

The Metropolitan Water District of Southern California

Agenda

The mission of the Metropolitan Water District of Southern California is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

Audit Committee

J. Armstrong, Chair
L. Fong-Sakai, Vice Chair
G. Cordero
D. De Jesus
J. Garza

Audit Subcommittee of the Executive Committee

Meeting with Board of Directors *

May 28, 2024

9:30 a.m.

**Tuesday, May 28, 2024
Meeting Schedule**

**09:30 a.m. Audit
11:00 a.m. Break
11:30 a.m. Exec**

Agendas, live streaming, meeting schedules, and other board materials are available here: <https://mwdh2o.legistar.com/Calendar.aspx>. If you have technical difficulties with the live streaming page, a listen-only phone line is available at 1-877-853-5257; enter meeting ID: 891 1613 4145. Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via in-person or teleconference. To participate via teleconference 1-833-548-0276 and enter meeting ID: 815 2066 4276 or click <https://us06web.zoom.us/j/81520664276pwd=a1RTQWh6V3h3ckFhNmdsUWpKR1c2Zz09>

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

Teleconference Locations:

3008 W. 82nd Place • Inglewood, CA 90305

525 Via La Selva • Redondo Beach, CA 90277

1368 Highland Oaks Dr. • Arcadia, CA 91006

13 Pumphouse Road • Garden Valley, Idaho 83622

34895 Calle Fortuna • Capistrano Beach, CA 92624

Long Beach Water Department • 1800 E Wardlow Road • Long Beach, CA 90807

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

- 1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))**

**** CONSENT CALENDAR ITEMS -- ACTION ****

- 2. CONSENT CALENDAR OTHER ITEMS - ACTION**

- A. Approval of the Minutes of the Audit Subcommittee of the Executive Committee for April 23, 2024 (Copies have been submitted to each Director, Any additions, corrections, or omissions) [21-3379](#)

Attachments: [05282024 Audit 2A \(04232024\) Minutes](#)

**** END OF CONSENT CALENDAR ITEMS****

3. SUBCOMMITTEE ITEMS

- a. Discussion on Macias Gini O'Connell, LLP External Auditor Fiscal Year 2023/24 Audit Plan [21-3377](#)

Attachments: [05282024 Audit 3a Presentation](#)

- b. General Auditor fiscal year 2024/25 Audit Plan [21-3378](#)

Attachments: [05282024 Audit 3b GA Internal Audit Plan FY 24-25 Draft](#)
[05282024 Audit 3b Presentation](#)

4. FOLLOW-UP ITEMS

NONE

5. FUTURE AGENDA ITEMS

6. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Committee agendas may be obtained on Metropolitan's Web site <https://mwdh2o.legistar.com/Calendar.aspx>. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <https://mwdh2o.legistar.com/Calendar.aspx>.

Requests for a disability-related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Minutes

AUDIT SUBCOMMITTEE OF THE EXECUTIVE COMMITTEE

April 23, 2024

Chair Armstrong called the meeting to order at 9:31 a.m.

Members present: Directors Armstrong, De Jesus, Fong-Sakai, and Garza.

Members absent: Director Cordero.

Other Board Members present: Directors Abdo, Dennstedt, Dick, Erdman, Fellow, Goldberg, Gray (teleconference posted location), Gualtieri, Lefevre (teleconference posted location), McCoy, McMillan, Miller (teleconference posted location), Morris, Ortega, Peterson, Pressman (teleconference posted location), and Smith.

Committee Staff present: Andrus, Elias, Hagekhalil, Parsons, and Suzuki.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE’S JURISDICTION

None

CONSENT CALENDAR ITEMS – ACTION

2. CONSENT CALENDAR OTHER ITEMS – ACTION

None

END OF CONSENT CALENDAR ITEMS

3. SUBCOMMITTEE ITEMS

a. Subject: Annual Audit Risk Assessment and Internal Control Discussion

Presented by: Scott Suzuki, General Auditor

Mr. Suzuki introduced Principal Deputy Auditor Andrew Lin and Deputy Auditor Faviola Sanchez who presented on the annual risk assessment.

The following Directors asked questions and provided comments:

1. Smith
2. De Jesus
3. Garza
4. Erdman
5. Ortega
6. Gualtieri

Staff responded to the Directors' comments and questions.

Mr. Suzuki introduced Senior Deputy Auditor Bonita Leung who presented on internal controls.

The following Directors asked questions and provided comments:

1. Smith
2. Ortega
3. Armstrong
4. Garza

Staff responded to the Directors' comments and questions.

Mr. Suzuki introduced Audit Program Manager Chris Gutierrez, who presented on risk, and Deputy General Auditor Kathryn Andrus, who presented on risk considerations.

The following Directors asked questions and provided comments and audit plan input:

1. De Jesus
2. Smith
3. Dick
4. Garza
5. Erdman
6. Armstrong
7. Goldberg
8. Ortega
9. Garza

Staff responded to the Directors' comments and questions.

- b. Subject: General Auditor's Quarterly Report
Presented by: Scott Suzuki, General Auditor

Mr. Suzuki presented the General Auditor's quarterly report dashboard.

The following Directors asked questions and provided comments:

1. Smith

Staff responded to the Directors' comments and questions.

c. Subject: International Internal Audit Awareness Month

Presented by: Kathryn Andrus, Deputy General Auditor

Ms. Andrus introduced Senior Deputy Auditor Bonita Leung who presented on International Internal Audit Awareness Month.

The following Directors asked questions and provided comments:

1. Armstrong

Staff responded to the Directors' comments and questions.

4. FOLLOW-UP ITEMS

None

5. FUTURE AGENDA ITEMS

Director Peterson asked for a presentation on the Kern Water District lawsuit, the outcome, and the spilling process.

Chair Ortega indicated this item should be scheduled for the One Water and Stewardship Committee or Engineering, Operations, and Technology Committee.

6. ADJOURNMENT

Meeting adjourned at 11:17 a.m.

Jeff Armstrong
Chair



mGO.

Metropolitan Water District of Southern California

Audit Plan

May 28, 2024

FY 2023-24 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, 2024. 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 2023-24 Audit Plan

Scope of Services and Deliverables

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

Scope of Services and Deliverables, Continued

Financial Statement Audits:

- (1) Metropolitan Water District of Southern California - Annual Comprehensive Financial Report
- (2) Colorado River Authority – Statements of Cash Disbursements
- (3) Delta Conveyance Design and Construction – Statements of Cash Receipts and Disbursements
- (4) Six Agency Committee – Statements of Cash Receipts and Disbursements

Single Audit under OMB Uniform Guidance

- (5) Audit of Federal grant expenditures exceeding \$1 million (if applicable)

Other:

- (6) Management Letter/Report to the Board

Additional Services:

- GASB 99 Assistance
- GASB 100 Assistance

Fiscal Year 2023-24 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



Fiscal Year 2023-24 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 draft financial reports and issue audit opinions					X		
Review draft annual comprehensive financial report						X	
Presentation to the Sub-committee on Audits						X	X



Fiscal Year 2023-24 Audit Plan

Audit Approach

© 2024 MACIAS GINI & O'CONNELL LLP |

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 System'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
- Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance (**if applicable**)
- 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

