

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.

Audits Committee

D. De Jesus, Chair
J. D. Armstrong, Vice
Chair
F. Jung
C. M. Miller
K. Seckel

Subcommittee on Audits

Meeting with Board of Directors *

January 23, 2024

11:30 a.m.

**Tuesday, January 23, 2024
Meeting Schedule**

**09:30 a.m. PWSCRC
11:30 a.m. Audits
01:00 p.m. Break
01:30 p.m. Exec**

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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

* 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 Subcommittee on Audits for November 28, 2023 (Copies have been submitted to each Director, Any additions, corrections, or omissions) [21-2952](#)

Attachments: [0122024 Audits 2A \(11282023\) Minutes](#)

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

3. SUBCOMMITTEE ITEMS

- a. Institute of Internal Auditors Quality Assessment Report [21-2953](#)

Attachments: [01232024 Audits 3a Report](#)
[01232024 Audits 3a Presentation](#)

- b. Annual Audit Department Charter Review [21-2954](#)

Attachments: [01232024 Audits 3b Presentation](#)

- c. General Auditor's Quarterly Report [21-2955](#)

Attachments: [01232024 Audits 3c Report](#)

- d. Discussion on Macias Gini O'Connell, LLP Significant Deficiency Finding [Any discussion of threats to public services or facilities to be heard in closed session. Conference with Charles Eckstrom, Group Manager of Information Technology and Scott Suzuki, General Auditor; may be heard in closed session pursuant to Gov. Code Section 54957(a)] [21-2956](#)

Attachments: [01232024 Audits 3d 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.

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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

SUBCOMMITTEE ON AUDITS

November 28, 2023

Vice Chair Armstrong called the meeting to order at 8:30 a.m.

Members present: Directors Armstrong, De Jesus (teleconference posted location), Miller (teleconference location posted, entered after roll call.), and Seckel.

Members absent: Directors Jung.

Other Board Members present: Directors Alvarez, Bryant (teleconference posted location), Camacho, Cordero, Dennstedt (teleconference posted location), Dick, Erdman, Fellow (teleconference posted location) Fong-Sakai, Goldberg, Kurtz, McMillan (teleconference posted location), Morris, Ortega, Peterson (teleconference posted location), and Smith.

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

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

- A. Subject: Approval of the Minutes of the Subcommittee on Audits for August 15, 2023 (Copies have been submitted to each Director, Any additions, corrections, or omissions)

Director Seckel made a motion, seconded by Director De Jesus, to approve the consent calendar consisting of item 2A.

The vote was:

Ayes: Directors Armstrong, De Jesus, and Seckel

Noes: None

Abstentions: None

Absent: Directors Jung and Miller

The motion for item 2A passed by a vote of 3 ayes, 0 noes, 0 abstain, and 2 absent.

END OF CONSENT CALENDAR ITEMS

3. SUBCOMMITTEE ITEMS

a. Subject: Discussion of Independent Auditor's Report from Macias Gini & O'Connell, LLP for fiscal year 2022/23

Presented by: David Bullock, Partner at Macias Gini & O'Connell LLP

Ms. Andrus introduced Mr. David Bullock, Partner at Macias Gini & O'Connell LLP (MGO), who presented MGO's fiscal year 2022/23 audit results.

The following Directors asked questions and provided comments:

1. Armstrong
2. Erdman
3. Fong-Sakai
4. Smith

Staff responded to the Directors' comments and questions.

Director Miller entered the meeting.

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. Armstrong
2. Miller
3. Ortega
4. Seckel
5. Smith

Staff responded to the Director's comments and questions.

4. FOLLOW-UP ITEMS

None

5. FUTURE AGENDA ITEMS

None

6. ADJOURNMENT

Meeting adjourned at 9:25 a.m.

Jeff Armstrong

Vice Chair



A REPORT PRESENTED TO
**METROPOLITAN
WATER DISTRICT OF
SOUTHERN CALIFORNIA**
INTERNAL AUDIT

QUALITY ASSESSMENT REPORT

Prepared November 2023

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Overall Conclusion

Metropolitan Water District of Southern California Internal Audit

Generally Conforms to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics. This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	GC	2300	GC
1300	PC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



Steve Goodson

Steve Goodson, CIA, CGAP, CISA, MBA
Team Leader
IIA Quality Services

Team Member
Hardy Patton, CIA, CRMA, CPA

Warren Hersh

Warren Hersh, CIA, CISA, CPA, CFE
Director, IIA Quality Services
IIA Quality Services



Executive Summary

Conformance Summary

STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
ATTRIBUTE STANDARDS				
1000 - Purpose, Authority, and Responsibility		X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter		X	
1100 - Independence and Objectivity		X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200 - Proficiency and Due Professional Care		X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300 - Quality Assurance and Improvement Program (QAIP)			X	
1310	Requirements of the QAIP			X
1311	Internal Assessments			X
1312	External Assessments			X
1320	Reporting on the QAIP			X
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement	X		
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS				
2000 - Managing the Internal Audit Activity		X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

		GC	PC	DNC
PERFORMANCE STANDARDS (CONTINUED)				
2100 - Nature of Work		X		
2110	Governance		X	
2120	Risk Management	X		
2130	Control	X		
2200 - Engagement Planning		X		
2201	Planning Considerations	X		
2210	Engagement Objectives		X	
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
2300 - Performing the Engagement		X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision		X	
2400 - Communicating Results		X		
2410	Criteria for Communicating		X	
2420	Quality of Communications		X	
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500 - Monitoring Progress		X		
2600 - Communicating the Acceptance of Risks		X		
IIA CODE OF ETHICS				
Code of Ethics		X		
OVERALL CONFORMANCE RATING		X		

Overall Opinion

OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS

Metropolitan Water District of Southern California Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics.

A summary of conformance with individual Standards and the IIA Code of Ethics is provided in the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may use the phrases “Conforms with the International Standards for the Professional Practice of Internal Auditing” and “Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” within its practice materials and/or audit reports.

The Quality Assessment Manual for the Internal Audit Activity (QA Manual) suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its QA Manual.

Overall Opinion

OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS - CONTINUED

Under the Standards, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services was selected to lead this assessment. This engagement's Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the Standards. The EQA was conducted virtually between October 20, 2023 and November 15, 2023. Conclusions were as of November 15, 2023.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact on the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

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Background

ADAPTED FROM INFORMATION PROVIDED BY METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INTERNAL AUDIT LEADERSHIP

The Audit Department Charter describes the lines of reporting, authority, and scope of work and was last reviewed in 2017. The organization, authority, and scope of work are currently working effectively. Metropolitan is currently in the process of revising the Audit Department Charter and policy and procedures to reflect the most current Standards and department processes.

Audit activity may have been performed at Metropolitan before 1980, but this was the first year the General Auditor's activities and responsibilities were included in the Metropolitan Annual Report.

The former General Auditor, who started at Metropolitan in 2002, retired in June 2022. The Assistant General Auditor became the Interim General Auditor until he retired in January 2023. The Deputy General Auditor served as the Acting General Auditor until the new General Auditor joined Metropolitan in February 2023.

The department has had 12 authorized positions since fiscal year 2010/11. The department is in the process of hiring a Senior Audit Manager.

Background - continued

ADAPTED FROM INFORMATION PROVIDED BY METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA INTERNAL AUDIT LEADERSHIP

The former General Auditor used various strategies to respond to staff turnover and supplement staff expertise, including the occasional use of consultants to achieve the Audit Department objectives. On July 1, 2019, the department's internal reporting structure was changed. With this change, some audit staff reported to the Deputy General Auditor, and others reported to the Assistant General Auditor, who reported to the General Auditor. With the retirements of the prior General Auditor in June 2022 and the Assistant General Auditor in January 2023, all staff reported administratively to the Deputy General Auditor.

