Office of the General Auditor

- **General Auditor's Report for July 2025 – REVISED**

Summary

This report highlights significant activities of the Office of the General Auditor for the month ended July 31, 2025.

Purpose

Informational

Attachments

One report was issued during this period:

1. First Follow-up Review: Travel & Employee Expense Reports

Detailed Report

Audit & Advisory Projects

Twenty-five projects are in progress:

- Seven audit projects are in the report preparation phase.
    - o One preliminary draft issued in June is pending management concurrence (Cybersecurity Audit: Software Asset Inventory & Control).
    - o No management responses are outstanding.
- Seventeen projects are in the execution phase, including eight audits and nine advisories.
- One advisory project is in the planning phase (Deepfake Preparedness).

Work priority is being given to the seven carry-forward audits.

Follow-Up Reviews

Thirteen audits are in the follow-up phase:

- One preliminary draft report was issued: First Follow-up Review: Bay Delta Leases
- Seven follow-up reviews are in progress.
- Five follow-up reviews have not been started.

No follow-up review forms are overdue.

Date of Report: August 19, 2025

<u>Other General Auditor Activities</u>

1. **Senior Audit Manager Recruitment**
   Completed. An offer for employment was extended and accepted with an August 4, 2025 start date.

2. **External Resources RFQ**
   The period for accepting submittals for the specialty internal audit services RFQ has closed; evaluation of the submittals is pending.

3. **External Auditor Support**
   Assistance to external auditor Macias Gini & O'Connell LLP continues in accordance with their work plan.

4. **Global Internal Audit Standards**
   Evaluation and adoption of the updated standards issued by the Institute of Internal Auditors, effective January 9, 2025, is in progress. Board roles and responsibilities, per the Standards, are expected to be presented as an information item at the September meeting of the Audit Committee.

5. **Training**
   Staff attended Yellowbook's Audit Findings workshop and the Association of Certified Fraud Examiners' Grant Fraud 101 training.

Office of the General Auditor __

First Follow-up Review: Travel & Employee Expense Reports

Project Number: 20-7244
July 31, 2025

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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Executive Summary

BACKGROUND

The Office of the General Auditor completed an original audit of the accounting and administrative controls over the Travel Expense Reports and iExpense Module that reviewed employee expense reports for compliance with Metropolitan policy, including the propriety of expenditures, appropriate review and approval, and submission timeliness. We also assessed user security access controls and disaster recovery preparedness. The audit report was issued with a less-than-satisfactory rating and three (3) recommendations regarding compliance with expense report policies and procedures. In October 2023, we sent a follow-up form to management requesting the implementation status of our recommendations. In January 2024, management reported that two had been implemented and one was in process.

WHAT WE DID

Our review objective and scope were limited to management's corrective actions resulting from our audit recommendations as of September 30, 2024 (except as noted otherwise) for the three (3) audit recommendations made in the original audit, Report on Travel Expense Reports and the iExpense Module of the Oracle Enterprise Business Suite, Audit No. 20-7244, dated June 1, 2021.

WHAT WE CONCLUDED

Management has implemented two recommendations, and one recommendation has not been implemented.

During our review, we noted several ancillary observations for improvement. While these ancillary observations do not require a management response and will not facilitate further follow-up on the implementation of the original observation, we will consider these items in the scope of a future audit.

RECOMMENDATION STATUS

2	0	1	0
IMPLEMENTED	IN PROCESS	NOT IMPLEMENTED	CLOSED

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: July 31, 2025

To: Audit Committee

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

Subject: First Follow-Up Review: Travel & Employee Expense Reports
                 (Project Number 20-7244)

This report presents the results of our first follow-up review of travel and employee expense reports as of September 30, 2024 (except as noted), original Audit No. 20-7244, dated June 1, 2021.

The follow-up review concluded that the Finance & Administration Group implemented two of the three recommendations. Our recommendation regarding aligning and consolidating the Administrative Code, the travel guide, and related operating policies has not been implemented.

During this follow-up review, we noted several ancillary opportunities for improvement, which have been communicated to management and included herein under the Results section. We will conduct a second follow-up review approximately six months from the date of this report to review the implementation status of the remaining open recommendation. We will not follow up on ancillary recommendations as part of this follow-up, but they will be considered for inclusion in a future audit.

We appreciate the courtesies and cooperation provided by the Finance & Administration Group.

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
        Finance & Administration Group Distribution
        External Auditor

RESULTS

RECOMMENDATIONS & CURRENT STATUS

1 Compliance with Policies and Procedures

Compliance with established policies and procedures is necessary to safeguard Metropolitan property and protect against abuse, theft, and waste.

Failure to comply with policies and procedures could result in financial losses to Metropolitan due to unauthorized, invalid, or erroneous transactions.

Recommendation 1

We recommend that management remind personnel of the importance of compliance with established procedures. These steps should provide staff with a sufficient understanding of control procedures and explain their purpose.

Current Status

Implemented.

We reviewed 30 expense items submitted through the employee expense reimbursement process for January and May 2024 and determined:

(1) Paid expense reimbursement requests had appropriate documentation, including proper justification. The Finance & Admininstration Group made the justification field mandatory in the iExpense module. Additionally, emails were sent by the accounting staff requesting more supporting documents and sufficient documentation, if necessary.

(2) When personal credit cards were used to pay for business expenses of the district, the accounting staff sent emails reminding the employee and manager that the P-card should be used whenever possible and permissible.

