THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Report

Office of the General Auditor

- **General Auditor's Report for June 2026**

Summary

This report highlights significant activities of the Office of the General Auditor for the month ended June 30, 2026.

Purpose

Informational

Attachments

Two final reports were issued during this period:

1. First & Final Follow-up Review: Dam Rehabilitation & Safety Program
2. First Follow-up Review: Minor Capital Projects Program

Detailed Report

Audit & Advisory Projects

One final Advisory Services memo was issued. See Report Details below.

Twenty projects are in progress:

- Seven audit projects are in the report preparation phase.
  - Two collaboration draft reports were issued:
    - Operational Audit: Real Property Business Management System; draft report issuance expected in July.
    - CRA Discharge Line Isolation Couplings Rehabilitation Project Assessment; final memo issuance expected in July.
  - Two draft reports were issued:
    - Cybersecurity Audit: Inventory & Control of Operational Technology Software Assets; final report issuance expected in July.
    - Contract Audit: ResourceXperts Inc.; final report issuance expected in July.
  - Operational Audit: Project Controls and Reporting System: collaboration draft report issued in April, collaboration with management is ongoing, and draft report issuance is expected in July.
- Thirteen projects are in the execution phase, including five audits and eight advisories.
- Work continues on the remaining two carryforward projects (down two from last month); one collaboration draft report is expected in July and the second is expected in September. (FY 2025/26 Business Plan 1.A)

Date of Report: July 14, 2026

Follow-up Reviews

Twelve projects are in the follow-up phase:

- Six follow-up reviews are in progress.
- Six follow-up reviews have not been started.

Report Details

1. **Advisory Services: Process Matters**
   - Internal Audit served in an advisory capacity, providing internal audit expertise and assisting with various project tasks.
2. **First & Final Follow-up Review: Dam Rehabilitation & Safety Program**
   - Scope was limited to management's corrective actions as of December 31, 2024 (except as noted otherwise).
   - Management **implemented the four (4) recommendations**, closing out the original audit.
3. **First Follow-up Review: Minor Capital Projects Program**
   - Scope was limited to management's corrective actions as of September 30, 2025.
   - Status of four (4) recommendations: **three (3) Implemented**, **one (1) In Process**.

Other General Auditor Activities & Outlook

1. **Global Internal Audit Standards**
   Completed. Audit Charter (Administrative Code Section 6451) revisions necessitated by updates to professional internal auditing standards in 2025, were approved by the Audit Committee on June 8 and the Board on June 9. (FY 2025/26 Business Plan 4.B)

2. **Annual Audit Plan**
   Completed. The General Auditor's Internal Audit Plan for FY 2026/27 was approved by the Audit Committee on June 8 and the Board on June 9.

3. **FY 2026/27 Business Plan**
   The Department Head Operations Plan was submitted to the Executive Committee this month and a unified Business Plan will be prepared.

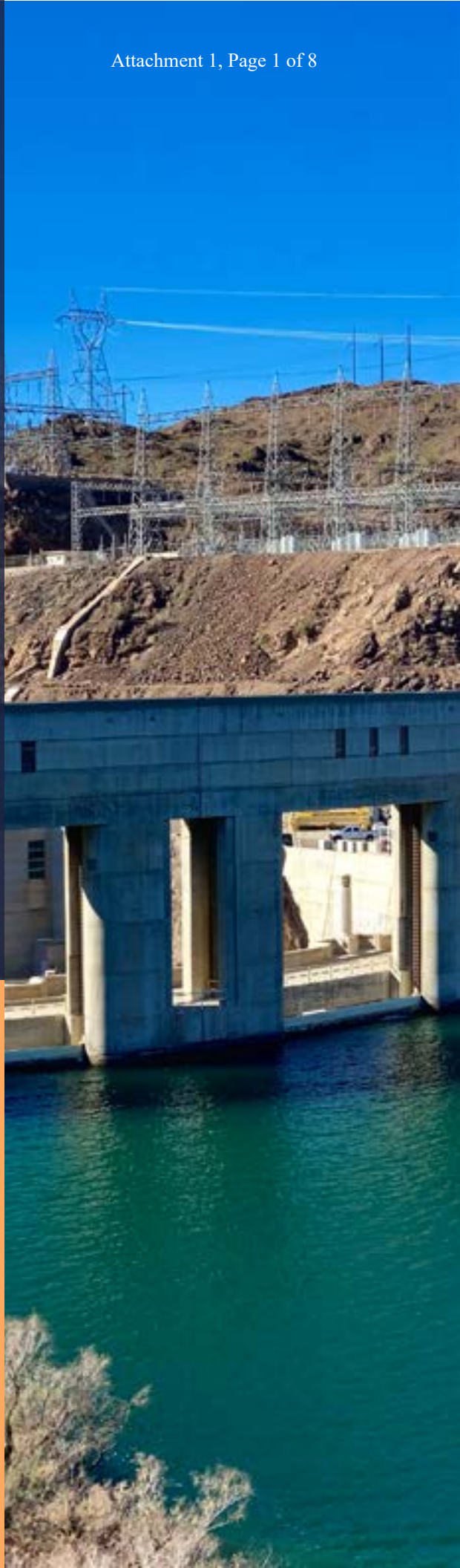
4. **External Audit RFP**
   Collaboration with Accounting and Contracting Services is in progress to issue an RFP for external audit services that includes the annual financial audit and the single audit. The RFP will be for the fiscal years ending June 30, 2027, 2028, 2029, and 2030.