Since February 2023, when the new General Auditor joined Metropolitan, there have been changes to the audit report content and format, follow-up audit procedures, departmental reporting, and other administrative matters. The department implemented TeamMate+ for audit management software in FY 2023/24.

Objectives, Scope, and Methodology

OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed Metropolitan Water District of Southern California Internal Audit's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to Internal Audit for improving its performance and services, as well as promoting its image and credibility throughout the organization

SCOPE

The scope of this assessment included an evaluation of Metropolitan Water District of Southern California Internal Audit's efficiency and effectiveness in executing its mission, as set forth by its Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

METHODOLOGY

To accomplish the objectives, the Assessment Team:

- Reviewed information prepared by Internal Audit at the Assessment Team's request
- Conducted interviews with key stakeholders of Internal Audit including the Board chair, the FAIRP chair, the Audit Subcommittee chair, senior executives, the Chief Audit Executive (CAE), and Internal Audit staff
- Reviewed a sample of audit projects and associated work papers and reports
- Reviewed survey data received from Internal Audit's stakeholders and internal audit staff resulting from IIA Quality Services' survey process
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *QA Manual*

Overall Summary

Metropolitan Water District of Southern California Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics. A conformance rating of generally conforms means:

- For individual Standards, the internal audit activity conforms to the requirements of the Standard (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual Standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

SUCCESSFUL PRACTICES

The Assessment Team identified five areas where Internal Audit operates in a successful practice manner. These practices relate to:

- *1111 Board Interaction*
- *2010 Planning*
- *2120 Risk Management*
- *2400 Communicating Results*
- *2500 Monitoring Progress*

CONFORMANCE GAPS

Eight gaps in conformance with standards were identified related to:

- *1010 Recognizing Mandatory Guidance in the Internal Audit Charter*
- *1300 Quality Assurance and Improvement Program, 1310 Requirements of the Quality Assurance and Improvement Program, 1311 Internal Assessments, 1320 Reporting on the Quality Assurance and Improvement Program*
- *1312 External Assessments*
- *2110.A1 Governance*
- *2210.A1 Engagement Objectives*
- *2340 Engagement Supervision*
- *2410.A1 Criteria for Communicating*
- *2420 Quality of Communications*

IMPROVEMENT OPPORTUNITIES (not related to Conformance)

Nine opportunities to improve, unrelated to conformance with Standards, were identified:

- *1210 Proficiency*
- *1220 Due Professional Care*
- *2000 Managing the Internal Audit Activity*
- *2040 Policies and Procedures - Internal Audit Procedures*
- *2040 Policies and Procedures – Key Performance Indicators*
- *2050 Coordination and Reliance*
- *2060 Reporting to Senior Management and the Board – Audit Charter*
- *2120 Risk Management*
- *2600 Reporting to Senior Management and the Board – Management’s Acceptance of Risk*

Details on these successful practices, conformance gaps, and improvement opportunities is found in the Detailed Observations section of this report.

Detailed Observations

Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

1111 Board Interaction: Language in the IA Charter makes clear that Internal Audit generally and the GA specifically have full, free, and unrestricted access to the Board. Board interaction with the General Auditor (GA) takes place formally during audit subcommittee meetings and informally through update meetings with the audit subcommittee chair before each meeting and more frequently as necessary. The GA also has access to and periodic interaction with the board chair and the Finance, Audit, Insurance and Real Property (FAIRP) committee chair.

2010 Planning: IA has a robust risk assessment planning process soliciting board and management input and using the categories of Impact, Likelihood and Velocity to help prioritize the risk universe. Additionally, to insulate the IA function from engagements not based on significant risks, the board has established a process whereby board members' requests for a specific internal audit must be approved by a sub-committee of the board.

2120 Risk Management: The GA held a risk assessment workshop with the audit subcommittee to educate the board on risk management practices. During this education process, the GA noted many other organizations have a Chief Risk Officer.

Successful Practices - continued

2400 Communicating Results: The new report format Implemented in 2023 is an improvement. The new recognition section added to the report should help balance the report and build relationships with management. The new report has a much-improved summary of scope and objectives as well as good notification of exclusions from scope. The prioritization of individual recommendations may be better received than the prior overall internal control rating.

2500 Monitoring Progress: Changes to the observation/recommendation monitoring process appear to better align with the requirements established by Standard 2500 and will better assure management and the board of corrective actions management has taken to address risk and control issues identified by internal audit.

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
CG1	<p>1010 Recognizing Mandatory Guidance in the Internal Audit Charter - The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board</p>	<p>The current internal audit charter requires the internal audit to follow the mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). However, the charter does not mandate adherence to the Core Principles as required by the Standards.</p> <p>We recommend internal audit amend the charter to include a mandate to adhere to the Core Principles.</p> <p>Note: This requirement may no longer be mandated in the pending Standards refresh.</p>	<p>Agree. We will review our charter in 2024, and if the revised Standards continue to require adherence to the Core Principles, we will request an amendment to our charter before December 31, 2024.</p>
CG2	<p>1300 Quality Assurance and Improvement Program - The CAE <u>must develop and maintain</u> a quality assurance and improvement program that covers all aspects of the internal audit activity.</p> <p>1310 Internal Assessments – The quality assurance and improvement program must include both internal and external assessments.</p> <p>1311 Internal Assessments - Internal Assessments must include:</p> <ul style="list-style-type: none"> Ongoing monitoring of the performance of the IAA. Periodic self-assessments ... by other persons within the organization with sufficient knowledge of IA practices <p>1320 Reporting on the Quality Assurance and Improvement Program - The CAE must communicate the results of the quality assurance and improvement program to senior management and the board.</p> <p><u>Interpretation:</u> To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually.</p>	<p>Periodic internal assessments are expected to be conducted at least annually.</p> <p>IA has performed several internal assessments since the last external assessment. However, an internal assessment has not been performed since 2021.</p> <p>To reach Generally Conforms (GC) and maintain a sustainable QAIP, we recommend IA :</p> <ul style="list-style-type: none"> Address all open items identified in the 2021 QAIP report. Integrate key performance measures into their ongoing monitoring activities Enhance their QAIP policy and procedures to clarify key activities Carry out periodic self-assessments that provide a holistic and comprehensive review of the Standards and the IA function Re-implement QAIP reporting procedures 	<p>Agree. We will implement the seven recommendations in the 2021 QAIP report pertaining to the engagement work program, documenting information, engagement supervision, policies and procedures, the department charter, audit committee charter, and continuing professional education. Development and reporting on key performance indicators have already been identified as a component of our department's strategic plan. We will revise sections of our audit manual related to the QAIP policy and procedures to clarify key activities, noting any changes required by the upcoming Standards revisions. Finally, periodic self-assessments on adherence to the Standards will resume and be reported to the audit committee. We anticipate resolving this conformance gap before December 31, 2024.</p>
CG3	<p>1312 External Assessments - External assessments <u>must be conducted at least once every five years</u> by a qualified, independent assessor or assessment team from outside the organization. The CAE must discuss with the board:</p> <ul style="list-style-type: none"> The form and frequency of external assessment. The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. 	<p>The last EQA was an independent validation done in May 2017. The requirement is that an external assessment occur every five years.</p> <p>We recommend Internal Audit develop a plan that provides reasonable assurance that EQA requirements will be met in the future.</p> <p>Upon conclusion of this EQA, Internal Audit will be in full conformance with this Standard and no additional action will need to be taken.</p>	<p>Agree. Our recently released quarterly dashboard report to the Board and management has an element reporting compliance with the Standards requirement for external quality assessment (EQA). This will provide visibility to the EQA requirement and ensure the next independent validation occurs in 2028.</p>