(3) Cash advances were properly pre-approved and justified.

During the Quarterly Finance Meetings, management has also communicated that reimbursement for expenses incurred on personal credit cards, such as materials and supplies, when a district P-card is available, would be disallowed.

Based on the actions taken by management, we consider this recommendation implemented.

Ancillary Opportunity for Improvement 1

During our review, we noted the following observation ancillary to the scope of the follow-up review.

- <u>Pre-approval and Justification for Business Expenses Incurred on Personal Credit Card</u>

The original audit report noted that expense report reimbursements occurred for purchases that should have been acquired using a P-card. In this follow-up review, we also noted that for four out of 30 (13%) submitted expense items, employees were reimbursed for purchases of business supplies and materials on personal credit cards without justification and prior approval. In all instances in the follow-up sample, we noted that accounting personnel sent emails reminding employees and their managers that the P-Card should be used whenever possible and allowable. However, these instances indicate a need to strengthen accountability and adherence to established district policies and procedures.

As part of management's effort to align and consolidate the Administrative Code, the travel guide, and employee reimbursement policy, which is still underway, we recommend that management incorporate clear guidance on the prohibition of using personal credit cards for district business expenses unless pre-approved, in accordance with the district's procurement, P-card policies and procedures, and industry best practices.

2 Periodic Reviews

Periodic reviews ensure that policies and procedures are adhered to and that proper controls are carried out as planned.

Failure to properly review expense reports could result in financial losses to Metropolitan due to unauthorized, invalid, or erroneous transactions.

Recommendation 2

We recommend that management conduct periodic reviews to ensure compliance.

Current Status

Implemented.

We reviewed 30 expense items submitted through the employee expense reimbursement process for January and May 2024 and related documentation. We determined that expense reimbursements were properly reviewed and approved in accordance with existing policy and procedures.

During several Quarterly Finance meetings, management reminded managers of their expense reimbursement request review and approval responsibilities.

Accounts Payable personnel are systematically unable to process payment for a submitted expense reimbursement until all approvals required in Oracle have occurred. Accounts Payable now reviews each submission for appropriateness of the expense and sufficiency of the support. If any non-compliance items are noted, Accounts Payable sends a detailed email to the employee with a cc to the employee's supervisor/manager.

Based on the actions taken by management, we consider this recommendation implemented.

Ancillary Opportunity for Improvement 2
During our review, we noted the following observation ancillary to the scope of the follow-up review.

- Direct Report Team – Expense Report Approvals

Several of the Direct Report Team members' (General Manager, General Auditor, General Counsel, and the Ethics Officer) expense reports were approved by their subordinates.

Administrative Code §6331(c) states that department heads' expense reports shall be *verified* as accurate by their respective executive secretaries. Existing operating policies and the travel guide do not explicitly state who should *approve* the expense reimbursement requests for executives and department heads. Without such direction, some department heads have interpreted the current language as meaning their executive assistants can approve their expense reports. However, due to their reporting relationship and/or fear of retaliation, a subordinate may not question their supervisor's expense reports. Unallowed expenses may be incurred and paid, resulting in the district's financial loss.

We recommend revising the Administrative Code and implementing policies and procedures that explicitly state who should review Direct Report Team members' expense reports for claim accuracy and who should approve their travel and business expenses. To ensure proper segregation of duties, we recommend the Finance & Administration Group propose revisions to Administrative Code §6331(c) to clarify that the expense report should be approved by a manager one level above the employee being reimbursed and that the Direct Report Team expense reports be approved by either the Board Chair or their designee (e.g., Board Secretary, Board Executive Officer).

Accounting has communicated that they are working on incorporating the above recommended changes into policy. In the meantime, Accounting has indicated they have implemented proper segregation of duties in the review and approval of Direct Report Team expense reports. Specifically, for department heads, expense approvals are done by the Board Chair or an assigned designee.

3 Consolidation and Alignment of Metropolitan Requirements, Policies, and Procedures

Expense reimbursement requirements, policies, and procedures should be documented for efficient and effective understanding.

Inefficient or ineffective travel reimbursement guidelines may lead to confusion and improper approval of expenses.

Recommendation 3
We recommend that management consolidate the regulations, policies, and procedures for expense reimbursements.

Current Status
Not Implemented.
Accounting responded that this will be a long-term effort as these guidelines are affected by MOUs, which are subject to the bargaining process. Changes to the Administrative Code, Operating Policies, and travel guide have to go through approvals from different groups within Metropolitan and, in some cases, the bargaining units as well.

As no action has been taken, we consider this recommendation not implemented. We will assess the implementation status of this recommendation in a second follow-up review.

AUDIT TEAM

Kathryn Andrus, CPA, CIA, Assistant General Auditor
Chris Gutierrez, CPA, CIA, Program Manager - Audit
Andrew Lin, CPA, CIA, CIGA, Principal Auditor

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. <u>Alternative Action Taken</u>: Management took corrective action that differed from our recommendation. The corrective action sufficiently mitigates the risks associated with the observation. 2. <u>No Longer Applicable</u>: Circumstances have changed, and the observation/recommendation is no longer applicable. 3. <u>Risk Assumed</u>: Management has accepted the risk of not implementing or partially implementing our recommendation. The Board of Directors has been apprised of the status. 4. <u>Other:</u> Current status was discussed with the Board, and while our recommendation has been partially implemented, the Board requested no additional follow-up review.