THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Committee Item
INFORMATION

Audit Committee

12/8/2025 Committee Meeting

2A

Subject

General Auditor's Quarterly Report

Executive Summary

This item presents Audit Department activities during the past quarter, including progress on the audit plan and copies of the final reports issued.

Applicable Policy

Metropolitan Water District Administrative Code Section 6451(d)(2): Audit Department Charter

Details & Background

General Auditor's Quarterly Report

The first part of the report (**Attachment 1**) is provided in dashboard format and comprises these elements:

1. Status of audit plan projects.
2. Audit plan hours, planned and actual.
3. Audit plan project count, including additions and deletions.
4. Areas the current audits are covering.
5. Internal audit resource statistics, including use of contractors and professional licensing and certification.
6. Status of internal audit recommendations.
7. External quality assessment status.
8. Independence and objectivity impairments.
9. Current fiscal year department budget performance.
10. Key message points of interest.

The second part of the report (**Attachment 2**) breaks down the Audit Plan by project type (audit, advisory, Board request) and by project status (planned, in progress, completed), and includes project title details.

Final Reports Issued From July 1, 2025, to September 30, 2025

1. **First Follow-up Review: Bay Delta Leases** issued August 28, 2025 (**Attachment 3**)
   - Review's objective and scope were limited to management's corrective actions resulting from our audit recommendations as of June 30, 2024 (except as noted otherwise) for the three (3) audit recommendations made in the original audit Report on Bay Delta Leases, Audit No. 22-2402, dated November 30, 2021.
   - Status of the three (3) recommendations: three **In Process**.

2. **Cybersecurity Audit: Inventory & Control of IT Software Assets** issued September 30, 2025 (**Attachment 4**)
   - Audit's scope included software installed on Metropolitan's business network and managed by the Information Technology Group as of March 31, 2025.
   - Audit's objective was to determine whether all software on the network is actively managed (i.e., inventoried, tracked, and corrected) to reduce the risk of attack.
   - Three (3) recommendations with the following ratings: three **Priority 2**.

Attachment 1 – General Auditor's Quarterly Report FY 25-26 Q1

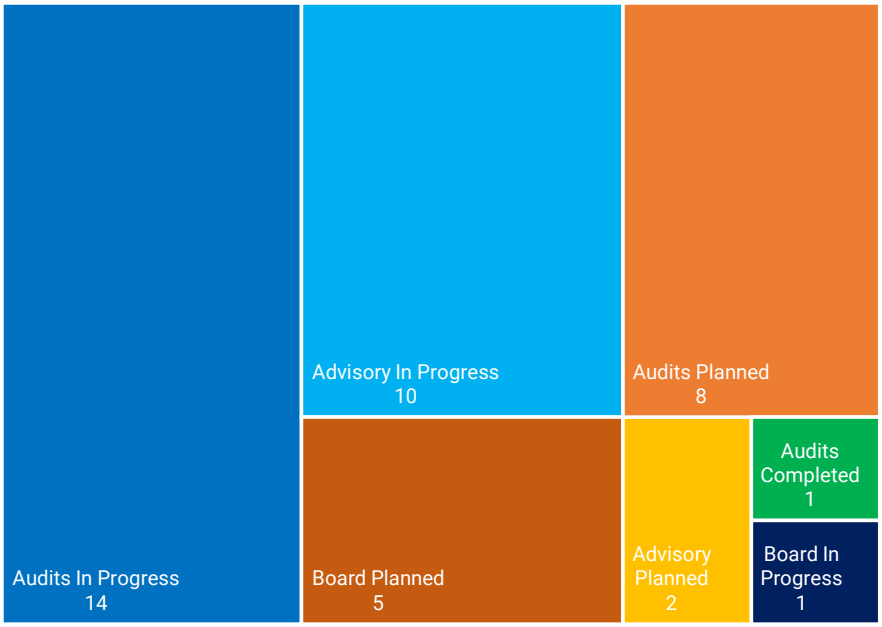
Attachment 2 – Project Status Report FY 25-26 Q1