Revenue Recognition

Planned Response

- Application control testing will be performed over MWD's billing system
- Test a sample of significant revenue/cash receipts for supporting documents, controls, and proper posting to general ledger

State Water Project/ Participation Rights

Planned Response

- Test financial transactions related to participation rights, 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 2023/24 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

Pension/OPEB

Planned Response

- Assess the design and effectiveness of internal controls over pension and OPEB financial reporting
- Examine actuarial reports and related assumptions
- Test the calculation of pension and OPEB expense for accuracy and verify that expense components are appropriately allocated
- Conduct census data sampling and analytical procedures
- Review the adequacy and accuracy of pension and OPEB-related disclosures

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

Upcoming GASB Pronouncements

The following pronouncement is effective and applicable to Metropolitan for FY 2023/24

GASB 99

Omnibus 2022, Paragraphs 4 through 10, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53

Effective for year end June 30, 2024

GASB 100

Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62

Effective for year end June 30, 2024

mGO. + MWD

mgocpa.com



Office of General Auditor —

General Auditor's Internal Audit Plan for **FY 2024/25**

June 11, 2024

Executive Summary

BACKGROUND

The mission of the Office of the General Auditor, Metropolitan’s internal audit function, is to provide independent, professional, and objective assurance and consulting services designed to add value and improve Metropolitan’s operations. We help Metropolitan accomplish its objectives by using a proactive and systematic approach to evaluate and recommend improvements to the effectiveness of risk management, internal control, and governance processes.

Professional internal audit standards require we establish a risk-based plan to determine the priorities of our office that are consistent with Metropolitan’s goals and objectives. Our methodology is to perform focused audits and provide advisory services that evaluate important areas of Metropolitan and deliver timely results.

We completed an audit risk assessment by gaining an understanding of Metropolitan’s business operations through documentation reviews, interviews with management, and discussions with the Board. The results facilitated our efforts to identify and measure risks and prioritize potential audits and advisory projects for the audit plan. Our approach is to provide coverage of the most important aspects of the areas identified. We may make exceptions to this approach when there are carryforward audits from the prior year, where there has been recent audit coverage, or if our professional judgment dictates otherwise.

RESULTS

Our fiscal year 2024/25 Internal Audit Plan is comprised of 20 planned audits, including seven new audits, 12 carried forward audits from prior fiscal years, and one recurring Board request. Additionally, we plan to cover nine advisory projects plus follow-up reviews.

Our audit risk assessment identified opportunities for our office to provide audit or advisory services in the following areas (listed in alphabetical order):

- Business Continuity
- Conveyance & Distribution
- Cybersecurity
- Human Resources
- Information Technology
- Infrastructure Reliability
- Integrated Operations Planning & Support Services
- Power Operations & Planning
- Treatment & Water Quality

Due to limited staffing resources, our audit plan includes projects addressing the highest identified audit risk areas. As resources and/or time become available in fiscal year 2024/25, we will incorporate additional risk areas into the audit plan. While we will re-evaluate the audit risk assessment periodically during the fiscal year, any risk areas not incorporated into the audit plan by fiscal year-end will be re-evaluated for inclusion in our fiscal year 2025/26 Internal Audit Plan.

COVER PHOTO: Gene Pump Plant ground-level pipe at sunrise; Metropolitan operates five pumping plants with a total lift of 1,617 feet.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June 11, 2024

To: Adán Ortega, Jr., Board Chair
Members of the Board of Directors

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

Subject: General Auditor's Internal Audit Plan for Fiscal Year 2024/25

The Office of the General Auditor is pleased to present our audit plan for fiscal year 2024/25 in accordance with the Metropolitan Administrative Code Section 6451 and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The audit plan results from careful analysis of Metropolitan documents and data, numerous risk discussions with Metropolitan managers, and Board input on specific risk and internal control concerns.

Our office is charged with determining whether Metropolitan's network of risk management, internal control, and governance processes are appropriate and functioning as intended by management. To execute this charge, we plan to perform a series of audits and advisory projects, 29 in total, during the fiscal year (seven new audits, 12 carryforward audits, one recurring Board request, and nine advisories).

Our mission is to add value by recommending improvements to Metropolitan's operations while maintaining transparency and trust in the work we perform. We will do this by working collaboratively with all levels of the Metropolitan team, identifying risks and opportunities that evolve under our changing environment, and ultimately contributing to ensuring Metropolitan's resources have the maximum impact on the communities and member agencies we serve.

We appreciate the opportunity to serve Metropolitan by offering independent, professional, and objective audit and advisory services and appreciate the cooperation provided by the Metropolitan staff and Board during our audit risk assessment project.

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

Attachments

Other report recipients:

General Manager
General Counsel
Ethics Officer
Chief of Staff
Assistant General Managers
Board Executive Officer
External Auditor

TABLE OF CONTENTS

Introduction

1 Department Overview

An introduction to our office

Audit Risk Assessment

2 Audit Risk Assessment Process

A description of our project planning and execution methodology

4 Audit Risk Assessment Summary

A description of project results

Internal Audit Plan

6 Service Portfolio

An overview of the services we provide to Metropolitan

7 Planned Engagements

Projects we plan to perform during fiscal year 2024/25

Appendix A: Additional Information

11 Assurance Coverage

A crosswalk of risk areas to associated projects

13 Deferred Projects

Specific risks/internal control concerns identified pending audit resource/time availability

14 Resource Plan

An overview of our resources that will support execution of the audit plan

15 Organization Chart

Our internal reporting structure

16 Standards

References to relevant professional internal audit standards

INTRODUCTION

DEPARTMENT OVERVIEW

The General Auditor provides independent, professional, and objective advice to the Board and Metropolitan management in accordance with the professional standards issued by The Institute of Internal Auditors. To maintain independence, the General Auditor reports directly to the Board through the Audit Subcommittee of the Executive Committee.

Our goal is to assist Metropolitan’s Board and management in improving business and financial practices. To carry out this effort, the General Auditor oversees a team of audit professionals who determine whether Metropolitan activities, programs, or agreements comply with policies, procedures, and applicable regulations. The team proactively addresses issues, focusing on risk management, internal control, and governance processes.

Towards this goal, our office is charged with determining if Metropolitan’s network of risk management, internal control, and governance processes (as designed and represented by management), are adequate and functioning in a manner to ensure:

- ◆ Risks are appropriately identified, managed, and monitored.
- ◆ Significant financial, managerial, and operating information is accurate, reliable, and timely.
- ◆ Employees’ actions comply with policies, standards, procedures, and applicable laws and regulations.
- ◆ Resources are acquired economically, used efficiently, and adequately protected.
- ◆ Programs, plans, and objectives are achieved.
- ◆ Quality and continuous improvement are fostered in Metropolitan’s control process.
- ◆ Significant legislative or regulatory issues are recognized and addressed appropriately.

Our office carries out its responsibilities in accordance with the Audit Department Charter specified in the Metropolitan Administrative Code Section 6451.



AUDIT RISK ASSESSMENT

AUDIT RISK ASSESSMENT PROCESS

The Office of the General Auditor's objective is to add value to and improve Metropolitan's effectiveness and efficiency.

Our strategy to accomplish this is thorough planning, nimble responsiveness, aligning our priorities with Metropolitan's objectives, and auditing risks with the greatest potential to affect Metropolitan's ability to achieve its objectives.

