



# Metropolitan Water District of Southern California

## Audit Plan

June 23, 2025



## FY 2024-25 Audit Plan:

We are pleased to present our audit plan to the Metropolitan Water District of Southern California for the fiscal year ended June 30, 2025. This document provides an overview of the external audits and new accounting standards that may impact Metropolitan.

We appreciate the opportunity to meet with you to discuss the audit plan, especially as a two-way dialogue can provide valuable information for the audit process. We look forward to working with you!



Fiscal Year 2024-25 Audit Plan

## Communication, Scope of Services and Deliverables

# Communication, Scope of Services and Deliverables

## Communications at Planning

- Our Responsibilities
- Planned Scope and Timing of the Audit

## Communications at Conclusion of the Audit

- Any violation of laws or regulations that come to our attention
- Our views relating to qualitative aspects of Metropolitan's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures
- Significant difficulties and/or disagreements with management, if any, encountered during the audit
- Significant unusual transactions
- The potential effects of uncorrected misstatements on future-period financial statements
- Other significant matters relevant to your responsibilities

# Communication, Scope of Services and Deliverables

## **Communications with Audit Committee (Audit Committee Oversight-Best Practices)**

- Email dated 11/26/2024
- Follow up to questions raised at the 11/20/2024 Audit Subcommittee meeting

## **Documents Provided**

- Internal Audit Committee: Internal Audit Oversight by IIA (including handout)
- Six Recommendations for Audit Committees Operating in the “New Normal” by IIA and IFAC
- Model Audit Committee Charter by IIA

# Communication, Scope of Services and Deliverables, Continued

<b>Financial Statement Audits:</b>
(1) Metropolitan Water District of Southern California - Annual Comprehensive Financial Report
(2) Colorado River Authority – Statements of Cash Receipts and Disbursements
(3) Delta Conveyance Design and Construction Authority – Statements of Cash Receipts and Disbursements
(4) Six Agency Committee – Statements of Cash Receipts and Disbursements
<b>Single Audit under OMB Uniform Guidance</b>
(5) Audit of Federal grant expenditures exceeding \$750 thousand
<b>Other:</b>
(6) Management Letter/Report to the Board
<b>Potential Services:</b>
GASB 101 Assistance
GASB 102 Assistance

Fiscal Year 2024-25 Audit Plan

# Independent Auditor's and MWD Management's Responsibilities

# Independent Auditor's Responsibilities

- ✓ Exercising professional judgment and maintaining professional skepticism throughout the audit
- ✓ Assessing the risk of material misstatement of the financial statements, whether due to fraud or error, and designing audit procedures to respond to those risks
- ✓ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures (but not for expressing an opinion on the effectiveness)
- ✓ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management
- ✓ Concluding whether there are conditions or events that raise substantial doubt about Metropolitan's ability to continue as a going concern
- ✓ Reading other information and considering whether it is materially consistent with the financial statements
- ✓ Communicating with those charged with governance the planned scope and timing of the audit, significant audit findings, and certain internal-control related matters identified during the audit



# Management's Responsibilities

- ✓ Preparation and fair presentation of the financial statements in accordance with U.S. GAAP
- ✓ Designing, implementing, and maintaining effective internal control over financial reporting
- ✓ Informing us of its knowledge of any allegations for fraud or suspected fraud
- ✓ Evaluating whether there are conditions or events that raise substantial doubt about Metropolitan's ability to continue as a going concern
- ✓ Providing us with written representations



June 23, 2025

Special Audit Committee

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Fiscal Year 2024-25 Audit Plan

## Audit Timeline

# Audit Timeline

Activity	Apr	May-Jun	Jul	Aug-Sep	Oct	Nov	Dec
Periodic meetings and discussions with management and Sub-committee on Audits (as appropriate)	X	X	X	X	X	X	X
Gather information to develop audit strategy, and determine nature and scope of Testing	X	X					
Perform tests of controls over significant transaction cycles		X					
Conduct IT-specific audit procedures		X					
Substantive audit procedures		X		X	X		
Review the Trust draft financial reports and issue audit opinions					X		
Review draft annual comprehensive financial report and issue audit opinions					X	X	
Audit results presentation to the Audit Committee		X					X