Attachment 3 – First Follow-up Review: Bay Delta Leases

Attachment 4 – Cybersecurity Audit: Inventory & Control of IT Software Assets

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
OFFICE OF THE GENERAL AUDITOR
DASHBOARD AS OF SEPTEMBER 30, 2025

1 AUDIT PLAN STATUS - PROJECTS



2 AUDIT PLAN STATUS - HOURS

7/1/25 AUDIT PLAN	11,817
ADJUSTMENTS	1,040
ROLLING PLAN	12,857
ACTUAL HOURS	3,218
ESTIMATE TO COMPLETE	10,280
REQUIRED HOURS	13,498
HOURS AVAILABLE/(OVER)	(641)

3 AUDIT PLAN CHANGES

AUDIT PLAN PROJECTS - 7/1/25	30
ADDED Q1	
See key message points	12
DELETED Q1	
Reserves	(1)
TOTAL	41

4 CURRENT ASSURANCE COVERAGE/WORK IN PROGRESS

Administrative Services	Engineering Planning
Bay Delta	Information Technology
Centralized Grants & Research	Infrastructure Reliability
Conveyance & Distribution	Water Resource Implementation
Cybersecurity	

5 INTERNAL AUDIT RESOURCES

POSITIONS AUTHORIZED	14
VACANT	3
CONTRACTORS (INTERNAL AUDIT)	-
CERTIFIED PUBLIC ACCOUNTANTS	5
CERTIFIED INTERNAL AUDITORS	6
RESOURCE ADEQUACY	NO

6 OPEN RECOMMENDATIONS

	P1	P2	P3	OTHER	TOTAL
PRIOR FYS	7	18	17	64	106
NEW	0	0	3	NA	3
RESOLVED	0	0	0	(2)	(2)
CURRENT	7	18	20	62	107

7 QUALITY ASSURANCE & IMPROVEMENT

EXTERNAL QUALITY ASSESSMENT	DUE 2028

8 IMPAIRMENTS

INDEPENDENCE	NONE
OBJECTIVITY	NONE

9 FISCAL BUDGET

	BUDGET	ACTUAL	FY BUDGET	VARIANCE	%
$	1,446,944	895,903	5,421,600	551,041	38%

10 KEY MESSAGE POINTS

Resource adequacy is RE vacant audit manager position; collaborating w HRS to fill
Audit Plan changes include 12 projects projected to be completed last FY added back to Audit Plan
Follow-up reviews in progress will update open recommendations

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
OFFICE OF THE GENERAL AUDITOR
PROJECT STATUS AS OF SEPTEMBER 30, 2025

AUDITS	STATUS	TITLE
23	PLANNED 8	Power Market Operations (7) State Audit Monitoring (8) Recruiting Process (5) IT Governance (17) Security Contract (1) Enterprise Risk Management (2) P-Card Program (3) Contract Administration Program (4)
	IN PROGRESS 14	CRA Discharge Line Isolation Couplings Rehabilitation Project (15) PlanNet Consulting (17) 1CSR (18) Resource Experts (19) Oracle Enterprise Business Suite Security (22)(20) Project Controls & Reporting System (PCRS) (9) Real Property Business Management System (14) Bay Delta Disaster Preparedness (9) CRA Maintenance (10) Operations Audit: Sole Source Contracts (6) Pure Water State Funding Audit (12) Cybersecurity: Inventory & Control of Operational Technology Assets (18) Cybersecurity: Inventory & Control of SCADA Network Software Assets (16) CLCA Contract Compliance (11)
	COMPLETED 1	Cybersecurity: Inventory & Control of IT Software Assets (19)

ADVISORY	STATUS	TITLE
12	PLANNED 2	Safety Equipment Purchase Process (20) Governance Risk Compliance (GRC) Platform (22)
	IN PROGRESS 10	Board Expense Policy (26) WINS (25) METCON (24) PeopleSoft Time & Labor (29) Grants (23) Power Operations Risk Oversight Committee (29) Oracle Services Procurement (30) Enterprise Content Management System (26) Process Matters Efficiency Initiative (27) Deepfake Identity Awareness and Response (RR)

BOARD REQUESTS	STATUS	TITLE
6	PLANNED 5	MOUs - Third Parties Real Estate - Qualifications Conjunctive Use Affordability Knowledge Transfer
	IN PROGRESS 1	CRWUA Review (28)

Office of the General Auditor

First Follow-up Review: Bay Delta Leases

Project Number: 22-2402
August 28, 2025

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Executive Summary

BACKGROUND

The Office of the General Auditor completed an original audit of the accounting and administrative controls over Bay Delta Leases, which evaluated compliance with the Administrative Code, internal policies and procedures, and the terms and conditions of the lease agreements. The audit report was dated November 30, 2021, with a generally satisfactory rating and three (3) recommendations regarding compliance with insurance requirements, incorporation of the credit check processes into Operating Policies and desktop procedures, and improving database accuracy within the lease tracking system utilized by Real Property. In November 2023, we sent a follow-up form to management requesting the implementation status of our recommendations. In February 2024, management reported that one of three recommendations had an alternative implemented, and two had been partially implemented. In April 2024, management communicated that one of the partially implemented recommendations had been fully implemented. Based on this update, we initiated our follow-up review.