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. – International Professional Practices Framework Standard 2010

There are eight primary steps in performing and maintaining the audit risk assessment and audit plan:

1. Understand the organization
2. Identify, assess, and prioritize risks
3. Coordinate with other assurance providers
4. Estimate resources
5. Propose the audit plan and solicit feedback
6. Finalize and communicate the audit plan
7. Assess risks continuously
8. Update the audit plan and communicate changes

Metropolitan's internal audit team developed the audit plan using this process to ensure a thorough and comprehensive risk evaluation, facilitate effective communication with the Board, management, and other stakeholders, and allocate sufficient resources to perform the planned projects.

As part of identifying, assessing, and prioritizing risks, we looked at the following risk factors:

Impact Factors

1. Loss/Material Exposure: Dollar values at risk, annual expenses, number of transactions, impact on other areas of Metropolitan, and degree of reliance on IT.
2. Strategic Risk: Public perception/reputation, economic conditions, volatility, significance to the General Manager's business plan/strategy, degree of regulation, and recent changes.



Likelihood Factors

3. Control Environment: Degree of process isolation, degree of formalization, the newness of processes/applications, third-party reliance, management turnover, management monitoring, and policy & procedures.
4. Complexity: Degree of automation, degree of required specialization, level of technical detail, complexity of structure, and frequency of change.
5. Assurance Coverage: Type of engagement, other reviews, second-line coverage, and current audit/follow-up.
6. Board & Management Concern: Quantity and specificity of concerns shared during interviews and meetings.

Speed Factor

7. Velocity: How fast a risk can occur and impact Metropolitan.

We obtained input and suggestions from management in key business areas to better identify and quantify the risks Metropolitan faces. We also looked at goals and objectives in various Metropolitan documents, including the financial statements, the Integrated Resources Plan, the Climate Action Plan, monthly General Manager reports, Board and Committee meeting agendas, and the biennial budget.

Our audit universe was defined as 35 auditable units and generally revolved around functional areas of Metropolitan. All departments, groups, sections, and units of Metropolitan are included in the audit universe except for our office. We scored each factor and sorted each auditable unit according to a total risk score to identify those with the most significant risks.

An auditable unit with a higher audit risk score indicates the services or functions it is responsible for are a higher risk activity due to factors including, but not limited to, having a large amount of expenditures and/or revenues, having a high level of liquid assets such as cash, undergoing significant change (e.g., organizational structure, major system), processing complex transactions, criticality to Metropolitan’s mission, or having a high degree of public interest. A higher audit risk score indicates that if something were to go wrong, it could have a greater impact on Metropolitan.



AUDIT RISK ASSESSMENT SUMMARY

Our audit risk assessment results show that eight auditable units are considered higher risk, 22 are moderate risk, and five are lower risk. Below are Metropolitan’s auditable units in their respective risk categories in alphabetical order.

HIGHER AUDIT RISK

- Business Continuity
- Conveyance & Distribution
- Cybersecurity
- Human Resources
- Information Technology
- Integrated Operations Planning & Support Services
- Power Operations & Planning
- Treatment & Water Quality

A higher audit risk score DOES NOT mean that a business area/process is being managed ineffectively or that internal control is inadequate.

MODERATE AUDIT RISK

- Administrative Services
- Bay Delta Initiatives
- Board of Directors
- Centralized Grants & Research
- Controller (accounting)
- Diversity Equity & Inclusion
- Employee Relations
- Engineering Planning
- Environmental Planning
- Equal Employment Opportunity
- External Affairs
- General Manager Office
- Infrastructure Reliability
- Land Management
- Operational Safety & Regulation
- Program Management
- Revenue & Budget
- Security
- Sustainability Resilience & Innovation
- Treasury & Debt Management
- Water Resource Implementation
- Water Resource Planning

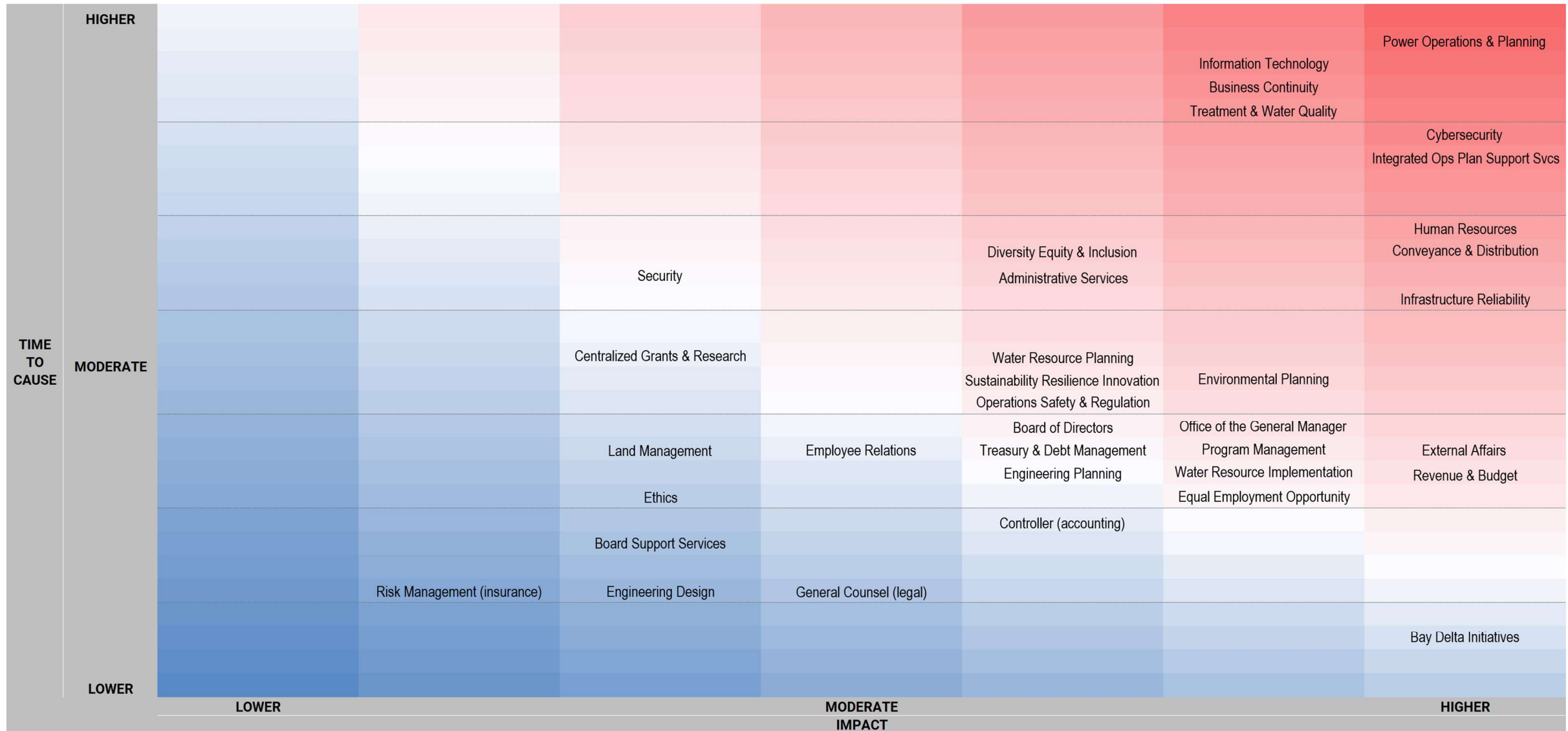
LOWER AUDIT RISK

- Board Support Services
- Engineering Design
- Ethics
- General Counsel (legal)
- Risk Management (insurance)



HEAT MAP

The diagram below shows the relationship between time to cause (likelihood + velocity) vs. impact for each Metropolitan auditable area.