5. **Audit Manager Position**
   Collaboration continues with Human Resources to revise the audit manager job description to complete the department's career ladder. (FY 2025/26 Business Plan 5.D)

6. **Training**
   Staff attended State and Local Government audit training, Auditing Skills and Techniques, and Metropolitan Management University. (FY 2025/26 Business Plan 5.B)

Office of the General Auditor

First & Final Follow-up Review: Dam Rehabilitation & Safety Program



Project Number: 19-2254
June 29, 2026

TABLE OF CONTENTS

Executive Summary

BACKGROUND

In July 2020, the Office of the General Auditor completed an original audit that reviewed two related dam inspection programs: one by the California Department of Water Resources Division of Safety of Dams (DSOD) and the other by the Metropolitan Safety of Dams (SOD) Team. The audit reviewed documentation associated with periodic inspections to ensure compliance with established schedules and timetables. The audit also assessed the completeness of documentation, reviewed final reports, and examined management's response to findings. Further, the audit evaluated invoices paid for dam rehabilitation projects for assurance that the amounts billed were valid, appropriately invoiced, and adequately supported.

The audit report was issued with a generally satisfactory rating but raised concerns about missing inspection reports, adherence to dam inspection schedules, and the lack of documented follow-up on corrective actions. It had four recommendations regarding the completion of SOD routine inspections; tracking, monitoring, and completing DSOD action items, including the vegetation and rodent control maintenance; policies and procedures on SOD operating practices; and compliance with the terms and conditions of the agreement with a consultant to provide an assessment of spillways and appurtenant dam structures at Lake Mathews and Lake Skinner.

In February 2024, management reported that the four (4) recommendations had been implemented. Based on this, we initiated our follow-up review on the implemented recommendations.

WHAT WE DID

Our review objective and scope were limited to assessing management's corrective actions, as of December 31, 2024 (except as noted otherwise), resulting from our four (4) audit recommendations made and accepted in the original audit, Report on Dam Rehabilitation and Safety Program, Audit No. 19-2254, dated July 29, 2020.

WHAT WE CONCLUDED

Management implemented the four (4) recommendations, which closes out the original audit.

As part of our review, we identified several ancillary opportunities for improvement, which we communicated to management and have included in the Results section. We will not follow up on ancillary recommendations, but these items will be considered during future risk assessment and audit planning.

RECOMMENDATION STATUS

4	0	0	0
IMPLEMENTED	IN PROCESS	NOT IMPLEMENTED	CLOSED

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June 29, 2026

To: Audit Committee

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

Subject: First & Final Follow-up Review: Dam Rehabilitation & Safety Program (Project Number 19-2254)

This report presents the results of our first and final follow-up review of the Dam Rehabilitation & Safety Program as of December 31, 2024, original Audit No. 19-2254, dated July 29, 2020.

Our follow-up review concluded that the Engineering Services Group implemented the four (4) recommendations. As all recommendations have been implemented, this report represents the final closeout of the original audit. Separately, the report includes some ancillary opportunities for improvement.

We appreciate the courtesies and cooperation provided by the Engineering Services Group.