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
GC4	2110.A1 Governance – <i>The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities</i>	<p>No evaluation of the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities has been conducted.</p> <p>We recommend Internal Audit include an assessment of the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities in their audit plan.</p>	Agree. We will add an evaluation of Metropolitan's control environment, e.g., COSO Principle 1 – Demonstrate Commitment to Integrity and Ethical Values, to our business plan by fiscal year 2024/25.
GC5	2210.A1 Engagement Objectives - <i>Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.</i>	<p>Engagement level risk assessments have not consistently been used to narrow audit objectives to the most significant risks.</p> <p>We recommend Internal Audit implement engagement procedures to assure that risk assessment results are used to narrow audit objectives to the most significant risks identified.</p>	Agree. Identification of the highest risk areas in the risk and control matrix (engagement risk assessment) is already occurring. We have modified engagement procedures to ensure audit objectives are narrowed and focus on the most significant risks identified.
CG6	2340 Engagement Supervision - <i>Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.</i>	<p>Work papers reviewed for this EQA lacked evidence of timely supervision including review and approval of engagement work programs and other significant work papers. This condition was also identified in the 2017 external assessment.</p> <p>We recommend Internal Audit assure that supervision is provided in a timely manner.</p>	Agree. The expected hiring of a senior audit manager will significantly contribute to the effort for timely provision of engagement supervision and work paper review.
CG7	2410.A1 Criteria for Communicating - <i>Criteria for Communicating – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans</i>	<p>Final engagement communications did not consistently include the engagements' objectives and scopes. Additionally, communications did not include management responses and action plans.</p> <p>We recommend Internal Audit include in engagement communications the engagements' objectives and scopes as well as management responses and action plans.</p>	Agree. The newly implemented audit report format includes a provision for the engagement scope and objectives, as well as a section for the management response and action plan.
CG8	2420 – Quality of Communications - <i>Communications must be accurate, objective, clear, concise, constructive, complete, and timely.</i>	<p>Recommendations communicated to management did not consistently focus on the cause of the conditions identified. As a result, the recommendations were not as constructive as they could have been. Additionally, numerous engagements have not been reported to management and the board in a timely manner.</p> <p>We recommend Internal Audit identify and address the causes of the conditions identified and address those causes in their recommendations.</p> <p>The General Auditor is addressing the timeliness of engagement reporting.</p>	Agree. The recent upgrade of our project management system includes a provision for documenting the cause of an audit observation. This will ensure our recommendations address an observation's cause and the condition. Implementing corrective action for CG5 (reducing an engagement's objectives and scope) and hiring a senior audit manager will accelerate the turnaround of engagement reporting to the Board and management.