INTERNAL AUDIT PLAN

SERVICE PORTFOLIO

Our core portfolio includes the following services:

1 Operational & Compliance Audits

These audits provide assurance focusing on internal control design, implementation, and/or maintenance of core business operations. The criteria used for our internal control audits is the Committee on Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. Projects can also include assessment of policy compliance, contractual compliance, and/or regulatory compliance.

2 Information Technology Audits

Information technology is pervasive in Metropolitan’s system of internal control. These audits focus on general information technology controls (e.g., operations, change management, disaster recovery) or specialized cybersecurity controls (e.g., asset management, data protection, malware defense).

3 Advisory Services

These advisory projects include providing consulting services to Metropolitan functions primarily in support of major business changes (e.g., new application implementation, re-organization, new service line, process re-alignment); however, they can also include ad-hoc on-demand advice.

4 Follow-Up Reviews

Follow-up reviews of observations from prior audits to monitor the implementation progress of recommended corrective actions. The amount of follow-up necessary will depend on the severity of the issue and the type of corrective action.

5 Administration & Other Activities

Includes the annual audit risk assessment and audit plan; TeamMate+ training and functional utilization; quality assessment & improvement program; and contractually required assistance to the external auditor.



PLANNED ENGAGEMENTS

Planned engagements are based upon approximately 12,900 productive hours provided by nine audit professionals. Higher audit risk areas are given priority for project assignment over moderate and lower audit risk areas. Once all higher audit risk areas are assigned an audit, additional moderate audit risk areas are selected at the discretion of the General Auditor. Projects may also be assigned based on Board direction or as mandated by law/regulation. Lastly, recurring audits are generally not assigned unless determined as higher risk or mandated by law/regulation.

The following table provides planned audit and advisory engagements and includes preliminary objectives and budgeting:

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Operational & Compliance Audits		
1. CRA Reliability	Review CRA Main Pump Reliability Program.	600
2. Total Asset Management	Assess CIP requirements for proper preventative maintenance thresholds.	600
3. Chemical Safety	Review chemical transfer procedures.	600
4. Recruiting Process	Compare recruiting procedures and technology against industry and sector best practices.	600
5. Business Continuity Program	Review Metropolitan business continuity program procedures.	600
6. Small/Disadvantaged Business Enterprise Program	Review small/disadvantage business enterprise program	600
7. Colorado River Water User Association Review <i>Board Request</i>	Perform agreed-upon procedures on Colorado River Water User Association financial statements.	120
8. Sole Source Contracts <i>Carryforward from FY 2023/24</i>	Determine if sole-source contracts are issued in accordance with Metropolitan policy.	400
9. Power Market Operations <i>Carryforward from FY 2023/24</i>	Review Metropolitan power market operations.	200
10. State Audit Monitoring <i>Carryforward from FY 2023/24</i>	Review implementation status of State Auditor recommendations.	200



DRAFT – PENDING BOARD APPROVAL

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Operational & Compliance Audits (con't)		
11. Bay Delta Disaster Preparedness <i>Carryforward from FY 2023/24</i>	Review Bay Delta disaster preparedness procedures.	120
12. CRA Maintenance <i>Carryforward from FY 2023/24</i>	Review conveyance maintenance program/processes.	160
13. California Landscape Contractors Association Contract Compliance <i>Carryforward from FY 2023/24</i>	Review contract compliance.	120
14. Pure Water State Funding Audit <i>Carryforward from FY 2023/24</i>	Determine adherence to state and Board directives for the Pure Water state funding.	120
15. Reserves/Rate Stabilization Fund <i>Board request</i> <i>Carryforward from FY 2022/23</i>	Determine if reserves are maintained in accordance with Metropolitan Administrative Code.	120
16. Real Property Business Management System <i>Carryforward from FY 2022/23</i>	Review administration of the Real Property Business Management System Project.	80
17. CRA Discharge Line Isolation Couplings Rehabilitation Project <i>Carryforward from FY 2022/23</i>	Review administration of the CRA Discharge Line Isolation Couplings Project.	80
Final Report Closeout	NA	320
Information Technology Audits		
18. IT Governance	Evaluate the value delivered by Metropolitan’s IT investments and initiatives.	600
19. Cybersecurity: Software Asset Inventory & Control <i>Carryforward from FY 2023/24</i>	Determine if Metropolitan actively manages all software on the network.	200
20. Oracle Enterprise Business Suite Security <i>Carryforward from FY 2022/23</i>	Assess Oracle security controls.	160
Final Report Closeout	NA	40



DRAFT – PENDING BOARD APPROVAL

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Advisory Services		
21. Grants	Provide advice to the new grants management function.	200
22. Buy v. Lease	Advise on advantages and disadvantages of leasing Metropolitan vehicles versus purchasing.	200
23. Progressive Design-Build	Advise on progressive design-build construction project procedures.	200
24. Corporate Climate Assessments	Advise on Metropolitan climate/culture assessments.	200
25. Risk Oversight Committee (Power Operations)	Advise on committee matters.	NA
26. METCON <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
27. WINS <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
28. PeopleSoft Time & Labor <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
29. Enterprise Content Management <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
Follow-Up Reviews		
Follow up on Operational & Compliance Audits	Follow up on audit recommendation implementation by management.	1,084
Administration & Other Activities		
External Audit Support	Assist Macias Gini & O’Connell (MGO) in the annual financial audit and single audit.	800
Annual Audit Risk Assessment & Internal Audit Plan	Perform annual audit risk assessment tasks and prepare Internal Audit Plan.	360
TeamMate+ Training & Functional Utilization	Provide and receive training on internal audit project management system.	160



DRAFT – PENDING BOARD APPROVAL

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Administration & Other Activities (con't)		
Quality Assessment & Improvement Program (QAIP)	Complete mandates to ensure adherence to professional internal audit standards and improve internal audit operations.	120
On-Demand Advisory Services	Provide rapid advice upon request.	80

The General Auditor, from time to time, may determine it appropriate to substitute, postpone, or cancel a planned engagement due to timing, priority, resources, and/or other risk considerations. Such modifications will be noted in activity reports submitted to the Board and acceptance of the reporting authorizes any changes noted and amends the audit plan.

