

MAR 12 1996

9-3

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

*Dawn Chin*  
for EXECUTIVE SECRETARY

February 27, 1996

**To:** Board of Directors**From:** Auditor*Michael W. Honderge***SUBJECT:** Audit Department Report for February 1996**RECOMMENDATION**

---

For information only.

**DETAILED REPORT**

---

This report highlights significant activities or accomplishments of the Audit Department during February 1996. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

A contract audit pertaining to services to mitigate historic resources at the Eastside Reservoir Project Site was concluded in February and a summary report thereon was issued to the Special Audit Committee. A detailed memo outlining the results of this review, including auditor recommendations, was issued to appropriate management and staff during the month.

Administrative support was provided by various staff in preparation for the February 20 meeting of the Special Audit Committee. Work was commenced during the month on the department's personnel, operating equipment, and O&M budgets for fiscal 1996-97. An oral report on the department's budget was then provided to the Special Audit Committee on February 20. The District's Single Audit Reports for the fiscal year ended June 30, 1995, were received from KPMG Peat Marwick. These reports represent the final deliverables from the firm for its services for that audit year. The Single Audit Reports were transmitted to the Board and to various state and federal agencies in accordance with requirements specified by the Single Audit Act.

In recognition of the District's expanding involvement in the Internet, I attended an Internet conference for audit managers in early February. This conference focused on audit and control issues being faced by companies who are utilizing the "Net" to conduct their business activities. The 1995-96 Audit Work Plan includes an Internet Connectivity assignment which is being conducted by the department's information systems audit specialists.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Assist External Auditor -- Annual Audit	Assist KPMG Peat Marwick in the audit of the accrual basis financial statements as of June 30, 1995.	Assignment completed. The Single Audit Reports for fiscal year 1994-95 were issued by KPMG Peat Marwick in mid-February. All deliverables from the external audit firm for fiscal year 1994-95 have now been received.	The Single Audit Reports were transmitted to the Board and various state and federal agencies.
March 1996 Central Stores Inventory	Test the accuracy of the March 1996 comprehensive physical inventory of District stores warehouses.	Continued to monitor Finance and Administrative Services Divisions' planning process for completion of the March 1996 Central Stores Physical Inventory.	
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	Commenced detailed testing of costs for the Phase One, SOMMS & WINS projects. This assignment is expected to be completed in March.	
Review of Water Revenue Refunding Bonds, 1996 Series B	Review drafts of text and tables of the Preliminary Official Statement/Official Statement related to the planned refunding of the 1978 and 1991 revenue bonds; issue "comfort letter" to underwriters.	Commenced review of draft of Official Statement for the Series B Refunding Bonds. This work will result in the issuance of "comfort letters" to the Underwriters at month-end..	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	

41018

ACTIVITIES IN PROGRESS

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Operating Equipment System/Reengineering	Assist staff as needed, including participation on Steering Committee, in reengineering efforts related to the District's operating equipment policies and procedures.	The Assistant Auditor and Principal Auditor met with project staff and their consultant and participated in Steering Committee meetings.	
Materials Usage Audit	Test controls over the transfer and recording of materials from stores warehouses to construction projects or other uses.	The staff auditor in charge met with the Acting Director of Administrative Services and discussed audit objectives and audit approach. Detailed testing commenced in late February.	

Contract Audits/Vendor Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Eastside Reservoir Project	Document controls over Eastside Reservoir Project (ERP); develop plan to ensure adequate audit coverage of ERP in future years; perform audits of selected ERP contracts.	Preliminary survey and planning procedures were completed for our review of Contract No. 1440 with Kiewit Pacific Co. A detailed report on our review of Agreement No. 3772 with Greenwood & Associates was completed and issued to management.	The Auditor's summary report on our review of Agreement No. 3772, dated February 22, 1996, was issued to the Special Audit Committee.
Mills Plant Expansion No. 2	Monitor contract costs and controls over construction activities related to the Mills Plant Expansion No. 2	Continued detail testing of contracts and District costs. This audit is expected to be completed in March.	
IID/MWD Water Conservation Program - Year Ended 12/31/95	Review and test MWD/IID compliance with water conservation agreements and compile relevant financial data.	The planning process for this assignment commenced during the month.	