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
IO1	<p>1210 Proficiency (Interpretation excerpts) <i>Proficiency is a <u>collective term</u> that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and <u>emerging issues, to enable relevant advice and recommendations.</u></i></p>	<p>Talent Management Talent Management is a critical success factor in all IA departments. IA has high level job descriptions but could benefit from doing an analysis that ties in the IIA competency framework. We recommend Internal Audit:</p> <ul style="list-style-type: none"> • Use an <u>internal audit competency framework to conduct</u> an annual gap and opportunity assessment. • Make talent management part of the detailed Internal Audit strategic plan. <p>IT Related Credentials There are CISA certified individuals on staff. Third parties can also be used when necessary. However, IA has indicated in board presentations that due to skill set limitations there are items with the audit universe that have been excluded from the audit plan related to cyber. Conversations with the board indicate that a position to close the skill gap has been approved and is in the administrative execution phase.</p> <p>We recommend Internal Audit continue to evaluate if the resources being used today are adequate for the future.</p>	<p>Agree. We will conduct a gap assessment using the internal audit competency framework, which will conclude if current resources are adequate for the future. Additionally, talent management will be added to our strategic plan, and we will collaborate with the Human Resources Group to align job descriptions with IIA guidance.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
IO2	<p>1220 – Due Professional Care – Internal Audit fully embraces the use of technology and CAATs to enhance efficiency and effectiveness of Internal Audit risk assessment, planning, and engagement execution processes.</p>	<p>While Internal Audit acquired a data analytics tool in 2022 and has provided training to the staff, the overall use of data analytics (DA) remains immature. IA could benefit from tying data analytics into the annual strategic plan and setting clear specific goals to not only increase the use of DA but also to analyze whether the right tools are in place. The proper use of DA could simplify testing and allow for larger samples where desired. A more robust use of data analytics would allow the expanding of capabilities related to data extraction and analysis, fraud prevention / detection, and executive and departmental reporting using technology and Computer Assisted Audit Techniques (CAATs).</p> <p>Timely access to data across the organization, discipline to address technology and data analytics for each engagement, and training associated with data analysis tools and techniques, will continue to be critical success factors to raising the level of technology and CAATs maturity. Internal Audit recognizes that the use of technology and data analytics provides opportunities to:</p> <ul style="list-style-type: none"> • enhance the audit process so it is faster and more efficient and effective, • enhance productivity of Internal Audit management and staff, • demonstrate due professional care when planning and performing engagements, • shorten the audit cycle time to provide more timely risk and control assurance, • support development of continuous monitoring and auditing protocols. 	<p>Agree. Once we achieve consistent adherence to essential operational procedures, we will explore advancing our use of data analytics and take advantage of the aforementioned opportunities.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
IO3	<p>2000 Managing the Internal Audit Activity - The CAE <i>must effectively manage the IAA to ensure it adds value to the organization.</i></p> <p><u>Interpretation:</u> <i>The IAA is effectively managed when: It achieves the purpose and responsibility included in the IA charter. ... It considers trends and emerging issues that could impact the organization.</i></p>	<p>IA Strategic Plan: The current strategic plan is part of the annual business plan. However, it is very high level and does not include detailed timelines with specific measurable targets. Accordingly, the plan could be strengthened by creating a 3-5 year rolling plan that is updated annually. Consideration should be given to the department's strengths, weaknesses, opportunities and threats (SWOTs) when developing the plan.</p> <p>A strong strategic plan can assist IA in achieving its vision and mission. Several IA groups have used this successful practice to adapt to changes in their organizations operating environments (e.g., growth, organization strategies, changing stakeholder expectations).</p> <p>We recommend Internal Audit :</p> <ul style="list-style-type: none"> • Create a strategic plan that focuses on critical success factors (e.g., IA Talent Management/competency framework analysis, IA Technology Competencies, Specific Data Analytics goals, etc. • Clear the backlog of audit reports • Track and clear management action items • Create a plan to update department policies and guidelines. • Create a plan to reinstitute the QAIP process and to update the related procedures. 	<p>Agree. After creating a vision statement and updating our mission statement, the next phase in our strategic plan is to perform a formal gap analysis regarding talent, processes, and technology. We have begun clearing the backlog (carry-over) of audit reports, which we expect to complete this fiscal year. A follow-up process has also been established to review the status of the 61 recommendations and associated management action plans. The update of our audit manual is discussed below in IO4, and we will resume the internal QAIP process in FY 2024/25.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
IO4	<p>2040 Policies and Procedures – Internal Audit Procedures - The CAE must establish policies and procedures to guide the internal audit activity.</p> <p><u>Interpretation:</u> The form and content of policies and procedures are dependent upon the size and structure of the IA activity and the complexity of its work.</p>	<p>The current manual covers most of the topics that are typically covered in a small IA department audit manual. However, we did see opportunities to enhance the guidance in several procedures. A few such opportunities are note below.</p> <ul style="list-style-type: none"> The last update to the manual is dated March 2012. While the new CAE is incorporating Red Book standard education into staff meetings, the manual should be updated to reflect the latest standards. An old version of the IPPF Standards are included in the manual under exhibit G. Topics such as due professional care could be better documented in the core section off the IA manual. Internal steps related to fraud and data analytics have been enhanced since the last manual update. A new version of TeamMate has been installed and should be documented. The audit report format has been updated and now includes a new prioritization methodology and the inclusion of management responses. <p>We discussed the gaps and enhancements with audit management. We recognize that Individually that process is being updated under new IA leadership. While the gaps are not significant, collectively they indicate the need to refresh the manual and strengthen conformance with the Standards. The IPPF and Standards are being revised. The new Global Internal Audit Standards (GIAS) are scheduled to be finalized later this year and will become effective 12 months after they are released. Almost all IA groups will need to update their policies and procedures. We encourage Internal Audit to:</p> <ul style="list-style-type: none"> Develop a plan with realistic target dates to update their IA manual Use IA staff "monthly staff meeting" to cover the new GIAS 	<p>Agree. We will prioritize updating our audit manual once we have hired a new senior audit manager. Currently, we include Standards coverage at our monthly team meetings and will continue to do so after the release of the new GIAS.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
IO5	<p>2040 – Policies and Procedures – Key Performance Indicators <i>The CAE must establish policies and procedures to guide the internal audit activity.</i></p> <p><i>Interpretation: The form and content of policies and procedures are dependent upon the size and structure of the IAA and the complexity of its work.</i></p>	<p>No Key Performance Indicators (KPIs) are used in the monthly General Auditor report prepared for the board. No KPIs are generated within Internal Audit for use in monitoring department progress. The use of KPIs could strengthen the management of Internal Audit and help the board to better understand progress via a visual aid.</p> <p>We recommend Internal Audit develop Key Performance Indicators (KPIs) and track progress via an Internal Audit dashboard.</p>	<p>Agree. We expect to develop KPIs as part of our strategic plan for 2024 and will include them in future quarterly status reports to the Board and management.</p>
IO6	<p>2050 Coordination and Reliance <i>The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.</i></p>	<p>The approved internal audit charter calls for the internal audit activity to:</p> <ul style="list-style-type: none"> • “Assist in the investigation of significant suspected fraudulent activities within the organization. • Assure reporting to the Finance, Audit, Insurance and Real Property Committee on the results, as appropriate.” <p>However, clarification is needed to identify who internal audit is to assist and what internal audit’s role is in these investigations.</p> <p>We recommend Internal Audit work with management to obtain and document clarity regarding their role in investigations of suspected fraudulent activities.</p>	<p>Agree. As part of the corrective action for CG1 above, we will collaborate with the Board to clarify our role in investigating complaints of suspected fraudulent activities.</p>
IO7	<p>2060 Reporting to Senior Management and the Board – Audit Charter - <i>The CAE’s reporting and communication to senior management and the board must include information about the following (not all inclusive below):</i></p> <ul style="list-style-type: none"> • <i>Audit Charter</i> 	<p>IA Charter has not been updated in several years. We recommend the charter be reviewed annually and presented to the Audit subcommittee (and Board) annually even without changes.</p>	<p>Agree. We have established an annual planning calendar for recurring items that includes our charter. A review of our charter, in accordance with Administrative Code Section 6451, will be conducted with the Board in 2024.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
108	<p>2120 Risk Management – Internal Audit effectively participates in risk management activities. The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.</p>	<p>There is no defined consistent risk framework used across the company. COSO and NIST frameworks are used as a point of reference by the internal audit function. Additionally, the organization does not have a Chief Risk Officer (CRO) or a defined Enterprise Risk Management (ERM) process.</p> <p>Interviews revealed that COSO training for the organization would be something IA could help with and would be of benefit to Metropolitan. Accordingly, there is an opportunity for IA to provide training and advisory services (COSO, How to prepare for an audit, etc.) to close this educational gap.</p> <p>Assurance coordination with other departments is minimal. Only the Ethics office and the external auditor were noted. As noted above, there is no ERM function today. Accordingly, it appears there is a potential opportunity to assist the organization by providing advisory services in the development of ERM process and potentially in the development of an organization assurance map. Synchronization of the taxonomy could be helpful for the whole organization.</p> <p>The IIA offers resources such a book titled “Practical Enterprise Risk Management – Getting to the Truth” which could be helpful should the CAE decide to explore facilitation of an ERM program.</p> <p>We recommend Internal Audit explore these opportunities to add additional value to Metropolitan.</p>	<p>Agree. As staffing resources become available, we will look for ways to facilitate establishing an enterprise risk management function, formalizing a combined assurance model, and developing an organizational assurance map.</p>
109	<p>2600 Reporting to Senior Management and the Board Management’s Acceptance of Risk– When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</p> <p><i>Interpretation: The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.</i></p>	<p>While the CAE has a direct reporting relationship with the board and weekly communication with the board chair, there is no formal risk protocol in place. While there is a defined procedure in place for the GA to elevate concerns about management’s response to specific audit findings, there is not a defined process in place for risk identified outside of the audit reporting process.</p> <p>We recommend the GA initiate conversations with senior management and the board regarding what types of other risks could be identified by the CAE and how these would be escalated if necessary.</p>	<p>Agree. Risks may be identified outside of the audit process through consulting projects, informal discussions with Metropolitan employees, or from board committee meetings. Further discussion of the risk would start with applicable group managers and then escalate to the assistant general manager level, chief of staff, the general manager, and finally, the Board through the Subcommittee on Audits or board chair. This process will be included in a future update of our audit manual.</p>

Appendix A

Conformance Rating Criteria

Conformance Rating Criteria

“Generally Conforms” (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

“Partially Conforms” (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

“Does Not Conform” (DNC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Appendix B

Stakeholder Feedback

Stakeholder Feedback

SENIOR MANAGEMENT AND KEY STAKEHOLDERS

NAME	TITLE
Adán Ortega	Chair – Board of Directors
Tim M. Smith	Chair - Finance, Audit, Insurance, and Real Property Committee (FAIRP)
David D. De Jesus	Chair - Audit Subcommittee
Adel Hagekhalil	General Manager
Marcia Scully	General Counsel
Abel Salinas	Ethics Officer
Peter Von Hamm	Assistant Ethics Officer
Katano Kasaine	Assistant General Manager Finance / Administration/CFO
Deven Upadhyay	Executive Office, Assistant General Manager Water Resources
Shane Chapman	Assistant General Manager, Operations
Charles Eckstrom	Information Technology Group Manager



In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to internal audit management and staff.

Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF

NAME	TITLE
Scott Suzuki	General Auditor
Kathryn Andrus	Deputy General Auditor
Chris Gutierrez	Program Manager - Audit
Sherman Hung	Principal Auditor
Andrew Lin	Principal Auditor
Lina Tan	Principal Auditor
Leo Roldan	Principal Auditor
Bonita Leung	Senior Deputy Auditor

In addition to meeting with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to internal audit management and staff.