WHAT WE DID

Our review's objective and scope were limited to management's corrective actions resulting from our audit recommendations as of June 30, 2024 (except as noted otherwise) for the three (3) audit recommendations made in the original audit Report on Bay Delta Leases, Audit No. 22-2402, dated November 30, 2021.

WHAT WE CONCLUDED

Management is in the process of implementing the three (3) recommendations.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: August 28, 2025

To: Audit Committee

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: First Follow-Up Review: Bay Delta Leases
(Project Number 22-2402)

This report presents the results of our first follow-up review of Bay Delta Leases as of June 30, 2024, original Audit No. 22-2402, dated November 30, 2021.

Our first follow-up review concluded that the Office of Sustainability, Resilience, & Innovation is in the process of implementing our three (3) recommendations regarding compliance with insurance requirements, incorporating credit check processes into Operating Policies and desktop procedures, and improving database accuracy within the lease tracking system. We will conduct a second follow-up review approximately six months from the date of this report to review the implementation status of the three (3) recommendations.

We appreciate the cooperation and courtesies provided by the Land Management Unit.

If you have any questions regarding our review, please do not hesitate to contact me directly at 213.217.6528 or Assistant General Auditor Kathryn Andrus at 213.217.7213.

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
Sustainability, Resilience, & Innovation Distribution
External Auditor

RESULTS

RECOMMENDATIONS & CURRENT STATUS

1 Insurance Requirements

Insurance for lessees should be maintained to protect Metropolitan from liability.

Recommendation 1
We recommend that management maintain documentation of compliance with all lease terms and conditions.

Non-compliance with established terms and conditions of the agreement could result in financial losses to Metropolitan due to claims.

Current Status
In Process.
Property Management implemented a process for the appropriate tracking and monitoring of Certificates of Insurance (COI) requirements related to leases in Flairdocs, the new real property management system implemented in spring 2023. We reviewed lessee-submitted COIs for the five Bay Delta leases and noted that one of the lessees did not maintain adequate workers' compensation insurance.

2 Credit Policy

Documenting policies and procedures is essential to ensure accurate communication and understanding by staff.

Recommendation 2
We recommend that management incorporate the credit check processes into Operating Policies and desktop procedures.

Failure to incorporate credit check criteria into procedures could result in late or lost revenue.

Current Status
In Process.
Management now maintains the lessee credit check screening criteria on a server for staff to access, but has not updated the policy and procedure manual to include the credit criteria. The procedure manual is still in process as of July 2, 2025 and is expected to be completed by spring 2026.

3 Database Accuracy

Data accuracy is crucial for management to assess operations and make informed decisions.

Inaccurate lease data could lead to mismanagement of the lease, missed renewal dates, or missed termination dates.

Recommendation 3

We recommend that management develop written procedures to ensure the REPortfolio[1] data is accurate and to conduct periodic reviews to ensure compliance.

Current Status

In Process.

We compared the lease expiration data between the signed lease agreement and the data entered in the real property management system for the five Bay Delta leases and noted that one of the five agreements reflected an incorrect lease expiration date. The expiration date is stored in two different fields in Flairdocs. The current validation/review process of system data did not detect the incorrect information. Following our communication regarding the date difference with management, management indicated that the input error was corrected.

We also noted that management has not completed updated written procedures for data entry and review. As noted above, management expects the policy and procedure manual to be completed by spring 2026.

To facilitate the implementation of our recommendation, management should consult with the Flairdocs system vendor to determine why lease expiration dates are stored in two separate fields and assess whether both are necessary. Based on the assessment, management should ensure that only one authoritative lease expiration date is maintained in the system, or more clearly define the purpose of the secondary date and train staff on its use.

[1] REPortfolio was replaced with Flairdocs in spring 2023.