Fiscal Year 2024-25 Audit Plan

# Audit Approach



# Financial Statement Audit Approach

## Planning

- Document understanding of internal and external factors affecting Metropolitan
- Understanding and evaluating Metropolitan's internal control environment, accounting systems and control procedures
- Perform risk assessment to determine the nature, timing and extent of audit procedures
- Complete audit plan, including audit procedures to address identified risks

## Execution

- Performance of audit procedures and evaluation of results
- Review of financial statements and subsequent events
- Obtain management representations
- Development of organizational insights

## Reporting

- Issue opinion on the Metropolitan's financial statements under U.S. generally accepted auditing standards and *Government Auditing Standards*
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Required communications at the conclusion of the audit
- Management comments and recommendations

# Significant Audit Areas

## Management Override of Controls

### Planned Response

- Inquiries of individuals
- Test a sample of journal entries using a targeted risk-based approach and data mining software
- Test of manual adjustments and topside entries

## Investments

### Planned Response

- Understand the segregation of duties over investing, recording, and reconciling
- Evaluate compliance with policies and State law
- Review documented approval of purchases and sales by authorized employees

## State Water Project/ Participation Rights

### Planned Response

- Test financial transactions related to participation right's, such as contributions, expenses and asset capitalization
- Identify risks and mitigation strategies associated with Metropolitan's participation in the State Water Project
- Verify water allocation and usage

# Significant Audit Areas, Continued

## Capital Projects

### Planned Response

- Identify significant capital projects and test significant transactions related to financial reporting and project management
- Substantiate capital asset costs by examining supporting documentation such as invoices, contracts and job status reports
- Select a sample of construction in progress (CIP) projects and determine if they properly classified as CIP, or if they should be reclassified as additions to capital assets

## Long-Term Liabilities

### Planned Response

- Identify any new long-term liabilities for FY 2024/25 and understand the nature and terms of the debt items
- Confirm significant long-term liability balances
- Review sample debt agreements and test compliance with loan covenants
- Evaluate disclosures, including terms, interest rates, maturities and arbitrage calculations

## Water Inventory

### Planned Response

- Assess the design and effectiveness of internal controls over measurement, reconciliation, and reporting
- Assess water inventory costing methodology
- Examine year-end water inventory calculations
- Perform analytical procedures and compare reported water inventory with prior periods
- Investigate significant fluctuations in unit cost

# Internal Audit Assistance

## Integrated into Audit Team

### Planning to Reporting

- Information technology general control testing
- Operational control assessment and testing
- Substantive procedures
- Report support

## Year-round Involvement

### Flexibility

- Scalable involvement from year to year
- Level and timing can be adjusted based on Metropolitan's available resources
- Agreement with management during planning

## Training

### Stay up-to-date

- Technical trainings
- Use of MGO audit tools



# Single Audit

## Planning

- Major programs for FY 2025:
  - ALN 15.504 – WaterSMART (Water and Energy Efficiency Grants)
  - ALN 15.507 – Water Reclamation and Reuse Program
- Review of grant agreements and policies
- Evaluate internal control design for each major program

## Execution

- Test internal controls over compliance for each major program
- Sample testing over eligible costs, matching requirements, reporting and subrecipient monitoring
- Compliance testing under Office of Management and Budget (OMB) 2 CFR Part 200

## Reporting

- Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance
- Schedule of Findings and Questioned Costs

# Upcoming GASB Pronouncement

The following pronouncement is effective and applicable to Metropolitan for FY 2024/25

## GASB 101

Compensated Absences

Effective for year end June 30, 2025

## GASB 102

Certain Risk Disclosures

Effective for year end June 30, 2025

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