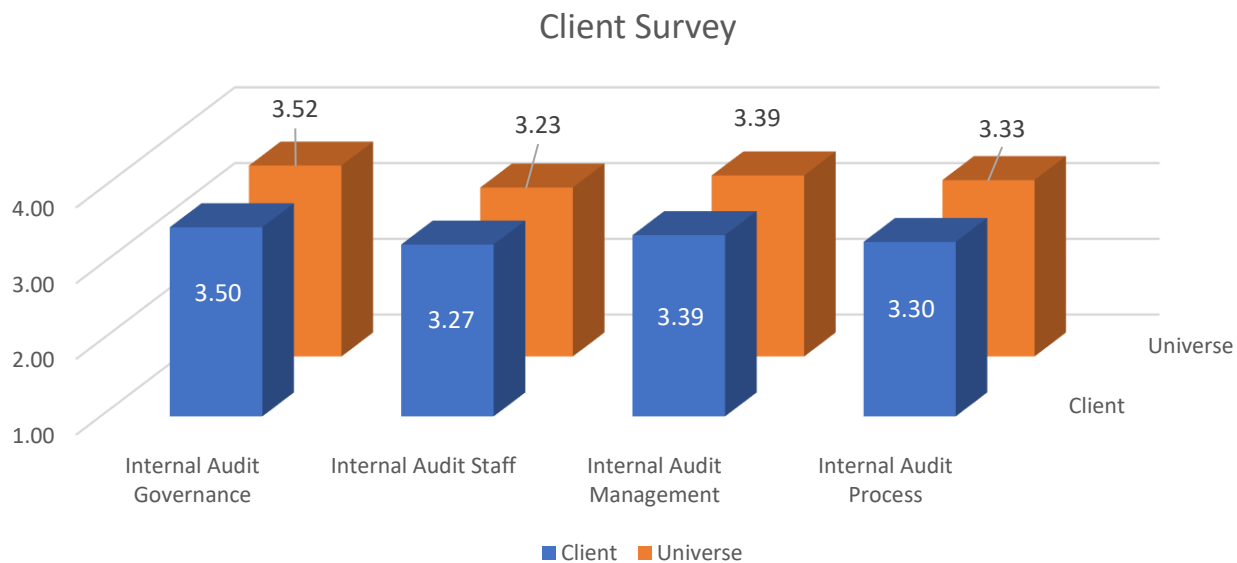
Stakeholder Feedback

The Assessment Team interviewed and surveyed Internal Audit stakeholders and staff. Below are selected comments that represent the feedback received.

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none">• IA management handles matters in an objective manner• The work plan that has been laid out is outstanding and I am looking forward to seeing the results• The team does a very good job and is providing value to the district• Their plan seems to provide a very comprehensive approach to investigating, reporting, and following through• I look forward to reviewing the reports that the new Internal Auditor has identified for the Board• Great new leadership• I'm refreshed by the new thinking of our General Auditor• I am betting the bank on our new CAE to change the culture. So far, he has my respect and support.	<ul style="list-style-type: none">• Audits tend to take long periods of time (many over one year)• The audit scope shifts after the entrance scope meeting so there is an ever-moving target• Be a consulting arm to prevent failures from happening. Be proactive• In the past there hasn't been enough understanding of the business process and risks and I think the recommended actions were not appropriate, over conservative and inefficient for the district.• Timely review of workpapers and issuance of reports.• Collaboration and participating in risk analysis on regular basis• Strive to be seen as a resource for staff to help them do their jobs better.

Stakeholder Feedback

- SURVEY RESULTS (SUMMARY)



"Client" represents the weighted average of all stakeholder respondents (excluding Group 1, which is reserved for the CAE).

"Universe" represents the weighted average of all respondents from all organizations that completed this survey since May 2013 (excluding Group 1, which is reserved for the CAE)..

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Stakeholder Feedback

• SURVEY RESULTS (DETAIL)

Internal Audit Governance	2	3	4	5	AVG	UNV
IA activity personnel respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.	3.60	3.67	3.00	4.00	3.59	3.70
IA activity personnel exhibit the highest level of professional objectivity in performing their work, making a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	3.56	3.50	2.00	3.33	3.39	3.47
The IA activity is perceived as adding value and helping our organization accomplish its objectives.	3.59	3.33	2.50	3.67	3.48	3.35
The integrity of the IA activity establishes confidence, providing the basis for their role as trusted advisor within our organization.	3.53	3.33	2.50	3.33	3.40	3.43
Organizational placement of the IA activity ensures its independence and ability to fulfill its responsibilities.	3.56	3.33	3.50	3.67	3.54	3.56
IA activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	3.77	3.00	3.00	4.00	3.58	3.62

LEGEND

Group 2 Board Offices (19 of 38 responded)
 Group 3 Executive Management (3 of 7 responded)
 Group 4 Group Managers (2 of 6 responded)
 Group 5 Others (4 of 12 responded)

"AVG" represents the weighted average of all respondents for all stakeholders (excluding Group 1, which is reserved for the CAE).

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4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Stakeholder Feedback

• SURVEY RESULTS (DETAIL)

Internal Audit Staff	2	3	4	5	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	3.67	3.50	2.00	3.33	3.45	3.34
IA activity staff and management keep up to date with changes in my business, our industry and relevant regulatory issues.	3.67	3.50	2.00	3.00	3.41	3.22
IA activity staff display adequate knowledge of my business processes including critical success factors.	3.50	3.33	2.50	2.50	3.24	3.14
IA activity staff exhibit effective problem identification and solution skills.	3.53	3.50	1.50	2.33	3.18	3.23
IA activity management demonstrate effective conflict resolution and negotiating skills.	3.75	3.00	2.50	3.00	3.33	3.27
The IA activity is viewed as viable source of talented individuals who could successfully transfer to other parts of our organization.	3.55	3.00	1.00	2.33	3.00	3.19

LEGEND

Group 2 Board Offices (19 of 38 responded)
 Group 3 Executive Management (3 of 7 responded)
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Stakeholder Feedback

• SURVEY RESULTS (DETAIL)

Internal Audit Management	2	3	4	5	AVG	UNV
Internal audit activity management communicates effectively (oral, written, and presentations).	3.62	3.67	2.50	3.33	3.48	3.37
Internal audit activity management keeps up to date with changes in my business, our industry, and relevant regulatory issues.	3.60	3.67	2.00	3.00	3.47	3.23
The IA activity establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.	3.50	3.33	3.00	2.67	3.30	3.44
The IA activity sufficiently communicates its audit plans to management of areas being reviewed. This includes descriptions of audit objectives and scope of review.	3.33	3.67	3.00	3.33	3.35	3.42
The IA activity effectively promotes appropriate ethics and values within our organization.	3.57	3.33	3.00	3.33	3.45	3.55
The IA activity adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.	3.44	3.50	2.50	3.33	3.31	3.33

LEGEND

Group 2 Board Offices (19 of 38 responded)
 Group 3 Executive Management (3 of 7 responded)
 Group 4 Group Managers (2 of 6 responded)
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Stakeholder Feedback

• SURVEY RESULTS (DETAIL)

Internal Audit Process	2	3	4	5	AVG	UNV
The IA activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.50	3.50	3.00	3.33	3.42	3.37
The IA activity exhibits proficient project management and organizational skills to assure the timely completion of their audit engagements.	3.50	3.00	1.50	3.00	3.16	3.30
The IA activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.	3.60	3.67	2.50	3.00	3.41	3.28
The IA activity demonstrates sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning its audit engagements.	3.33	3.67	3.00	3.00	3.29	3.40
IA activity audit reports are accurate, objective, clear, concise, constructive, complete, and timely.	3.33	3.67	2.00	3.33	3.24	3.29
TOTAL	3.55	3.42	2.43	3.18	3.37	3.37