81078

**ACTIVITIES IN PROGRESS**

<b>Operational Audits/Program Reviews</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
Review Ultra-Low-Flush Toilet Program - Phase III	Review CTSI Corporation's management of Phase III of the non-rebate program and MWD's administration of the program.	Participated in meetings with staff from the Offices of the General Manager and General Counsel departments to resolve issues identified during our audit of the Phase III Program which was completed in January.	A presentation on the results of this audit and management's subsequent activities was provided to the Special Audit Committee in closed session on February 20.
Monitor Ultra-Low-Flush Rebate Toilet Programs	Review status of Ultra-Low-Flush rebate program by reviewing compliance with related agreements and evaluating program controls.	Detailed testing of selected agreements with member agencies has been delayed due to time requirements of other priority assignments.	

<b>Information Systems Audits</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
Post Implementation Review of ORACLE MMS	Perform a post implementation review of the ORACLE Material Management System.	The assigned auditors completed audit testing on purchasing vendors and invoices testing. Written audit findings and recommendations were then forwarded to management.	
Monitor District Local Area Networks (LAN)	Obtain information and documentation of Local Area Networks in order to assess controls and identify potential risks or other concerns.	The EDP auditors provided input to Information Systems regarding the new LAN Standards Manual to be published soon.	
Internet Connectivity	Review and document the extent of District connectivity to the Internet, and assess the adequacy of security policies and procedures established to protect District systems from unauthorized access by Internet users.	The auditors participated in the meetings for the MWD Internet Committee and the Internet Standards and Procedures Subcommittee. Staff commenced work on an Audit Department "Home Page" to be included in the District's Internet Web Site.	

41318

ACTIVITIES IN PROGRESS

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Preventive Maintenance System (SOMMS)	Monitor the development and implementation of the Strategic Operations and Maintenance Management System in accordance with the project plan.	The assigned EDP auditor participated in a Steering Committee meeting, where a demo of the SOMMS Pilot Project was presented.	
Minor EDP Assignments	Perform miscellaneous information systems reviews whenever required.	Continuing assignment.	

Other			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Administrative Assistance to Board/Management/ Staff	Provide advice and assistance to the Board, management or staff, and participate in meetings or other activities as required.	The Auditor and Assistant Auditor met with Special Audit Committee Chair Frahm in preparation for the Committee's February 20 meeting, and various staff provided administrative support for the meeting.	
Boulder Canyon Project Audit	Provide assistance, as needed, to MWD's representative on the Project Audit Committee.	Assignment completed. The Assistant Auditor attended the Contractors' Audit Committee meeting at which the final "Initial Audit" of the Boulder Canyon Project was presented by KPMG Peat Marwick.	A presentation on the Boulder Canyon Project "Initial Audit" was given to the Special Audit Committee on February 20, 1996.
Rideshare Program	Review the Rideshare Program, including Cal Plaza parking, to ensure that all reimbursements/subsidies are in accordance with established District policies and procedures.	Preliminary planning procedures were completed and detailed audit procedures commenced on this assignment, which is expected to be completed in April.	

41028

ACTIVITIES IN PROGRESS

Other			
Assignment Name	Description	Status or Estimated Completion	Significant Events
District Fraud Policy	Assist management in the implementation of fraud policy compliance procedures.	The Auditor and Assistant Auditor participated, along with the General Counsel, the Executive Assistant for Strategic Policy Development and the Supervisor, Special Projects, Security and Emergency Response, in a quarterly meeting of the General Manager's informal Fraud Review Committee.	A presentation on the operation of the District's Employee Hot Line was provided to the Special Audit Committee at their February 20 meeting.
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	

41018