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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Harold E. Duff
EXECUTIVE SECRETARY

October 31, 1994

To: Board of Directors
From: Auditor
Subject: Audit Department Report for October 1994

I. Administrative and Other Matters

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

- o The Assistant Auditor and I participated in several meetings and conference calls involving District management and staff, other State Water Project (SWP) contractors, and Richardson and Company representatives in order to clarify and define the scope and objectives of the proposed audit of SWP Bay/Delta charges that was requested by the General Manager in September. A letter on this subject will be submitted to the Special Audit Committee in early November.
- o The Assistant Auditor and the Principal Auditor attended a meeting with District staff and representatives from the U.S. Bureau of Reclamation to discuss federal grant management and reporting procedures associated with the local water conservation projects which are being co-funded by Metropolitan and the U.S. Bureau of Reclamation.
- o The Assistant Auditor and I met with Department of Water and Power's Chief Financial Officer and Director of Internal Audit to discuss internal audit organization, policies, and procedures.
- o I met with Acting Chief Financial Officer Becker to discuss his request for an audit of the District's deferred compensation and savings plans.
- o I met with Special Audit Committee Chairman Frahm to review various matters pertaining to future meetings of the Special Audit Committee.
- o The Assistant Auditor and I met with Deputy General Manager Horne to discuss a variety of topics, including Audit Work Plan priorities, the draft Fraud Policy, and the Auditor's reporting process.

- o The Assistant Auditor and I met with representatives of the Planning and Resources Division to discuss the preliminary results of their assessment of the Seasonal Storage Service program. We made certain suggestions for staff's consideration and requested that we be advised of the final results of staff's efforts in the matter.

II. Completed Assignments

The following audit report was issued to the Special Audit Committee on an assignment which was completed during October:

- o Review of Certain Ultra Low-flow Toilet Program Agreements, dated October 5, 1994.

The following assignment was completed which did not require the issuance of a formal report:

- o Compliance with Minimum Fund Requirements at December 31, 1993, and June 30, 1994.

III. Assignments in Progress

A. Nonrecurring Assignments:

- o Review of Just-in-Time Purchasing Pilot Program. The assigned auditor is continuing to monitor the implementation of various Just-in-Time purchase/delivery programs as time permits.
- o District Fraud Policy. At month-end, we were awaiting a revised draft fraud policy document. A draft of this policy document, in the form of a General Instruction, is expected to be submitted for consideration to the Special Audit Committee in December.
- o Monitor Landscape Conservation Programs. At month-end, this assignment was nearing completion and it is anticipated that a draft report will be circulated for staff comment during November.
- o Review of Completed Minor Capital Projects (Projects Costing Under \$250,000). During the month, the assigned auditor completed preliminary planning and evaluation procedures and commenced detail testing of selected capital projects. This assignment will continue in November.
- o Review of Agreements with Kosmont & Associates, Inc. The assigned auditor will continue his detailed compliance testing of the agreements in November.

- o Domenigoni Audit Project--Survey, Plan, and Monitor. During the month, the assigned auditor continued the development of a preliminary audit work plan for the Domenigoni Valley Reservoir Project. This assignment serves as the overall risk analysis assignment, and control for individual Domenigoni Valley Reservoir contract audits, which will be performed, over the next several years, throughout the term of reservoir construction.
- o Review of Automated Systems Development Costs. The assigned auditor completed the preliminary planning and survey work and commenced the detailed testing. This assignment is being performed to review the costs of selected information systems development projects, including various Phase One Projects.
- o Monitor Inventory of Operating Equipment. During the month, the assigned auditor commenced the preliminary and planning phase in order to monitor the physical inventory of operating equipment which is being conducted by an outside vendor in late October and early November. The reconciled inventory results will be used to provide the initial data input for the new Fixed Assets/Asset Tracking System that is currently under development as part of the Information Systems Phase One Program.

B. Information Systems Auditor Activities:

The Information Systems (IS) auditors worked on the following matters during October:

- o Phase One--Material Management System. During the month, the assigned IS auditor attended project team meetings and met with consultant programmers to discuss the controls over the file and data conversion process for the Oracle Material Management implementation.
- o Phase One--Human Resources Management System. The assigned IS auditor met with the project leaders over the status of this project and reviewed project documentation.
- o Phase One--Fixed Assets/Asset Tracking System. During October, the Principal Auditor and an IS auditor continued to provide input on system integration testing and system interfaces.

- o Phase One--Program Office. The IS auditors requested interface information from the Program Office in order to assess the status of the various interfaces among all Phase One Projects, as well as with other non-Phase One systems and applications.
- o Phase One--Chart of Accounts/General Ledger Implementation. The Assistant Auditor and the assigned IS auditor participated in a meeting of the Finance Application Project Steering Committee. The IS auditor continued to participate in the conference room pilot phase of the General Ledger implementation project, where various transactions were tested for the purpose of prototyping the new Chart of Accounts structure. In addition, the IS auditor met several project team members to discuss some of the open issues pertaining to various project deliverables and projected task completion.
- o New Water Information System (WINS). The assigned IS auditor met with the project team and provided his comments on a draft of the Project Plan.
- o Strategic Operations and Maintenance Management System (SOMMS). The assigned IS auditor attended a Project Steering Committee meeting.

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, 1994 and 1995.
- o Review of the 1994-95 Water Standby Charges--Accounting/Collections/Refunds.
- o Review of the Draft Annual Report, Including Comprehensive Annual Financial Report (CAFR)--Fiscal Year June 30, 1994.

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).
- o Monthly Review of Financial Reports.

D. Assistance to External Auditors:

The audited comparative accrual basis financial statements for the year ended June 30, 1994, were finalized and transmitted to all directors during October. Planning work pertaining to the review of the District's cash basis statements, as of and for the three months ended September 30, 1994, was commenced and audit staff assistance for that review will begin in November. At month-end, we were awaiting the preliminary draft of the external auditors' annual letter to management in connection with the recently completed audit of the 1993-94 financial statements.


Michael W. Hondorp

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