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

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
Engineering Services Group Distribution
External Auditor

RESULTS

RECOMMENDATIONS & CURRENT STATUS

1 Safety of Dams (SOD) Routine Inspections

Inspection reports could not be located, inspections were not performed on schedule, and documentation of the resolution of findings was unclear.

Recommendation 1
We recommend management remind employees of the importance of compliance with established procedures and conduct periodic reviews to ensure compliance.

Completing inspections and maintaining documentation of inspection reports, findings, and corrective actions reduces the risk of regulatory fines and escalation of structural, operational, or environmental mitigation repair costs.

Current Status
Implemented.

As of December 31, 2023, all inspections and reports were completed at the frequency specified in the Guidelines for Maintenance of Metropolitan Dams. Action items were recorded and addressed appropriately.

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

2 California Division of Safety of Dams (DSOD) Action Items

Issue Tracker data was incomplete and contained repeat action items.

Recommendation 2
We recommend management:

(1) Establish procedures to track, monitor, and complete all DSOD action items. Additionally, these procedures should ensure that Instrumentation and Surveillance reports are completed on a timely basis.

(2) Consider a district-wide solution to drive efficiency and effectiveness for recurring findings, such as vegetation and rodent control.

Compliance with DSOD requirements reduces the risk of fines or financial losses due to non-compliance with regulatory requirements.

Current Status
Implemented.

(1) The Safety of Dams Team established the Guidelines for Maintenance of Metropolitan Dams in December 2021, and the Safety of Dams Inspection General Guidelines were initially published in January 2021 and updated in June 2022.

As of December 31, 2023, the Safety of Dams Team has been tracking and addressing DSOD action items and submitting the annual Instrumentation and Monitoring reports (formerly known as Instrumentation and Surveillance) to the DSOD in a timely manner.

(2) The team manages vegetation and rodent control as part of routine maintenance, on a site-by-site basis. Management determined that a district-wide solution was not feasible due to the unique needs of each site.

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

Ancillary Opportunity for Improvement 1

We selected 35 action items from 23 DSOD inspection reports for testing to ensure that they were addressed completely and on time. In the reports, there were inconsistencies in how vegetation and rodent issues were recorded in the action items spreadsheet. Six (17%) action items were not recorded, while six (17%) similar issues at different locations were recorded. The Guidelines for Maintenance of Metropolitan Dams do not specify whether maintenance-related items, such as vegetation and rodent issues, should be recorded as action items.

We recommend management update the Guidelines for Maintenance of Metropolitan Dams to provide guidelines on when vegetation and rodent maintenance issues should be included or excluded from the action item tracking process.

3 Policies and Procedures

Procedures for SOD practices were not completed.

Policies and procedures reduce the risk that daily operations are not performed consistently, new employees are improperly trained, and experienced personnel lack a reliable reference source.

Recommendation 3

We recommend the Safety of Dams Team management establish and document procedures that reflect Metropolitan operating practices and that align with DSOD requirements.

Current Status

Implemented.

Safety of Dams Team management established the Guidelines for Maintenance of Metropolitan Dams and the Safety of Dams Inspection General Guidelines to ensure compliance with DSOD requirements and conformance with industry standards. This document was implemented by the Engineering Services Group in January 2021 and was updated in June 2022.

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

4 Contract Compliance

The consultant was paid for a charge not in the contract fee schedule.

Complying with contract terms and conditions reduces the risk of financial loss to Metropolitan due to fraudulent, erroneous, or unauthorized transactions.

Recommendation 4
We recommend management remind staff and vendors of the importance of complying with agreement terms and conditions, and for management to perform periodic reviews to ensure compliance.

Current Status
Implemented.

The Safety of Dams Team attended the refresher training course on Task Order and Invoicing provided by the Engineering Services Group on January 23, 2024. Additionally, an invoice checklist was added to the invoice review to ensure compliance with contract terms and conditions.

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

Ancillary Opportunity for Improvement 2
During our review, we tested 4 of the 16 (25%) consultant invoices for work at Garvey Reservoir and Lake Skinner. One invoice included payment for the actual costs of mobilization and demobilization services. While management's corrective action plan addressed the recommendations identified in the original audit, management used a task order to add services, such as mobilization and demobilization, that were not included in the contract's scope of work. The Office of the General Counsel advised that a task order is not the correct method to modify the scope of work or to change payment terms and conditions (e.g., from time-and-materials to a lump-sum payment).