LEGEND

Group 2 Board Offices (19 of 38 responded)
 Group 3 Executive Management (3 of 7 responded)
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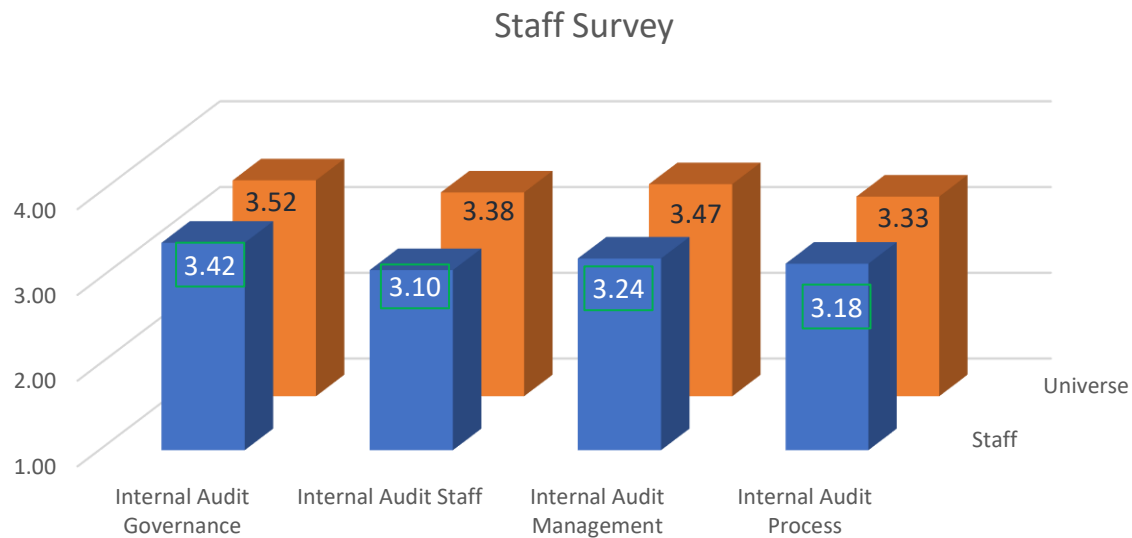
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Stakeholder Feedback

- SURVEY RESULTS (SUMMARY)



STAFF SURVEY

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Stakeholder Feedback

- INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	AVG	UNV
Our internal audit activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.38	3.35	3.47
Our internal audit activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.44	3.50	3.33
My chief audit executive effectively promotes the value of our internal audit activity within our organization.	3.00	3.44	3.40	3.64
Our internal audit activity staff is fully aware of, and completely conforms with, both the Principles and the Rules of Conduct that comprise the Code of Ethics established by The Institute of Internal Auditors (IIA).	3.00	3.50	3.44	3.59
Our internal audit activity staff is fully aware of, and completely conforms with, The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) relating to objectivity and due professional care and the Code of Ethics.	3.00	3.38	3.33	3.56
Our internal audit activity has a conflict of interest policy to report any perceived or actual issues that may have an influence on the independence and objectivity of the auditors.	3.00	3.38	3.33	3.53

LEGEND

Group 1 = CAE (1 of 1 responded)

Group 2 = Internal Audit Team (10 of 10 responded)

"AVG" represents the weighted average of all respondents for all stakeholders (excluding Group 1, which is reserved for the CAE).

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	3.00	3.38	3.33	3.43
Our audit assignments provide internal audit activity staff with opportunities to develop adequate knowledge of key business processes, including critical success factors.	3.00	3.25	3.22	3.46
I have sufficient knowledge of key IT risks and controls to perform my audit engagements.	3.00	3.00	3.00	3.20
I have sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning my audit engagements.	3.00	3.38	3.33	3.36
Our internal audit activity management provides me with ample opportunities to develop the skills and knowledge necessary to perform all of my audit engagements.	3.00	3.13	3.11	3.41
Our internal audit activity management provides me with ample opportunities to develop skills and knowledge and acquire experience that enable me to develop professionally and advance my career.	3.00	2.63	2.67	3.38
I have ample opportunity to enhance my knowledge, skills, and competencies through in-house training sessions and/or outside seminars.	3.00	3.25	3.22	3.39
My performance is reviewed on a regular and sufficiently frequent basis, the criteria used are adequate, and the reviews are meaningful and helpful.	2.00	2.88	2.78	3.32
Our internal audit activity management encourages and supports internal audit activity staff in demonstrating its proficiency by obtaining appropriate professional certifications such as designations offered by The IIA or other designations related to internal auditing.	3.00	3.13	3.11	3.54
Our internal audit activity is viewed as a valuable developmental assignment by individuals from other parts of our organization.	3.00	3.00	3.00	3.26

LEGEND

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Stakeholder Feedback

- INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity management has established policies and procedures that clearly guide the operation of our internal audit activity.	3.00	3.13	3.11	3.49
Our internal audit activity actively encourages collaborative effort between internal audit management and staff to effectively complete our engagements in a timely manner.	3.00	3.13	3.11	3.47
Our internal audit activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.25	3.22	3.49
Our internal audit activity adequately assesses the effectiveness of risk management processes employed by management to achieve our organization's objectives.	2.00	3.38	3.22	3.40
Our internal audit activity effectively promotes appropriate ethics and values broadly across our total organization.	3.00	3.25	3.22	3.57
Our internal audit activity adequately assesses the effectiveness of governance processes, including ethics-related programs and activities.	2.00	3.29	3.13	3.42

LEGEND

Group 1 = CAE (1 of 1 responded)

Group 2 = Internal Audit Team (10 of 10 responded)

"AVG" represents the weighted average of all respondents (excluding Group 1, which is reserved for the CAE) for all stakeholders.

"UNV" represents the weighted average of all respondents (excluding Group 1, which is reserved for the CAE) from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Stakeholder Feedback

- INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity develops and documents a plan for each engagement based on a preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud), and our engagement objectives reflect the result of this risk assessment.	3.00	3.38	3.33	3.54
Our internal audit activity uses computer-assisted audit techniques, including data mining, to facilitate data collection and analysis during completion of our engagements.	3.00	3.38	3.33	3.17
I receive appropriate, timely, and constructive feedback regarding my performance in completing engagements, enabling me to continue developing my knowledge, skills, and competencies.	0.00	3.00	3.00	3.29
Our internal audit activity management and staff exhibit proficient project management and organizational skills to assure the timely completion of our audit engagements.	3.00	3.00	3.00	3.29
Our internal audit activity management and staff demonstrate effective conflict resolution and negotiating skills.	3.00	3.13	3.11	3.35
TOTAL	2.78	3.21	3.18	3.42

LEGEND

Group 1 = CAE (1 of 1 responded)

Group 2 = Internal Audit Team (10 of 10 responded)

"AVG" represents the weighted average of all respondents for all stakeholders (excluding Group 1, which is reserved for the CAE).

"UNV" represents the weighted average of all respondents from all organizations that completed this survey since May 2013 (excluding Group 1, which is reserved for the CAE).