AUDIT TEAM

Kathryn Andrus, CPA, CIA, Assistant General Auditor
Chris Gutierrez, CPA, CIA, Program Manager

APPENDIX A: IMPLEMENTATION STATUS DEFINITIONS

Professional internal auditing standards require internal auditors to confirm that management has implemented internal audit recommendations. The Office of the General Auditor has established follow-up reviews as part of its service portfolio to assess the implementation status of each recommendation from original audits.

Management is required to report recommendation implementation status to our office within six months following the issuance of the original audit report, and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within one year of the original audit report. If necessary, a second follow-up review will occur approximately six months after issuing the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Committee at its next meeting.

To facilitate our follow-up reviews, we developed a classification system that rates actions taken by management to implement our recommendations.

IMPLEMENTATION STATUS	
IMPLEMENTED	Management has fully implemented our recommendation, as verified by the follow-up review. No further follow-up is to occur.
IN PROCESS	Management has partially implemented our recommendation. Additional follow-up will occur upon implementation of the remaining actions.
NOT IMPLEMENTED	Management has yet to take action to implement our recommendation. Additional follow-up to occur.
CLOSED	The recommendation has not been implemented, and no further follow-up review will occur due to one of the following conditions: 1. Alternative Action Taken: Management took corrective action that differed from our recommendation. The corrective action sufficiently mitigates the risks associated with the recommendation. 2. No Longer Applicable: Circumstances have changed, and the observation/recommendation is no longer applicable. 3. Risk Assumed: Management has accepted the risk of not implementing or partially implementing our recommendation. The Board of Directors has been apprised of the status. 4. Other: Current status was discussed with the Board, and while our recommendation has been partially implemented, the Board requested no additional follow-up review.

Office of the General Auditor

Cybersecurity Audit: Inventory & Control of IT Software Assets

Project Number: 23-35
September 30, 2025

PUBLIC INFORMATION

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PUBLIC INFORMATION

Executive Summary

BACKGROUND

The Center for Internet Security (CIS) is a community-driven nonprofit that has developed the CIS Controls and CIS Benchmarks, which are globally recognized best practices for securing IT systems and data. Its mission is "to make the connected world a safer place by developing, validating, and promoting timely best practice solutions that help people, businesses, and governments protect themselves against pervasive cyber threats." Organizations can implement the CIS Critical Security Controls (CIS Controls), a set of 18 controls with detailed safeguards, to improve their cybersecurity posture.

One of these controls is the Inventory and Control of Software Assets, which requires organizations to actively inventory, track, and manage all software installed across their networks. This control ensures that only authorized software can execute, while unauthorized or unmanaged software is detected and prevented from installation or use.

WHAT WE DID

Our audit scope included software installed on Metropolitan's business network and managed by the Information Technology Group as of March 31, 2025.

Our audit objective was to determine whether all software on the network is actively managed (i.e., inventoried, tracked, and corrected) to reduce the risk of attack.

WHAT WE CONCLUDED

[REDACTED]

WHAT WE RECOMMEND

[REDACTED]

Management agreed with our observations and recommendations.

Information has been removed from this Executive Summary as it contains an assessment of Metropolitan's vulnerability to terrorist attack or other criminal acts intended to disrupt Metropolitan's operation and is for distribution or consideration in a closed session and not subject to the California Public Record Act pursuant to Government Code Section 7929.200.

NUMBER OF RECOMMENDATIONS

0	**PRIORITY 1** Response time: Immediate	
3	**PRIORITY 2** Response time: Within 90 days	
0	**PRIORITY 3** Response time: Within 180 days	

PUBLIC INFORMATION

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: September 30, 2025

To: Audit Committee

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: Cybersecurity Audit: Inventory & Control of IT Software Assets (Project Number 23-35)

We have completed a cybersecurity audit of inventory and control of IT software assets for the Information Technology Group.

Due to the sensitive nature of the critical infrastructure information, details of our observations and recommendations were shared with select members of the Board and management in a separate confidential report not subject to public release.

Supplemental information, including our scope and objectives, is included in Appendix A. Appendix B includes a description of our new recommendation priority rating system.

We appreciate the courtesies and cooperation provided by the Information Technology Group.

The results in this report will be summarized for inclusion in a status report to the Board. If you have any questions regarding our audit, please do not hesitate to contact me directly at 213.217.6528 or Assistant General Auditor Kathryn Andrus at 213.217.7213.