PROJECT TEAM

- ◆ Kathryn Andrus, CPA, Deputy General Auditor
- ◆ Chris Gutierrez, CPA, CIA, Audit Program Manager
- ◆ Arturo Castro, Principal Auditor
- ◆ Sherman Hung, CISA, Principal Auditor
- ◆ Andrew Lin, CPA, CIA, CIGA, Principal Auditor
- ◆ Leo Roldan, CPA, CIA, CGMA, Principal Auditor
- ◆ Lina Tan, Principal Auditor
- ◆ Bonita Leung, CPA, CIA, CRMA, CGMA, Senior Deputy Auditor
- ◆ Neena Mehta, Senior Deputy Auditor
- ◆ Faviola Sanchez, Deputy Auditor III
- ◆ Mari Elias, Executive Assistant II



APPENDIX A: ADDITIONAL INFORMATION

ASSURANCE COVERAGE

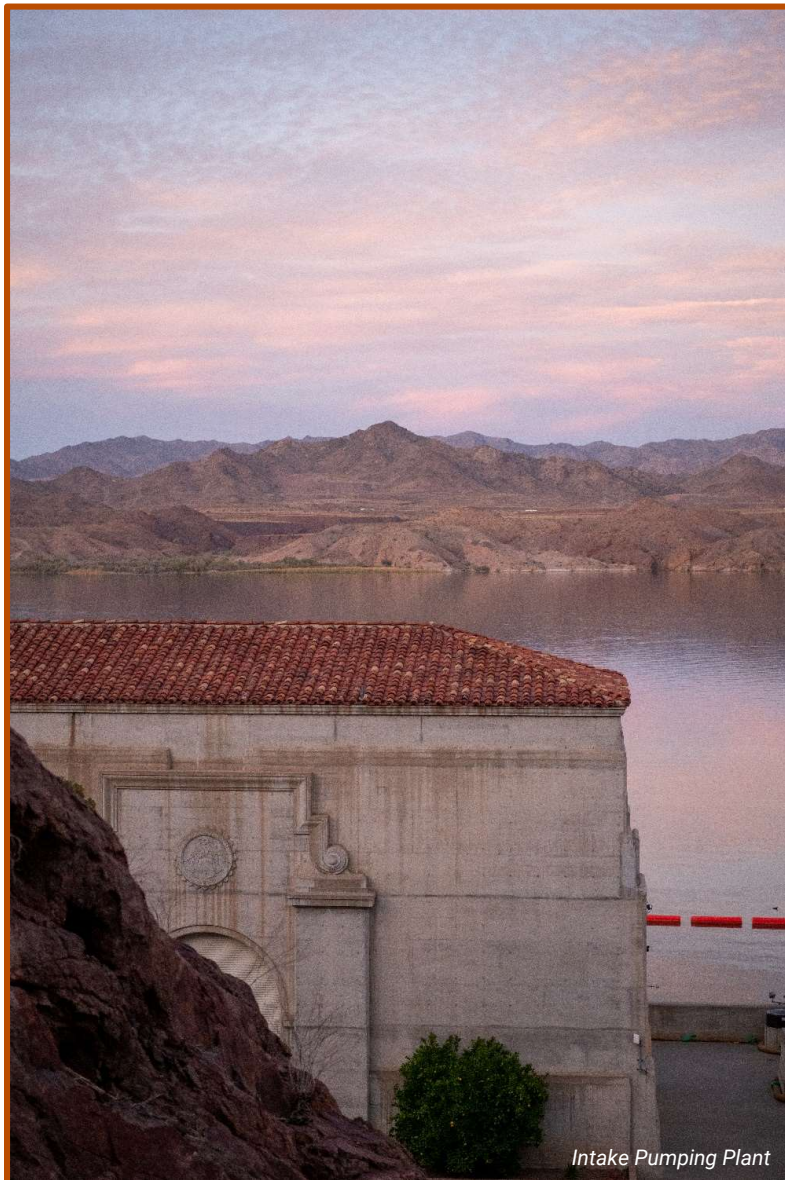
Risk areas we identified as part of the audit risk assessment process are listed alphabetically and mapped to their associated auditable areas, and the resultant planned engagement number is included in parentheses:

RISK AREA	AUDITABLE AREA	ENGAGEMENT
Asset management	Infrastructure Reliability	Total Asset Management (2)
Business continuity	Business Continuity	Business Continuity Program (5)
Chemical safety	Treatment & Water Quality	Chemical Safety (3)
Competitive contracting	Administrative Services	Sole Source Contracts (8)
Construction	Engineering Design	Progressive Design-Build (advisory)(23)
Culture	Diversity Equity & Inclusion Equal Employment Opportunity Ethics Human Resources	Corporate Climate Assessments (advisory)(24)
Cybersecurity	Cybersecurity	Cybersecurity: Software Asset Inventory & Control (19)
Data governance	Administrative Services	Enterprise Content Management (advisory)(29)
Delta failure/earthquake	Bay Delta Initiatives	Bay Delta Disaster Preparedness (11)
Fleet vehicles	Integrated Operations Planning & Support Services	Buy v. Lease (advisory)(22)
Grant compliance	Centralized Grants & Research	Grants (advisory)(21) Pure Water State Funding Audit (14)
IT Governance	Information Technology	IT Governance (18)
New Applications	Controller Conveyance & Distribution	Peoplesoft Time & Labor (advisory)(28) WINS (advisory)(27) METCON (advisory)(26)



DRAFT – PENDING BOARD APPROVAL

RISK AREA	AUDITABLE AREA	ENGAGEMENT
Power costs/operations	Power Operations & Planning	Power Market Operations (9) Risk Oversight Committee (advisory)(25)
Recruiting	Human Resources	Recruiting Process (4)
SBA/DBE contracting	Diversity Equity Inclusion	SBA/DBE Program (6)
State Audit	Human Resources	State Audit Monitoring (10)
Third-party compliance	Water Resource Implementation	CLCA Contract Compliance (13)
Water system maintenance	Conveyance & Distribution	CRA Reliability (1) CRA Maintenance (12)



DEFERRED PROJECTS

Risks/internal control concerns identified from Board input and management interviews (in high or medium-high areas of the audit risk assessment) are mapped to auditable areas below and will be added to the audit plan as resources and/or time become available:

RISK AREA	AUDITABLE AREA
California Air Resources Board (CARB) regulations/ fleet exemptions	Integrated Operations Planning & Support Services Sustainability Resilience & Innovation
Community Outreach	External Affairs
Conservation funding	Water Resource Implementation
Contract administration (post-award)	Program Management
Contract selection/award	Administrative Services Engineering External Affairs
Cybersecurity program	Information Technology
Desert housing	Integrated Operations Planning & Support Services
District temporary/annuitant usage	Human Resources
Electrical equipment supply chain	Integrated Operations Planning & Support Services
Enterprise risk management	Office of the General Manager
Investigative process	Multiple
Reserves/cost of service	Revenue & Budget
Revenue-generating lease/license contracts	Sustainability Resilience & Innovation



