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of Southern California  
at its meeting held

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**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

JUL - 9 1996

June 25, 1996

*John Chen*  
EXECUTIVE SECRETARY

**To:** Board of Directors  
**From:** Auditor  
**SUBJECT:** Audit Department Report for June 1996

*Michael W. Anderson*

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## RECOMMENDATION

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For information only.

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## DETAILED REPORT

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

Assignments completed during June included a review of certain information systems development costs, a review of fiscal 1994-95 operating costs of the SAWPA Arlington Basin Groundwater Desalter Project, an audit of a consulting agreement with CH2M HILL-California, Inc., and a materials usage audit. Summary reports on these jobs were issued to the Special Audit Committee prior to June 30, 1996. Several other financial and compliance audit assignments were nearing completion at month-end and will be finalized in July.

The department's information systems auditors completed assignments during June to evaluate the adequacy of security and controls over access by outsiders to the District's information systems and data, including access via the Internet. A detailed report covering both of these assignments was issued to management and staff in early June. The information systems auditors spent much of the month reviewing the current status of the District's Local Area Networks. This assignment, which is a follow-up to one conducted in fiscal 1993-94, is expected to be completed in early July.

Administrative matters handled during June included discussions with management staff about the proposed Audit Work Plan for fiscal 1996-97, and preparation of the agenda and related materials for the Special Audit Committee's July 16, 1996, meeting. The Auditor also prepared a letter to the Board concerning renewal of the District's external audit services contract for years after fiscal 1995-96.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Water Inventory/Deferred Water Rights	Review the computations for water inventory and deferred water rights accounts for accuracy and compliance on a quarterly basis.	Completed the review for the quarter ended March 31, 1996.	
Automated Systems Development Costs	Test costs related to various systems development projects for reasonableness and compliance with established accounting policies.	This assignment was completed in June. A summary memo, dated June 5, 1996, was issued to management and staff.	The Auditor's summary report, dated June 5, 1996, was issued to the Special Audit Committee.
Inventory of Bearer Bonds; Records & Controls.	Follow-up on differences between Treasurer's records and bank records pertaining to exchange bearer bonds on hand.	This assignment was concluded in June. A summary memo, dated June 25, 1996, was issued to the Treasurer and Legal staff.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
April 1996 Operating Equipment Inventory	Test the accuracy of the April 1996 comprehensive physical inventory of District operating equipment.	Detailed testing of the final inventory results commenced in late June. This assignment will be completed in July.	
Arlington Desalter - FY 1994-95	Conduct an annual audit of project costs in accordance with the terms of the participation agreement.	This assignment was completed in June. A summary memo, dated June 21, 1996, was issued to management and staff.	The Auditor's summary report, dated June 21, 1996, was issued to the Special Audit Committee.

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ACTIVITIES IN PROGRESS

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Materials Usage Audit	Test controls over the transfer and recording of materials from stores warehouses to construction projects or other uses.	This assignment was completed in June. A summary memorandum, dated June 25, 1996, was issued to management and staff.	The Auditor's summary report, dated June 25, 1996, was issued to the Special Audit Committee.

Contract Audits/Vendor Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	Detailed memoranda summarizing the preliminary results of our review were issued to staff during the month. A summary report will be issued to the Special Audit Committee in early July.	
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Field work on our review of Agreement No. 4701 with Chien & Associates commenced during the month. This assignment is expected to be completed in July. The review of Agreement No. 4330 with CH2M HILL-California, Inc. was completed during the month. A detailed report memorandum, dated June 10, 1996, was issued to management and staff.	The Auditor's summary report on the review of the Agreement No. 4330, dated June 20, 1996, was issued to the Special Audit Committee.
Monitor Inland Feeder Project	Monitor contract costs and controls over construction activities related to the Inland Feeder Project.	Preliminary planning and survey procedures for the overall Project were completed in June. Preliminary planning also commenced for a review of Agreement No. 4531 with Daniel, Mann, Johnson, & Mendenhall.	

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ACTIVITIES IN PROGRESS

Contract Audits/Vendor Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Monitor Owner-Controlled Insurance Program-- Eastside Reservoir Project	Monitor administrative controls and financial cost/benefit information related to new owner-controlled insurance program for the Eastside Reservoir Project.	Monitoring procedures for fiscal year 1995-96 activities were concluded in June.	
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.	A detailed draft report was transmitted to staff for review and comment in June pertaining to our review of Contract No. 1440 with Kiewit Pacific Co. A final report will be issued in July.	

Operational Audits/Program Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Early Retirement Program	Review compliance with 1994 Early Retirement Program guidelines, and review cost savings realized during initial 18 months of the program.	Testing continued in June as time permitted. The assignment will be completed, and a summary memorandum will be issued on the work performed in July.	

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
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.	This assignment was completed and a report, dated June 7, 1996, summarizing review results and recommendations, was distributed by the Auditor to management and staff.	

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ACTIVITIES IN PROGRESS

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Review Controls over Information Systems Access by Outsiders	Evaluate risks and controls over remote access by outsiders to MWD's information systems and data.	This assignment was completed and a report, dated June 7, 1996, summarizing review results and recommendations, was distributed by the Auditor to management and staff.	
Monitor District Local Area Networks	Review the District Local Area Networks to determine the adequacy of audit and security controls over LAN userids and passwords, access lists, server components and LAN applications.	Review procedures and audit testing were initiated and were substantially completed during the month. This assignment is expected to be completed in early July.	
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.	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.	Compliance testing continued during June, but delays were encountered in obtaining supporting documentation from staff. Detailed testing has been expanded to focus on current administrative procedures. This assignment is now expected to be completed in July.	
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	

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