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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUL 11 1995

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[Signature]
EXECUTIVE SECRETARY

June 1, 1995

To: Board of Directors
From: Auditor
Subject: Audit Department Report for May 1995

This report highlights significant activities or accomplishments of the Audit Department during May 1995. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

Significant administrative effort was provided in support of the May 16 Special Audit Committee. I presented the Audit Department's proposed budget for fiscal 1995-96 to the Special Budget Committee in early May. I also issued my response, dated May 9, 1995, to KPMG Peat Marwick's April 7, 1995, report on their comparative analysis of Metropolitan's Audit Department to audit functions of other similar agencies, utilities and organizations. The KPMG comparative survey report and the March 1995 report by the Institute of Internal Auditors' on their Quality Assurance Review of the Audit Department, together with my response letters to both of those reports, remain as pending discussion items for the Special Audit Committee's next meeting on July 18.

Based on discussions with Deputy General Manager Wiley Horne, a divisional Audit Work Group (AWG), consisting of several senior Metropolitan staff, has been formed to provide input into the development of the fiscal 1995-96 Audit Work Plan. The initial meeting of the AWG was held on May 11, and two additional meetings have been scheduled during June. Plans are underway to develop a proposed Audit Work Plan for joint presentation by the General Manager and myself to the Special Audit Committee at the July 18 meeting. In connection with this effort, a facilitated audit staff workshop was also held on May 12 to begin developing a more formalized audit universe and risk analysis process.

In response to a telephone request from the State Auditor's office, I provided their staff with copies of the District's June 30, 1993, Single Audit Act Reports, which were issued by KPMG Peat Marwick in June 1994. I also responded to various questions from their staff about the Audit Department's activities. The information that was requested

pertains to Senator Ayala's request in April to the Joint Legislative Audit Committee for an audit of Metropolitan's activities by the State Auditor.

During May, a new Deputy Auditor III was hired to fill a vacancy which has existed since late February. The successful candidate, James Lassen, is a CPA who previously was employed in the audit department of Southern California Edison Company. Mr. Lassen will start his District employment on June 5.

We completed our assistance to KPMG Peat Marwick in their examination of the District's interim cash basis financial statements as of March 31, 1995. Their report on that audit will be transmitted to the Special Audit Committee and the Finance and Insurance Committee in early June. In addition, two other audit assignments were also completed during the month, and detailed memoranda reporting our results were issued to various District management and staff. Those assignments were (1) our review of the District's annual Central Stores physical inventory process, and (2) our annual audit of project costs incurred by the Santa Ana Watershed Project Authority for operation of the Arlington Basin Groundwater Desalter Project. Summary reports on both of these audits were issued to the Special Audit Committee in late May. Work on a contract audit of the District's Savings Plans by KPMG Peat Marwick was nearing completion at month-end, and a report on that assignment will be finalized in June.

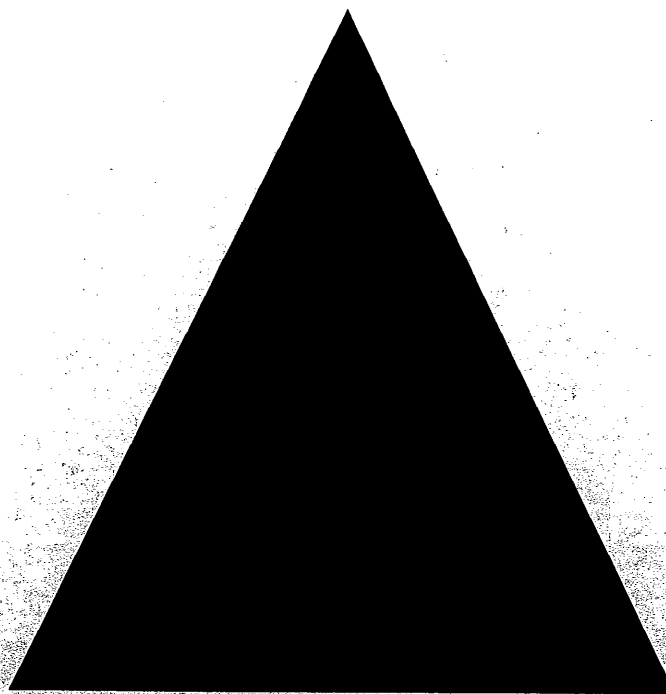
Michael W. Hondorp
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Attachment

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