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Appendix C

List of Acronyms

List of Acronyms

ACRONYM	DESCRIPTION
CAE	Chief Audit Executive
CPE	Continuing Professional Education
CAATs	Computer Assisted Audit Techniques
EQA	External Quality Assessment
FAIRP	Finance, Audit, Insurance and Real Property Committee
GA	General Auditor
IA	Internal Audit
IIA	The Institute of Internal Auditors
IPPF	International Professional Practices Framework
IT	Information Technology
QA Manual	Quality Assessment Manual for the Internal Audit Activity
Metropolitan	Metropolitan Water District of Southern California
Standards	International Standards for the Professional Practice of Internal Auditing



IIA Quality Services

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Subcommittee on Audits

Institute of Internal Auditors' Quality Assessment Report

Item 3a

January 23, 2024

Item 3a

IIA Quality Assessment Report



Subject

Institute of Internal Auditors' Quality Assessment Report

Purpose

Share results of the Institute of Internal Auditors' External Quality Assessment

Next Steps

Resolve conformance gaps and capitalize on improvement opportunities

Conformance Rating Criteria

Appendix A

- “Generally Conforms” (GC)
- “Partially Conforms” (PC)
- “Does Not Conform” (DNC)

Metropolitan Water District of Southern California Internal Audit

Overall Conclusion

Generally Conforms to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

Executive Summary

Conformance Summary

ATTRIBUTE STANDARDS	RATING
1. Purpose, Authority, & Responsibility	Generally Conforms
2. Independence & Objectivity	Generally Conforms
3. Proficiency & Due Professional Care	Generally Conforms
4. Quality Assurance & Improvement Program	Partially Conforms

Executive Summary

Conformance Summary

PERFORMANCE STANDARDS	RATING
1. Managing the Internal Audit Activity	Generally Conforms
2. Nature of Work	Generally Conforms
3. Engagement Planning	Generally Conforms
4. Performing the Engagement	Generally Conforms
5. Communicating Results	Generally Conforms
6. Monitoring Progress	Generally Conforms
7. Communicating the Acceptance of Risks	Generally Conforms
IIA Code of Ethics	Generally Conforms

Executive Summary

Overall Opinion

- Metropolitan Water District of Southern California's Internal Audit generally conforms with the Standards and the IIA Code of Ethics.
- An External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization.
- The EQA was conducted virtually between October 20, 2023 and November 15, 2023.
- Conclusions were as of November 15, 2023.

Executive Summary

Objectives

Evaluate conformance to the Standards.

Scope

General Auditor's efficiency and effectiveness in executing its mission, as set forth by its Charter.

Methodology

- Reviewed information prepared by Internal Audit.
- Conducted interviews with key stakeholders.
- Reviewed a sample of audit projects and associated work papers and reports.
- Reviewed survey data received from Internal Audit's stakeholders and internal audit staff.
- Prepared diagnostic tools.

Overall Summary

Successful Practices

The Assessment Team identified five areas where Internal Audit operates in a successful practice manner. These practices relate to:

1. III: Board Interaction
2. 2010: Planning
3. 2120: Risk Management
4. 2400: Communicating Results
5. 2500: Monitoring Progress

Overall Summary

Conformance Gaps

Eight gaps in conformance with standards were identified related to:

1. 1010: Recognizing Mandatory Guidance in the Internal Audit Charter
2. 1300: Quality Assurance and Improvement Program, 1310: Requirements of the Quality Assurance and Improvement Program, 1311: Internal Assessments, 1320: Reporting on the Quality Assurance and Improvement Program (QAIP)
3. 1312: External Assessments
4. 2110.AI: Governance
5. 2210.AI: Engagement Objectives
6. 2340: Engagement Supervision
7. 2410.AI: Criteria for Communicating
8. 2420: Quality of Communications

Overall Summary

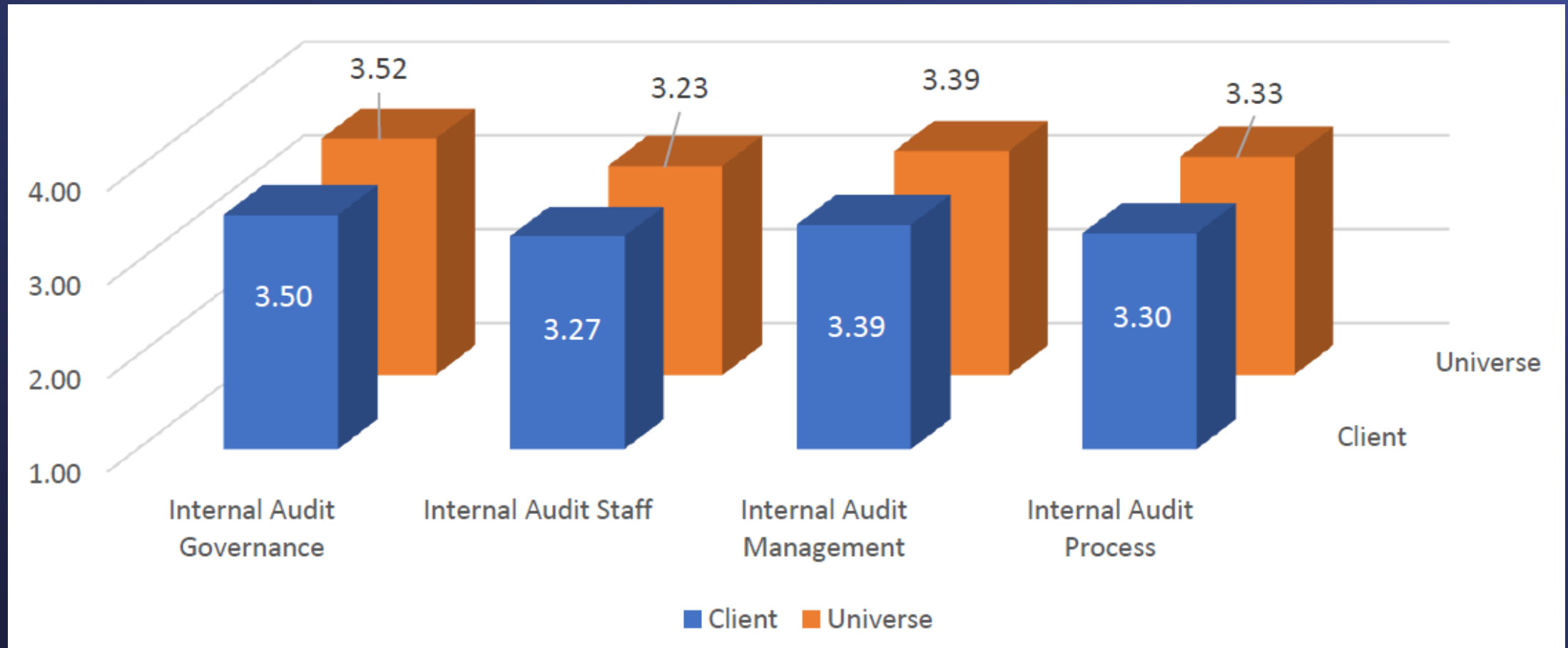
Improvement Opportunities (not related to Conformance)

Nine opportunities to improve were identified, unrelated to conformance with Management Standards:

1. 1210 Proficiency
2. 1220 Due Professional Care
3. 2000 Managing the Internal Audit Activity
4. 2040 Policies and Procedures - Internal Audit Procedures
5. 2040 Policies and Procedures – Key Performance Indicators
6. 2050 Coordination and Reliance
7. 2060 Reporting to Senior Management and the Board – Audit Charter
8. 2120 Risk
9. 2600 Reporting to Senior Management and the Board – Management’s Acceptance of Risk