We recommend management consult with the Office of the General Counsel to ensure contract modifications are executed in compliance with applicable policies and contractual requirements.

AUDIT TEAM

Kathryn Andrus, CPA, CIA, Assistant General Auditor
Chris Gutierrez, CPA, CIA, Program Manager - Audit
Lina Tan, 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.

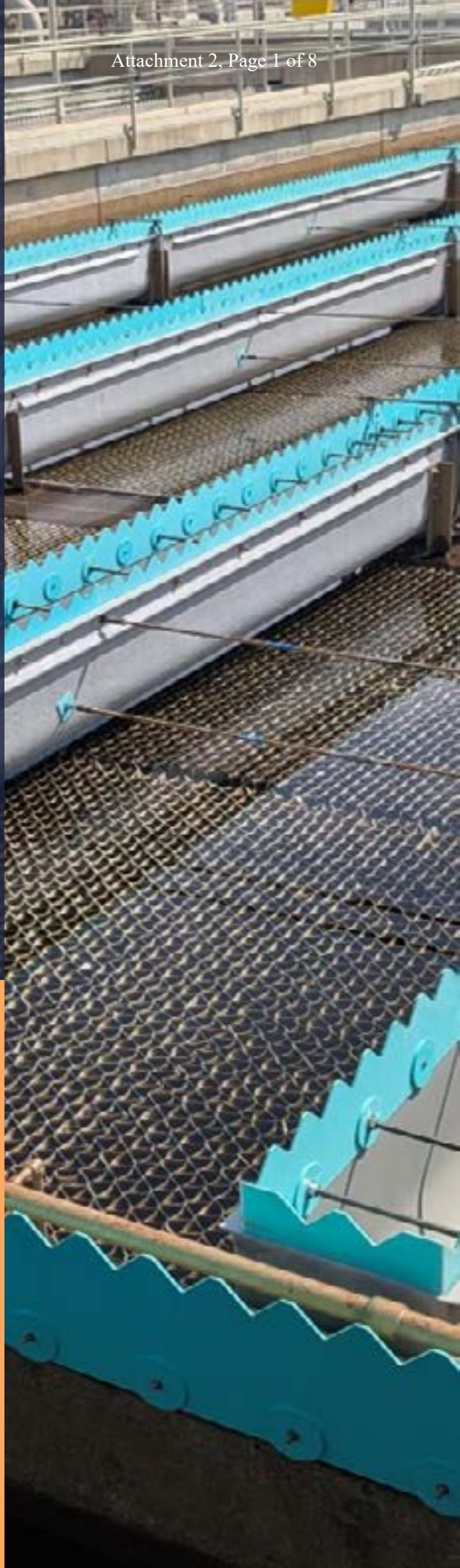
Management is required to report recommendation implementation status to our office within six months following the issuance of the original audit report. A first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within one year of the original audit 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

First Follow-up Review: Minor Capital Projects Program



Project Number: 20-2050
June 29, 2026

TABLE OF CONTENTS

Executive Summary

BACKGROUND

In July 2022, the Office of the General Auditor completed an original audit of the accounting and administrative controls over the Minor Capital Projects Program for FY 2016-17 through FY 2019-20. Metropolitan's Capital Investment Plan (CIP) includes a mix of capital projects to support Metropolitan's strategic plan and financial targets. CIP projects include the construction of new facilities or infrastructure, additions, upgrades, and the replacement and refurbishment of existing infrastructure, such as pipes, structures, equipment, and systems. To expedite smaller projects costing less than $400,000, and with implementation timeframes of no more than three years, Metropolitan implemented the Minor Capital Projects Program. Management can approve projects under this program without seeking additional Board approval.

The original audit report was issued with a generally satisfactory rating and four (4) recommendations regarding overtime approval, overtime monitoring, project management, and project reporting. Management agreed with all our recommendations.

In February 2024, management notified us that two (2) recommendations had been implemented, one (1) was partially implemented, and one (1) had an alternative implemented. Based on this, we initiated our follow-up review of the implemented recommendations.

WHAT WE DID

Our review objective and scope were limited to assessing management's corrective actions, as of September 30, 2025, resulting from our four (4) audit recommendations made and accepted in the original audit, Report on Minor Capital Projects Program, Audit No. 20-2050, dated July 29, 2022.

