assignment was suspended in November pending receipt of a revised draft of the Preliminary Official Statement from the Finance Division once market conditions improve.

- o Monitor Landscape Conservation Programs. During the month, the assigned auditor continued his survey work and preliminary planning on this assignment. Detailed testing will commence when the preliminary planning work is completed.
- o Observation of Physical Inventory of Office products and Stationary Stock Items at the Commerce Warehouse. At the request of the Assistant Director of Administrative Services Division, the Principal Auditor and a financial auditor attended a planning meeting with various staff to discuss audit requirements for physical inventory of office products and stationary stock items stored at the Commerce Warehouse facilities. These items will be sold to a vendor who will provide the items as needed under a "just-in-time" agreement in the future.

B. EDP Auditor Activities:

Both EDP auditors attended presentations by the finalist vendors for the ORACLE Financials and PeopleSoft Payroll/Human Resources RFPs.

Both EDP auditors attended a three-day training session and a two-day workshop focussing on project management standards and techniques. This training was initiated by Information Systems Division for Phase One project team members in anticipation of the upcoming Phase One development activities and the use of the newly acquired System Development methodology and tools.

The EDP auditors worked on the following matters during December:

- o Disaster Recovery Testing. During the month, an EDP auditor participated with Information Systems Division staff in a test of datacenter recovery procedures at IBM's business recovery center in Santa Monica.
- o Expense Claim System. During December, the assigned EDP auditor met with staff from Finance Division and Information Systems Division to obtain information about the loss of data from this application earlier this year.
- o Monitor Development of Treasurer's Branch Information Management System (IMS). The assigned EDP auditor provided assistance to the project team during the user acceptance testing phase of this project.

- o Power Billing System. The assigned EDP auditor participated in a status meeting of this project and provided input relating to the proposed project schedule.
- o Integrated Computerized Maintenance Management System (ICMMS). As part of the preliminary planning phase of this assignment, an EDP auditor requested various documents from the Operations Division pertaining to this project. A memo concerning potential audit issues was prepared and submitted to the Assistant Chief of Operations at month end.

C. Recurring Assignments:

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

- o Review of Federal Single Audit Act Compliance for the years ended June 30, 1993 and 1994.
- o Review of the Draft Annual Financial Report--Fiscal Year Ended June 30, 1993. Comments were provided to the finance staff on various drafts of the Annual Financial Report in December.
- o Review of the 1994-95 Annual Budget.

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.
- o Monthly Review of Selected Disbursements, Including Drafts
- 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, I transmitted KPMG Peat Marwick's annual management letter to the Special Audit Committee. In addition, the audit staff completed their assistance to KPMG Peat Marwick personnel in the examination of the District's interim cash basis financial statements for the three months ended September 30, 1993. These statements will be transmitted to the Finance and Insurance and Special Audit Committees in early January.


Michael W. Hondorp

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