RESOURCE PLAN

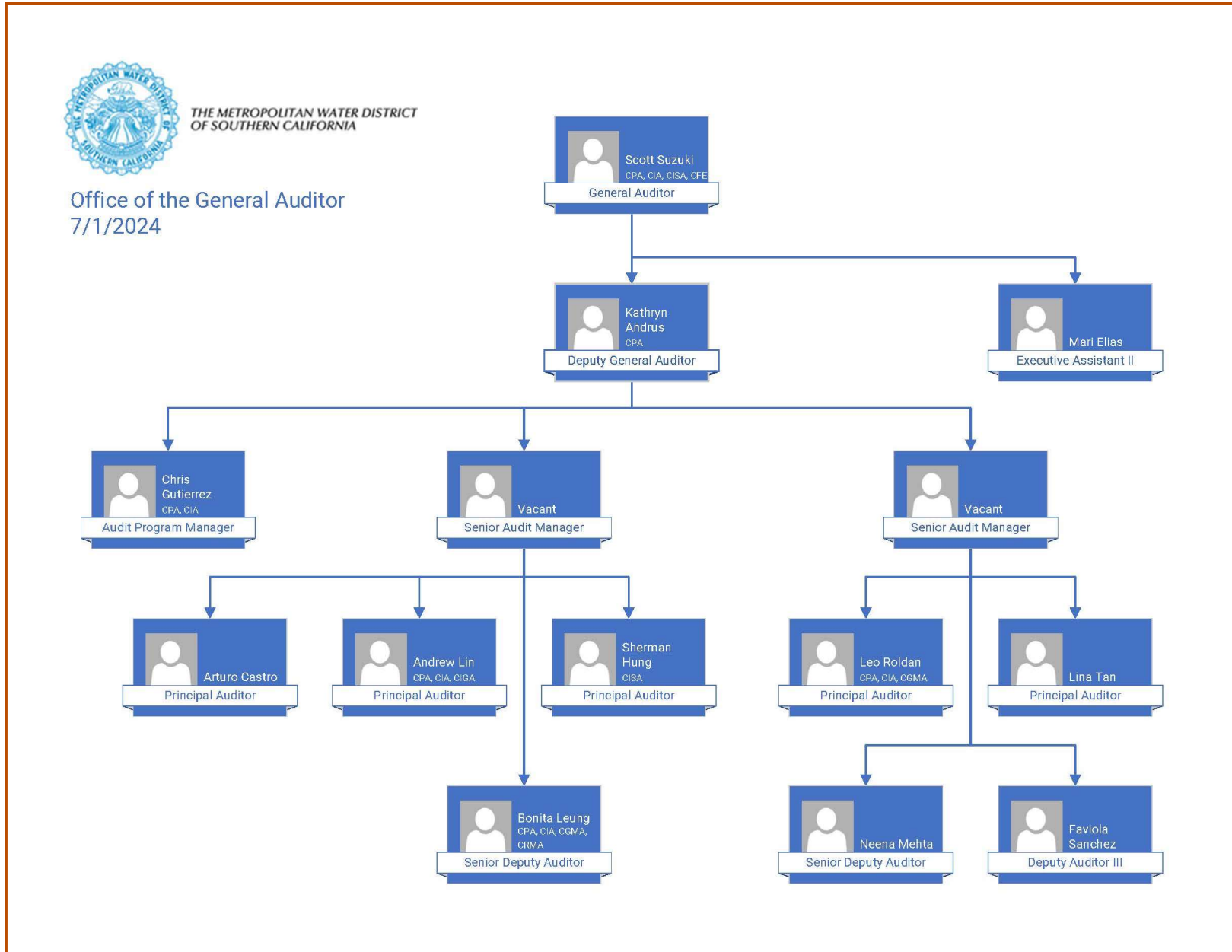
The department is comprised of 11 professional audit team members and one administrative professional. Team member audit experience includes financial, performance, fraud, compliance, and information technology. Six members are licensed Certified Public Accountants (CPA), five are Certified Internal Auditors (CIA), and two are Certified Information System Auditors (CISA). Other professional certifications held include Certified Fraud Examiner (CFE), Chartered Global Management Accountant (CGMA), Certification in Risk Management Assurance (CRMA), and Certified Inspector General Auditor (CIGA).

Our total productive hours available for portfolio services is 12,884 hours after allowances for benefits and non-productive time (e.g., training, staff meetings, HR activities). Additional time is then deducted for administration and other activities, a contingency reserve, Board requests, and special projects, resulting in 8,564 hours available for audit and advisory projects. Audit hours for the general auditor and deputy general auditor are not included in the productive hour total.



Turf Replacement and Landscaping

ORGANIZATION CHART



STANDARDS

The following are references to conformance with relevant International Professional Practices Framework standards. Note: The IIA issued the Global Internal Audit Standards in January 2024 as an update to its standards, which will take effect in January 2025.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

- ◆ The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the Board must be considered in this process.
- ◆ The chief audit executive must identify and consider the expectations of senior management, the Board, and other stakeholders for internal audit opinions and other conclusions.
- ◆ The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.

2020 – Communication & Approval

The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the Board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for: (1) making strategic and operational decisions, (2) overseeing risk management and control, (3) promoting appropriate ethics and values within the organization, (4) ensuring effective organizational performance management and accountability, (5) communicating risk and control information to appropriate areas of the organization, (6) coordinating the activities of, and communicating information among the Board, external and internal auditors, other assurance providers, and management.

- ◆ The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.
- ◆ The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.



2120 – Risk Management

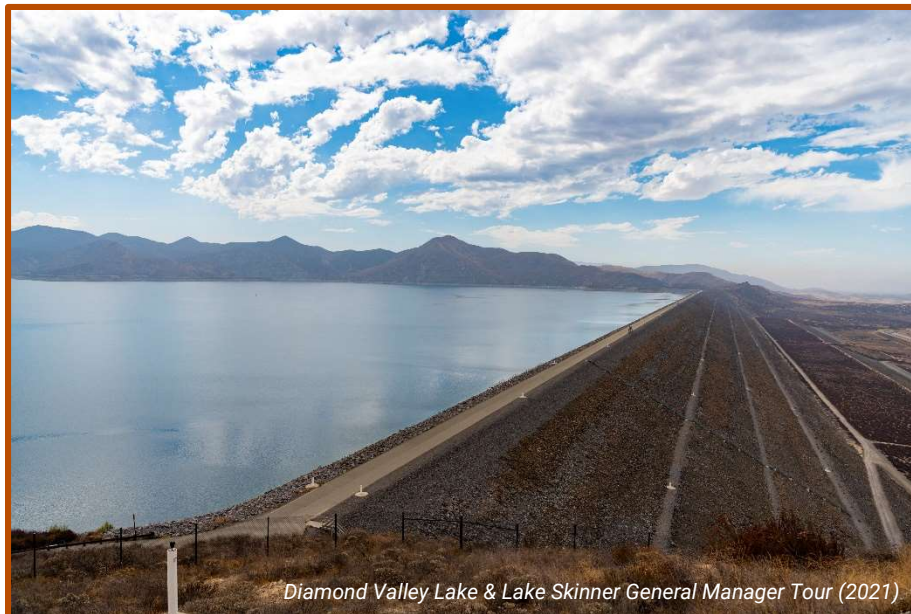
The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

- ◆ The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the: (1) Achievement of the organization’s strategic objectives; (2) Reliability and integrity of financial and operational information; (3) Effectiveness and efficiency of operations and programs; (4) Safeguarding of assets; and (5) Compliance with laws, regulations, policies, procedures, and contracts.
- ◆ The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
- ◆ During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.
- ◆ Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.
- ◆ When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

- ◆ The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the: (1) Achievement of the organization’s strategic objectives; (2) Reliability and integrity of financial and operational information; (3) Effectiveness and efficiency of operations and programs; (4) Safeguarding of assets; (5) Compliance with laws, regulations, policies, procedures, and contracts.
- ◆ Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.