WHAT WE CONCLUDED

Management has implemented three (3) recommendations, and one (1) recommendation with an alternative implementation is in process.

RECOMMENDATION STATUS

3	1	0	0
IMPLEMENTED	IN PROCESS	NOT IMPLEMENTED	CLOSED

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June 29, 2026

To: Audit Committee

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

Subject: First Follow-up Review: Minor Capital Projects Program
(Project Number 20-2050)

This report presents the results of our first follow-up review of the Minor Capital Projects Program as of September 30, 2025, original Audit No. 20-2050, dated July 29, 2022.

Our review concluded that the Engineering Services Group implemented three of the four recommendations. The recommendation regarding overtime approval is in process.

We will conduct a second follow-up review approximately six months after the date of this report to review the implementation status of the open recommendation.

We appreciate the courtesies and cooperation provided by the Engineering Services Group.

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

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
Engineering Services Group Distribution
External Auditor

RESULTS

RECOMMENDATIONS & CURRENT STATUS

1 Overtime Approval

Pre-approval of non-emergency overtime was not consistently obtained.

Recommendation 1

We recommend management consider requiring Project Managers to pre-approve, in writing, non-emergency overtime related to minor capital projects. Project Managers should retain evidence of their approvals per the Record Retention Policy.

Proper overtime authorization reduces the risk of improper overtime charges and unnecessary costs.

Current Status

In Process.

Six minor capital projects were selected for follow-up testing, and overtime was not authorized for 16 of 31 (52%) sampled employees who worked overtime on 3 of the 6 selected projects. Follow-up testing confirmed that management has not consistently implemented written pre-approval requirements for non-emergency overtime on minor capital projects.

Although detailed cost estimates are prepared and retained for each project by Engineering Services Group (ESG) Project Managers, Integrated Operations Planning & Support Services (IOPSS) supervisors continue to authorize overtime verbally, and approvals are not documented through EForms or other written methods. As a result, there is no consistent record of pre-approval for overtime to demonstrate compliance with the recommendation.

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

2 Overtime Monitoring

Project managers could not access PAGM to evaluate labor costs.

Recommendation 2

We recommend management consider permitting project Managers to access Oracle's Project Account and Grant Management (PAGM) to generate labor cost reports for their projects. Project Managers should review the data regularly, performing appropriate follow-ups as necessary.

Proper overtime monitoring reduces the risk of improper charges and unnecessary costs.

Current Status
Implemented.

Based on discussions with ESG management and project staff, and a review of supporting documentation, project managers effectively monitor overtime actuals against budget using the Project Controls and Reporting System (PCRS).

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

3 Project Management

Procedures did not clearly define controls or establish periodic reviews to ensure data completeness and accuracy.

Recommendation 3
We recommend management enhance existing procedures to clarify the necessary controls and explain the purpose of each. Further, we recommend management conduct periodic reviews to identify areas requiring further clarification or enhancement.

Proper input and processing procedures reduce the risk of incomplete or inaccurate data being used in project-specific and broader-based business decisions, which can undermine the cost-effectiveness and timely completion of minor capital projects.

Current Status
Implemented.

The 2024 Project Management Training Plan has been updated to reflect the recommendations from the prior audit, including those related to project proposal, project management planning, project change forms, and project closeout procedures. The Project Management Training program spans eight months and consists of eight in-person modules, each lasting six to eight hours. The 2024 Project Management Training session began in October 2024 and concluded in May 2025. Management stated that the intent is to deliver this training on a recurring cycle every 2.5 years. The next training cycle is anticipated to begin in Spring 2027

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

4 Project Reporting

Management reporting did not provide sufficient information to enable analysis and tracking without daily involvement.

Recommendation 4
We recommend management expand the CIP Quarterly Reporting to include projects that exceed the 3-year standard and those canceled due to work moving under a Major Capital Projects Program. Management should consider incorporating the cost data for completed projects, projects exceeding the 3-year standard, and closed projects.

Complete project reporting can reduce the risk of delayed or inaccurate management decisions.

Current Status
Implemented.

The CIP Quarterly Report now includes information on minor capital projects that exceeded the 3-year standard, as well as those canceled due to being transferred to major capital projects.

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

AUDIT TEAM

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

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 of to our office within six months following the issuance of the original audit report. 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.