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
External Affairs Distribution
Information Technology Group Distribution
External Auditor

PUBLIC INFORMATION

RESULTS

The Recognition, Results Overview, and Observations & Recommendations sections have been removed from this report as they contain an assessment of Metropolitan's vulnerability to terrorist attack or other criminal acts intended to disrupt Metropolitan's operation and are for distribution or consideration in a closed session and not subject to the California Public Records Act pursuant to Government Code Section 7929.200.

EVALUATION OF MANAGEMENT'S RESPONSE

Internal Audit considers management's response appropriate to the recommendations.

AUDIT TEAM

Sherman Hung, CISA, Principal Auditor

APPENDIX A: SUPPLEMENTAL INFORMATION

SCOPE & OBJECTIVES

Our audit scope included software managed by the Information Technology Group and installed on Metropolitan's business network as of March 31, 2025.

Our audit objective was to determine whether all software on the network is actively managed (i.e., inventoried, tracked, and corrected) to reduce the risk of attack.

EXCLUSIONS

Our audit scope did not include the software/application systems that are on SCADA networks or are under development.

PRIOR AUDIT COVERAGE

We have not completed any audits with a similar scope within the last five years.

AUTHORITY

We performed this audit in accordance with the General Auditor's Internal Audit Plan for FY 2024/25 approved by the Board.

PROFESSIONAL INTERNAL AUDIT STANDARDS

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

FOLLOW-UP REVIEWS

The Office of the General Auditor has implemented a new follow-up process to ensure management has effectively implemented corrective action related to our recommendations. Management is required to report recommendation implementation status to our office within six months following the issuance of this report, and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within a year of this report, and if necessary, a second follow-up review will occur approximately six months after issuance of the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Committee at its next scheduled meeting.

INTERNAL CONTROL SYSTEM

An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by the Metropolitan management and seek to provide reasonable (not absolute) assurance that Metropolitan's business objectives will be achieved. However, limitations are inherent in any internal control system, no matter how well designed, implemented, or operated. Because of these limitations, errors or irregularities may occur and may not be detected.

Specific examples of limitations include, but are not limited to, poor judgment, carelessness, management override, or collusion. Accordingly, our audit would not necessarily identify all internal control weaknesses or resultant conditions affecting operations, reporting, or compliance. Additionally, our audit covers a point in time and may not be representative of a future period due to changes within Metropolitan and/or external changes impacting Metropolitan.

METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

It is important to note that Metropolitan management is responsible for designing, implementing, and operating a system of internal control. The objectives of internal controls are to provide reasonable assurance as to the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of established goals and objectives. In fulfilling this responsibility, management judgment is required to assess the expected benefits and related costs of internal control policy and procedures and to assess whether those policies and procedures can be expected to achieve Metropolitan's operational, reporting, and compliance objectives.

APPENDIX B: PRIORITY RATING DEFINITIONS

The Office of the General Auditor utilizes a priority rating system to provide management a measure of urgency in addressing the identified conditions and associated risks. We assess the significance of each observation identified during the audit using professional judgment and assign priority ratings to each recommendation using the criteria listed below. Factors taken into consideration in assessing the priority include the likelihood of a negative impact if not addressed, the significance of the potential impact, and how quickly a negative impact could occur.

	PRIORITY		
Definition	Observation is *serious* enough to warrant *immediate* corrective action. The condition may represent a serious financial, operational, or compliance risk. A priority 1 recommendation may result from a key control(s) being absent, not adequately designed, or not operating effectively.	Observation is of a *significant* nature and warrants *prompt* corrective action. It may represent a moderate financial, operational, or compliance risk. A priority 2 recommendation may result from a process or less critical control(s) not being adequate in design and/or not operating effectively on a consistent basis.	Observation involves an internal control issue or compliance lapse that can be corrected in the *timely* course of normal business. A priority 3 recommendation may result from a process or control that requires enhancement to better support Metropolitan's objectives and manage risk.
Response Time	Immediate	Within 90 Days of report issuance	Within 180 Days of report issuance

PUBLIC INFORMATION

APPENDIX C: MANAGEMENT'S RESPONSE

The Management Response has been removed from this report as it contains an assessment of Metropolitan's vulnerability to terrorist attack or other criminal acts intended to disrupt Metropolitan's operation and is for distribution or consideration in a closed session and not subject to the California Public Records Act pursuant to Government Code Section 7929.200.