Audit Subcommittee of the Executive Committee

General Auditor's Internal Audit Plan Fiscal Year 2024/25

Item 3b

May 28, 2024

Item # 3b General Auditor fiscal year 2024/25 Audit Plan

Subject

General Auditor's Internal Audit Plan for fiscal year 2024/25

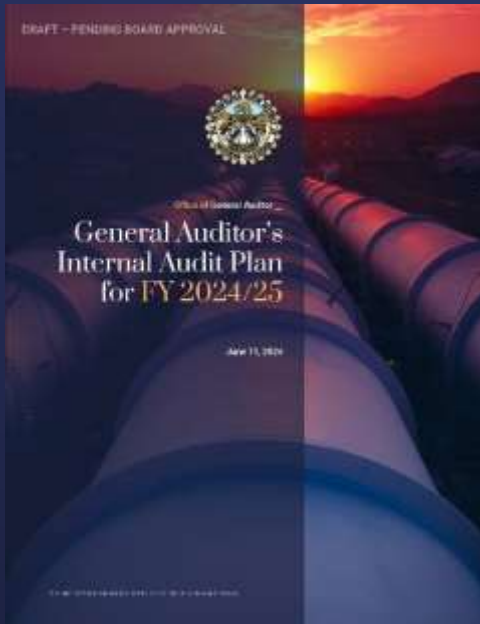
Purpose

Provide an overview of the department, the audit risk assessment process, and the Internal Audit Plan for fiscal year 2024/25

Next Steps

Submit the Internal Audit Plan for approval by the Executive Committee and Board

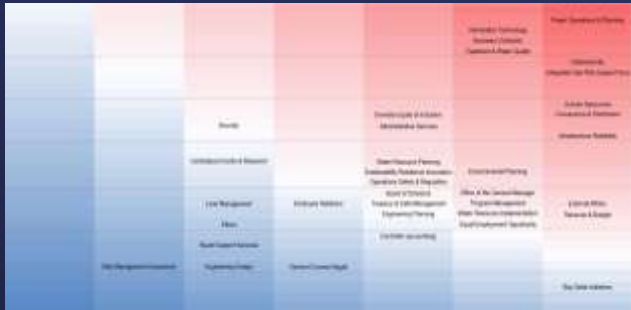
Business Plan



Department Overview

- Provide independent, professional, and objective advice to the Board and Metropolitan management in accordance with professional standards issued by The Institute of Internal Auditors
- Assist Metropolitan's Board and management in improving business and financial practices
- Proactively address issues, focusing on risk management, internal control, and governance processes
- Carry out responsibilities in accordance with the Audit Department Charter specified in Metropolitan Administrative Code Section 6451

Audit Risk Assessment



Audit Risk Assessment Process

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals – International Professional Practices Framework (IPPF) Standard 2010

1. Understand the organization
2. Identify, assess, and prioritize risks
3. Coordinate with other assurance providers
4. Estimate resources
5. Propose the audit plan and solicit feedback
6. Finalize and communicate the audit plan
7. Assess risks continuously
8. Update the audit plan and communicate changes

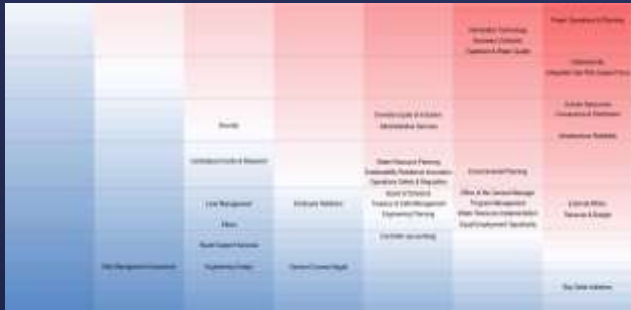
Audit Risk Assessment Summary

Higher Audit Risk Areas

- Business Continuity
- Conveyance & Distribution
- Cybersecurity
- Human Resources
- Information Technology
- Integrated Operations Planning & Support Services
- Power Operations & Planning
- Treatment & Water Quality

NOTE: A higher audit risk score **DOES NOT** mean that a business area/process is being managed ineffectively or that internal control is not adequate.

Audit Risk Assessment



Audit Plan



Service Portfolio

1. Operational & Compliance Audits

2. Information Technology Audits

3. Advisory Services

4. Follow-Up Reviews

5. Administration & Other Activities

Audit Plan



New Engagements

Operational & Compliance Audits

1. CRA Reliability
2. Total Asset Management
3. Chemical Safety
4. Recruiting Process
5. Business Continuity Program
6. Small/Disadvantaged Business Enterprise Program

Information Technology Audit

18. IT Governance

Recurring Board Request

7. Colorado River Water User Association Review

Audit Plan



Audit Plan



Carryforward Engagements

Operational & Compliance Audits

8. Sole Source Contracts
9. Power Market Operations
10. State Audit Monitoring
11. Bay Delta Disaster Preparedness
12. CRA Maintenance
13. California Landscape Contractors Association Contract Compliance
14. Pure Water State Funding Audit
15. Reserves/Rate Stabilization Fund
16. Real Property Business Management System
17. CRA Discharge Line Isolation Couplings Rehabilitation Project

Audit Plan



Carryforward Engagements (con't)

Information Technology Audit

19. Cybersecurity: Software Asset Inventory & Control
20. Oracle Enterprise Business Suite Security

Audit Plan



Advisory Engagements

21. Grants
22. Buy v. Lease
23. Progressive Design-Build
24. Corporate Climate Assessments
25. Risk Oversight Committee (Power Operations)
26. METCON (*carryforward*)
27. WINS (*carryforward*)
28. PeopleSoft Time & Labor (*carryforward*)
29. Enterprise Content Management (*carryforward*)

Audit Plan



Administration & Other Activities

- External Audit Support
- Annual Audit Risk Assessment & Internal Audit Plan
- TeamMate+ Training & Functional Utilization
- Quality Assessment & Improvement Program (QAIP)
- On-Demand Advisory Services

Assurance Coverage

Specific risk areas covered by planned engagements:

RISK	AUDITABLE AREA	ENGAGEMENT
Asset management	Infrastructure Reliability	Total Asset Management (2)
Business continuity	Business Continuity	Business Continuity Program (5)
Chemical safety	Treatment & Water Quality	Chemical Safety (3)
Competitive contracting	Administrative Services	Sole Source Contracts (8)
Construction	Engineering Design	Progressive Design-Build (Advisory)(23)
Culture	DEI EEO Ethics Human Resources	Corporate Climate Assessments (Advisory)(24)

Additional
Information



Assurance Coverage (con't)

RISK	AUDITABLE AREA	ENGAGEMENT
Cybersecurity	Cybersecurity	Cybersecurity: Software Asset Inventory & Control (19)
Data governance	Administrative Services	Enterprise Content Management (Advisory)(29)
Delta failure/earthquake	Bay Delta Initiatives	Bay Delta Disaster Preparedness (11)
Fleet vehicles	Integrated Operations Planning & Support Services	Buy v. Lease (Advisory)(22)
Grant compliance	Centralized Grants & Research	Grants (Advisory)(21) Pure Water State Funding Audit (14)
IT Governance	Information Technology	IT Governance (18)

