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**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

*Dana Rubin*  
for EXECUTIVE SECRETARY

March 26, 1996

**To:** Board of Directors**From:** Auditor

*Michael W. Hendry*

**SUBJECT:** Audit Department Report for March 1996**RECOMMENDATION**

For information only.

**DETAILED REPORT**

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

An audit of the costs of Mills Plant Expansion No. 2 was completed during March with no significant exceptions noted. A detailed memo outlining the results of this review was issued to management and staff in late March and a summary memo on this assignment was issued to the Special Audit Committee.

Work was substantially completed in March by the department's information systems auditors on their post-implementation review of certain aspects of the District's integrated materials management systems. Detailed findings and recommendations from this review have been provided to management and staff periodically by the auditors during the course of their work over the past two months. A summary memo on this work was also prepared and submitted to management in late March. While the assignment is now essentially complete, the auditors will be reviewing future responses to their recommendations and assisting staff as necessary in related implementation matters.

A staff member completed work on a review of drafts of the Official Statement for the Water Revenue Refunding Bonds, 1996 Series A, and prepared the related "comfort letters" which will be issued by the Audit Department to the Underwriter by month-end.

Administrative matters handled during March included completion of the department's O&M Budget for fiscal 1996-97; development of a Board letter relating to a supplemental billing from KPMG Peat Marwick for extraordinary audit work during the fiscal 1994-95 year-end audit; and various personnel matters. During the month, two staff members went out on extended medical leaves, thus requiring immediate adjustments to some of the department's assignment priorities and work schedules. The future impacts of these unexpected staffing gaps are currently being evaluated.

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.	The Auditor met with the KPMG partner to review and discuss KPMG's supplemental billing for extraordinary work completed during the fiscal 1994-95 year-end audit.	The Auditor issued a Board letter dated March 19, 1996 re: KPMG's supplemental billing.
Assist External Auditor -- Quarterly Audits 1995-96	Assist KPMG Peat Marwick in the audits of the 1995-96 quarterly cash basis financial statements.	KPMG staff completed audit field work on the statements for the quarter ended 12/31/95. The financial statements are expected to be issued in early April.	
March 1996 Central Stores Inventory	Test the accuracy of the March 1996 comprehensive physical inventory of District stores warehouses.	Audit staff assisted the finance staff in preparing for the annual inventory process. An auditor also observed the conduct of the physical inventory and performed independent test counts. A review of the final inventory results will be completed in April.	
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	Completion of this assignment was deferred to April due to the illness of the assigned auditor.	
Review of Water Revenue Refunding Bonds, 1996 Series A	Review drafts of text and tables of the Preliminary Official Statement/Official Statement related to the planned refunding of the Waterworks Refunding Bonds, Issue of 1986; issue "comfort letter" to underwriters.	The assigned auditor completed review of drafts of the Official Statement for the Series A Refunding Bonds and prepared "comfort letters" for issuance to the Underwriter at month end.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	

**ACTIVITIES IN PROGRESS**

<b>Internal Controls/Compliance Reviews</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
April 1996 Operating Equipment Inventory	Test the accuracy of the April 1996 comprehensive physical inventory of District operating equipment.	The assigned auditor commenced the planning and survey phase of this assignment.	
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 the Principal Auditor attended the Steering Committee meeting held in early March. The information systems auditors commenced an assessment of the current status of the Asset Tracking System.	
Materials Usage Audit	Test controls over the transfer and recording of materials from stores warehouses to construction projects or other uses.	The assigned auditor completed field work and commenced report preparation at month-end.	

<b>Contract Audits/Vendor Reviews</b>			
<b>Assignment Name</b>	<b>Description</b>	<b>Status or Estimated Completion</b>	<b>Significant Events</b>
Mills Plant Expansion No. 2	Monitor contract costs and controls over construction activities related to the Mills Plant Expansion No. 2	This assignment was completed and a detailed report thereon was transmitted to management and staff at month-end.	The Auditor issued a summary report on this assignment to the Special Audit Committee.
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 was completed on this assignment during the month; field work is scheduled to be completed in early May.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Preliminary survey and planning procedures were commenced for our review of Agreement No. 4330 with CH2M Hill, Inc.	

**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.	The Principal Auditor continued to provide post-audit assistance to staff in an effort to resolve the audit issues raised.	
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.	Work on this assignment was deferred during the month due to other audit priorities.	

<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 Materiel Management System.	The assigned auditors substantially completed their audit testing. Written audit findings and recommendations were then forwarded to management and staff for review and comments.	
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 meetings of the MWD Internet Committee and the Internet Standards and Procedures Subcommittee.	
Minor EDP Assignments	Perform miscellaneous information systems reviews whenever required.	Continuing assignment.	

ACTIVITIES IN PROGRESS

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.	Continuing assignment.	
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.	Work on this assignment was suspended during the month due to the illness of the assigned auditor.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	