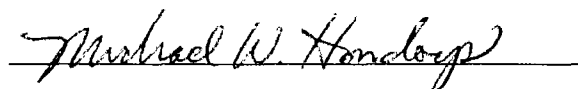


**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 18, 1996

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

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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 December 1996. Transmitted as an attachment is a listing of audit assignments for which staff effort was expended during the month.

During December, the audit staff completed its assistance to KPMG Peat Marwick's staff in conducting the audit of the District's cash basis financial statements for the three-month period ended September 30, 1996. Upon their issuance by the external auditor, the audited financial statements were transmitted to the Board of Directors and management.

A staff member completed our recurring annual assignment to review drafts of the District's Annual Financial Report and Comprehensive Annual Financial Report for accuracy prior to their publication. In addition, our review of drafts of the Official Statement for the \$377,500,000 of Water Revenue Bonds, 1996 Series C, was completed and the related "comfort letters" were issued by the Audit Department to the Representative of the Underwriters pursuant to the purchase contract for that bond issue.

At month-end, work was nearly complete on a consultant contract audit and post-implementation information systems reviews pertaining to the District's new Travel Expense Reporting System and Human Resources Management System, respectively, were also nearing completion.

In addition to providing administrative support for the Special Audit Committee's meeting on December 3, the Auditor and Assistant Auditor attended a half day Executive Council Legislative Update. A new staff member, David Reukema, joined the department as a Deputy Auditor III on December 16. Efforts are continuing with the assistance of Human Resources Division staff to recruit a qualified temporary employee to fill the remaining vacant staff auditor position.

Attachment

ACTIVITIES IN PROGRESS

Financial Audits			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Quarterly and Year-end Audits - FY 1996-97	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 1996-97	The audit staff completed their assistance to KPMG on the cash basis statements for the quarter ended September 30, 1996. Planning for future 1996-97 audits was also conducted.	The Auditor transmitted the audited cash basis financial statements to the Board of Directors in December.
Quarterly Lobbying Reports	Review lobbying reports filed with the state quarterly and with the federal government semi-annually for accuracy and compliance.	A review of the state lobbying report for the period ended September 30, 1996, was completed.	
Annual Financial Report and CAFR	Review the format and content, including text, tables and schedules, of the FY 1995-96 Annual Financial Report and Comprehensive Annual Financial Report.	The review of drafts of the Annual Financial Report and Comprehensive Annual Financial Report was completed during the month.	
Relationship of Integrated Resources, Capital Improvement and Long Range Finance Plans and Rate Refinement Process	Perform a review of assumptions, financial data and projections used in the IRP, CIP and LRFPP documents and rate refinement process for consistency and reasonableness.	Limited planning procedures were conducted on this assignment as time permitted.	
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.	A review of drafts of the Official Statement for the District's Water Revenue Bonds, 1996 Series C was completed	Comfort letters, dated November 27 and December 18, 1996, were issued to the Underwriters of the bonds. The Auditor's summary report, dated December 18, 1996, was issued to the Special Audit Committee.
Minor Financial Reviews and Contingencies	Perform miscellaneous reviews of financial areas whenever required in the circumstances.	Continuing assignment.	

ACTIVITIES IN PROGRESS

Internal Controls/Compliance Reviews			
Assignment Name	Description	Status or Estimated Completion	Significant Events
Overall Internal Control Assessment Project	Evaluate District's internal control environment in light of framework recommendations contained in COSO Report (Treadway Commission Recommendations Response).	Efforts in December focused on the issuance of the new Operating Policy entitled "Use of Computer Resources."	

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.	A review of Agreement No. 3624 with Fay Tech Services was substantially completed at month end. A report summarizing findings and recommendations will be issued to staff and management in January 1997.	
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 planning was completed and detailed testing commenced on a review of District incurred costs for the Eastside Reservoir Project.	
CAL-FED Category III Agreement Compliance	Review selected MWD Category III contracts arising from the December 15, 1994, CAL-FED Agreement for compliance with contractual terms.	Preliminary planning procedures were commenced during December.	

ACTIVITIES IN PROGRESS

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	Detailed testing will commence in January.	

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.	A draft report on this review, including our findings and recommendations, was issued to staff for their review and comment. The final report will be issued in January.	
Post Implementation Review of People Soft Human Resources Management System	Perform post-implementation testing to ensure that controls are adequate and output is authorized, complete, accurate, secure and reliable.	Several Audit Observation Sheets outlining control issues noted during this review, were distributed and discussed with staff. This assignment will be completed in January.	
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 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, the Steering Committee for Policies and Procedures of Consulting and Professional Services Agreements and assistance to the Legal Department pertaining to the District's litigation against CTSI.	
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.	Payroll checks and auto-deposit stubs were distributed to selected employees at the Jensen Filtration Plant and one petty cash fund was tested at the facility. No exceptions were noted during this testing.	