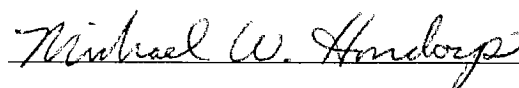


**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 24, 1996

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

RECOMMENDATION

For information only.

DETAILED REPORT

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

During September, staff completed most of their assistance to KPMG Peat Marwick pertaining to the audits of the District's financial statements for the fiscal year ended June 30, 1996. The audited accrual basis and cash basis statements were received from the external auditor and transmitted to the Board in late September. Additional work pertaining to the external auditors' annual Letter to Management and the required Single Audit Reports will be completed during October.

No audit reports were issued during September, although the department's information systems auditors were drafting a report at month-end pertaining to their post-implementation review of the Oracle general ledger system. That report will be issued to management and staff in early October. As indicated in the attachment to this letter, a number of other audit assignments are in varying stages of completion.

Administrative matters handled in September included the completion of the new five-year agreement for external audit services with KPMG Peat Marwick, as well as participation in several management meetings, the most notable being the two-day Executive Council strategic workshop in Irvine. Our recruiting efforts to fill the current Deputy Auditor III vacancy generated a large response of applicants and interviews with selected candidates are planned for early October.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly and Year-end Audits - FY 1995-96	Assist KPMG Peat Marwick in quarterly audits of interim cash basis financial statements and year-end audit of accrual basis financial statements for fiscal year 1995-96	KPMG completed most of the 1995-96 audit work and issued the audited accrual basis and cash basis financial statements. Work will continue in October to finalize the annual Letter to Management and the Single Audit Reports.	The Auditor transmitted the audited accrual basis and cash basis financial statements to the Board of Directors in September.
Quarterly Lobbying Reports	Review lobbying reports filed with the state quarterly and with the federal government semi-annually for accuracy and compliance.	Completed reviews of the state and federal reports for the period ended June 30, 1996.	
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	
Review of the 1997 Bond Issue	Review drafts of test and table of Preliminary Official Statement/Official Statement related to the planned issuance of District bonds in 1997.	Reviewed various drafts of the offering memoranda for the 1996 Commercial Paper Notes, and proposed Water Revenue Bonds, 1996 Series C.	

Contract Audits/Vendor Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Consulting Agreement Audits	Develop an ongoing plan for ongoing audits of consulting service agreements; conduct selected agreement audits.	Preliminary survey and planning procedures commenced for a review of Agreement No. 3624 with Fay Tech Services to provide temporary technical employees to the Engineering Division.	
Monitor Inland Feeder Project	Monitor contract costs and controls over construction activities related to the Inland Feeder Project.	Detail testing continued during the month on a review of Agreement No. 4531 with Daniel, Mann, Johnson, & Mendenhall. Preliminary planning and survey procedures commenced on a review of Agreement No. 4532 with Bechtel Corporation. Bechtel has contracted to provide geological and geotechnical consulting services to the District for the San Bernardino Mountains segment of the Inland Feeder Project.	

ACTIVITIES IN PROGRESS

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.	Field work on our review of Contract No. 1438 with Advanco Constructors was substantially completed. A detailed report will be transmitted to management and staff in October.	

Operational Audits/ Program Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Bulk Fuels Usage and Accounting	Review controls over the recording and reporting of fuel usage at various District facilities	Commenced planning and survey work this assignment to identify potential District sites for detailed review.	
Monitor Ultra Low Flush Rebate Toilet Programs	Review status of Ultra-Low-Flow program by reviewing compliance with related agreements and evaluating program controls.	Work was halted for several months on this assignment at staff's request due to the recent reorganization of the program. During this time, the audit scope was reevaluated and revised as appropriate. Detailed testing is now scheduled to commence by late October.	

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
ADM Plus Software Testing	Installation and testing of an off-the-shelf software package for managing audit department activities.	Program testing and user training were completed in September. The timekeeping and time reporting features of the new system are now fully operational.	

ACTIVITIES IN PROGRESS

Information Systems Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Post-Implementation Review of Travel Expense Accounting System (TERS)	Perform post-implementation testing to ensure that controls are adequate and output is authorized, complete, accurate, secure and reliable.	Preliminary survey and planning procedures were performed during the month. The staff auditor in charge of this assignment also met with various staff from the Finance and Business Services Division discuss the scope and objectives of this review.	
Post Implementation Review of Oracle General Ledger	Perform post-implementation testing to ensure that controls are adequate and output is authorized, complete, accurate, secure and reliable.	This assignment was substantially completed in September and a draft audit report was prepared for staff review and comment.	
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 assignments include Special Audit Committee Support, Board and Committee Activities, Executive Council and Operating & Organizational Review Committee participation. Also, includes participation in the Information Technology Committee and the Steering Committee for Policies and Procedures of Consulting and Professional Services Agreements.	The Auditor and Assistant Auditor attended a two day Executive Council workshop to discuss challenges and strategies to deal with them.
Surname or Review Contracts	Review drafts of contracts, certain Board letters and other relevant matters prior to their completion.	Continuing assignment.	
Monthly Cash Counts / Payroll Check Disbursements	Test a sampling of payroll check disbursements at various locations; review and test selected petty cash funds to ensure controls are adequate and funds are completely and accurately recorded.	Distributed payroll checks and auto-deposit stubs for selected employees at La Verne, and tested one petty cash fund at that facility. No exceptions were noted during this testing.	