Additional Information



Assurance Coverage (con't)

RISK	AUDITABLE AREA	ENGAGEMENT
New Applications	Controller Conveyance & Distribution	Peoplesoft Time & Labor (Advisory)(28) WINS (Advisory)(27) METCON (Advisory)(26)
Power costs/operations	Power Operations & Planning	Power Market Operations (9) Risk Oversight Committee (Advisory)(25)
Recruiting	Human Resources	Recruiting Process (4)
SBA/DBE contracting	Diversity Equity Inclusion	SBA/DBE Program (6)
State Audit	Human Resources	State Audit Monitoring (10)
Third-party compliance	Water Resource Implementation	CLCA Contract Compliance (13)
Water system maintenance	Conveyance & Distribution	CRA Reliability (1) CRA Maintenance (12)

Additional Information



Deferred Projects

Added to audit plan as resources/time become available:

RISK	AUDITABLE AREA
California Air Resources Board (CARB) regulations/fleet exemptions	Integrated Operations Planning & Support Services Sustainability Resiliency Innovation
Community Outreach	External Affairs
Conservation funding	Water Resource Implementation
Contract administration (post-award)	Program Management
Contract selection/award	Administrative Services Engineering External Affairs
Cybersecurity program	Information Technology
Desert housing	Integrated Operations Planning & Support Services

Additional Information



Deferred Projects (con't)

RISK	AUDITABLE AREA
District temporary/annuitant usage	Human Resources
Electrical equipment supply chain	Integrated Operations Planning & Support Services
Enterprise risk management	Office of the General Manager
Investigative process	Multiple
Reserves/cost of service	Revenue & Budget
Revenue-generating lease/license contracts	Sustainability Resiliency & Innovation

Additional Information



Other Risk Areas

- Bonding capacity
- RFP development

Additional
Information



Additional Information



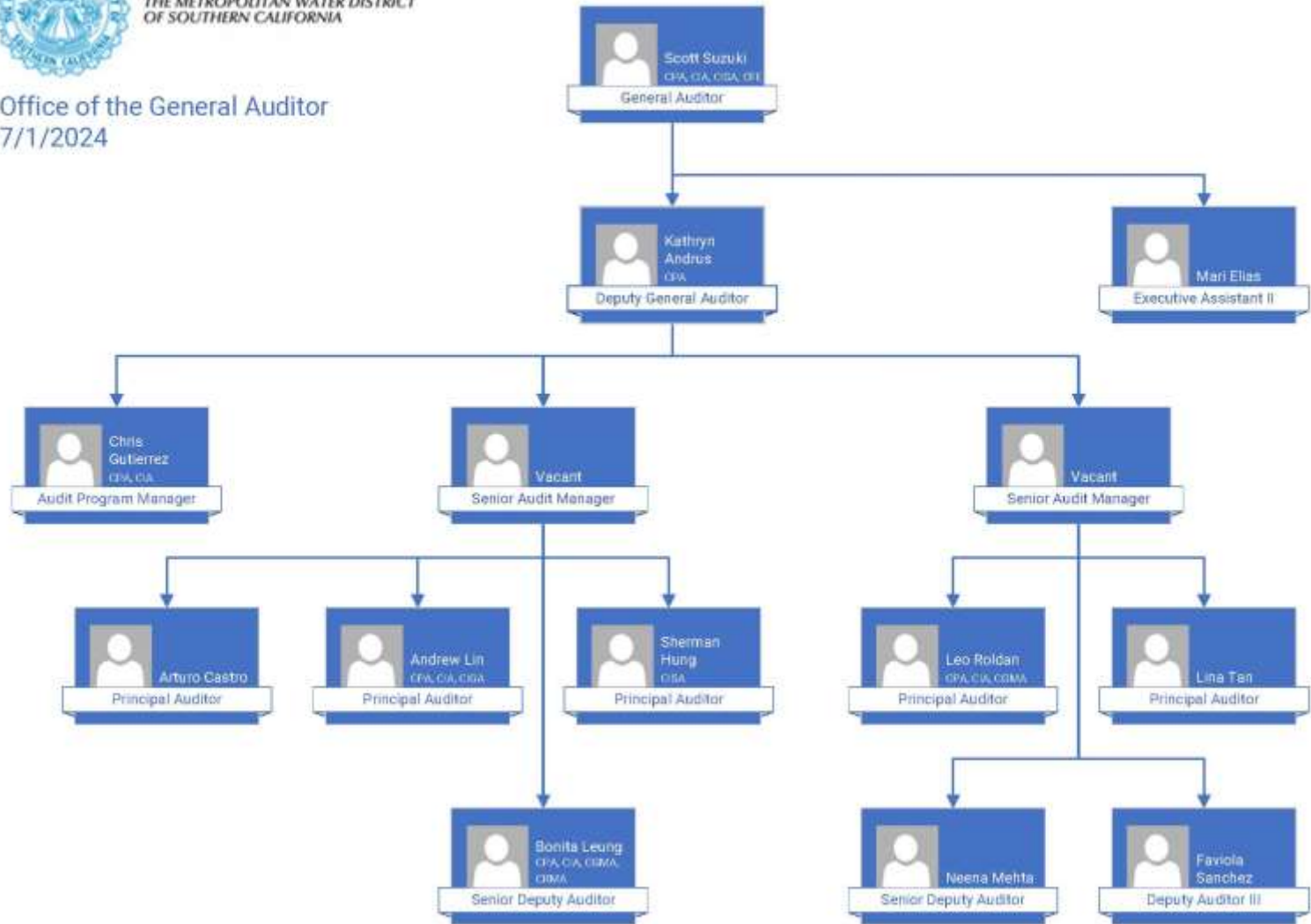
Resource Plan

- Eleven professional audit team members and one administrative professional
- Audit experience includes financial, performance, fraud, compliance, and information technology
- Six licensed Certified Public Accountants (CPA)
- Five Certified Internal Auditors (CIA) and two Certified Information Systems Auditors (CISA)
- 12,884 productive hours of which 8,564 are net project hours
- All eight higher-risk auditable areas will be covered



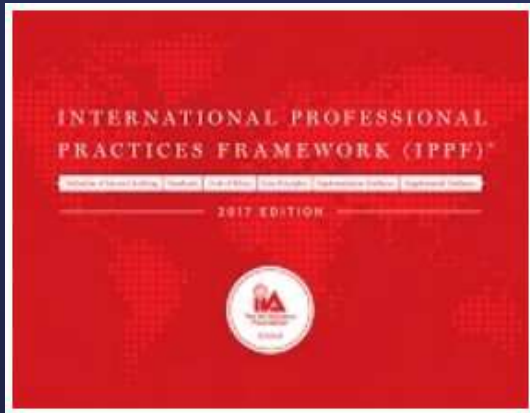
THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Auditor
7/1/2024



Organization Chart

Additional Information



Standards

International Professional Practices Framework (IPPF) standards applicable to this project:

- 2010 - Planning
- 2020 - Communication & Approval
- 2100 - Nature of Work
- 2110 - Governance
- 2120 - Risk Management
- 2130 - Control

Note: The IIA issued the Global Internal Audit Standards in January 2024 as an update to its standards, which will take effect in January 2025.