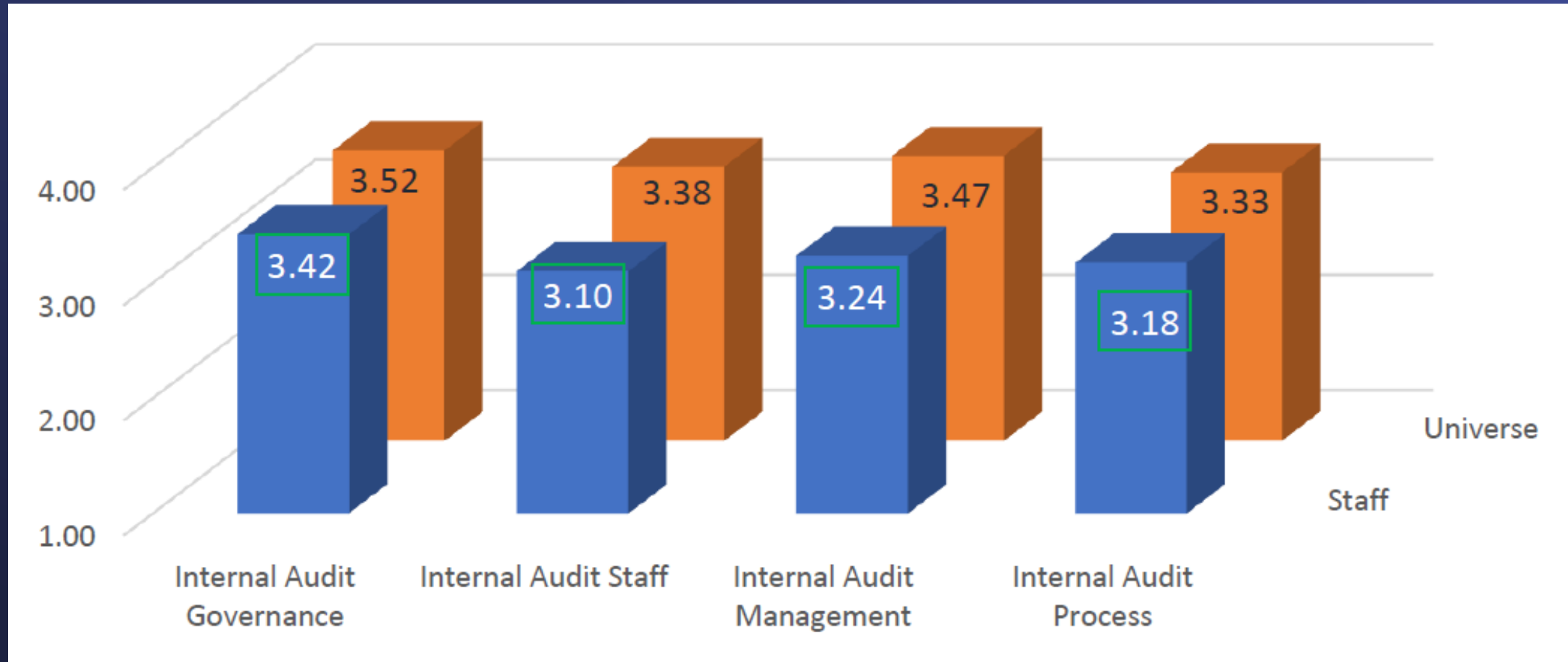
Survey Results

Client Survey



Survey Results

Staff Survey





Institute of Internal Auditors Quality Assessment Report

Thank You

Addendum:
Detailed
Observations
&
Management
Responses

- Successful Practices
- Conformance Gaps
- Improvement Opportunities

Detailed Observations

Successful Practices

1. Board Interaction:

- IA Charter access to the Board
- Board interaction with the General Auditor (GA)
- GA access to the Board chair and the committee chair

2. Planning:

- Risk assessment planning process
- Board members' requests for specific audits

3. Risk Management:

Risk assessment workshop

Detailed Observations

Successful Practices

4. Communicating Results:

- New report format
- New recognition section
- Improved summary of scope and objectives as well as exclusions
- Prioritization of individual recommendations

5. Monitoring Progress:

Changes to the observation/recommendation monitoring process

Detailed Observations

CGI

Observation

The current charter does not mandate adherence to the Core Principles as required by the Standards.

We recommend internal audit amend the charter to include a mandate to adhere to the Core Principles.

Management Response

Agree. We will review our charter in 2024, and if the revised Standards continue to require adherence to the Core Principles, we will request an amendment to our charter before December 31, 2024.

Detailed Observations

CG2

Observation

An internal assessment has not been performed since 2021.

We recommend IA :

1. Address all open items identified in the 2021 QAIP report
2. Integrate key performance measures into their ongoing monitoring activities
3. Enhance their QAIP policy and procedures to clarify key activities
4. Carry out periodic self-assessments
5. Re-implement QAIP reporting procedures

Management Response

Agree. We will implement the seven recommendations in the 2021 QAIP report pertaining to the engagement work program, documenting information, engagement supervision, policies and procedures, the department charter, audit committee charter, and continuing professional education.

Detailed Observations

CG3

Observation

The last external quality assessment (EQA) was an independent validation done in May 2017.

We recommend Internal Audit develop a plan that provides reasonable assurance that EQA requirements will be met in the future. Upon conclusion of this EQA, Internal Audit will be in full conformance with this Standard and no additional action will need to be taken.

Management Response

Agree. Our recently released quarterly dashboard report to the Board and management has an element reporting compliance with the Standards requirement for EQA. This will provide visibility to the EQA requirement and ensure the next independent validation occurs in 2028.

Detailed Observations

CG4

Observation

No evaluation of the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities has been conducted.

We recommend Internal Audit include an assessment of the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities in their audit plan.

Management Response

Agree. We will add an evaluation of Metropolitan's control environment, e.g., COSO Principle 1 – Demonstrate Commitment to Integrity and Ethical Values, to our business plan by fiscal year 2024/25.

Detailed Observations

CG5

Observation

Engagement level risk assessments have not consistently been used to narrow audit objectives to the most significant risks.

We recommend Internal Audit implement engagement procedures to assure that risk assessment results are used to narrow audit objectives to the most significant risks identified.

Management Response

Agree. Identification of the highest risk areas in the risk and control matrix (engagement risk assessment) is already occurring. We have modified engagement procedures to ensure audit objectives are narrowed and focus on the most significant risks identified.

Detailed Observations

CG6

Observation

Work papers reviewed for this EQA lacked evidence of timely supervision, including review and approval of engagement work programs and other significant work papers.

We recommend Internal Audit assure that supervision is provided in a timely manner.

Management Response

Agree. The expected hiring of a senior audit manager will significantly contribute to the effort for the timely provision of engagement supervision and work paper review.

Detailed Observations

CG7

Observation

Final engagement communications did not consistently include the engagements' objectives and scopes. Additionally, communications did not include management responses and action plans.

We recommend Internal Audit include in engagement communications the engagements' objectives and scopes as well as management responses and action plans.

Management Response

Agree. The newly implemented audit report format includes a provision for the engagement scope and objectives, as well as a section for the management response and action plan.

Detailed Observations

CG8

Observation

Recommendations communicated to management did not consistently focus on the cause of the conditions identified. Additionally, numerous engagements have not been reported to management and the board in a timely manner.

We recommend Internal Audit identify and address the causes of the conditions identified and address those causes in their recommendations.

Management Response

Agree. The recent upgrade of our project management system includes a provision for documenting the cause of an audit observation. This will ensure our recommendations address an observation's cause and the condition. Implementing corrective action for CG5 (reducing an engagement's objectives and scope) and hiring a senior audit manager will accelerate the turnaround of engagement reporting to the Board and management.

Detailed Observations

IOI

Observation

1. Talent Management. IA has high-level job descriptions but could benefit from doing an analysis that ties in with the IIA competency framework.

We recommend Internal Audit:

- A. Use an “internal audit competency framework” to conduct an annual gap and opportunity assessment.
- B. Make talent management part of the detailed Internal Audit strategic plan.

Detailed Observations

IOI (con't)

2. IT Related Credentials. IA has indicated that due to skill set limitations, there are items with the audit universe that have been excluded from the audit plan related to cyber. Conversations with the board indicate that a position to close the skill gap has been approved and is in the administrative execution phase.

We recommend Internal Audit continue to evaluate if the resources being used today are adequate for the future.

Management Response

Agree. We will conduct a gap assessment using the internal audit competency framework, which will conclude if current resources are adequate for the future. Additionally, talent management will be added to our strategic plan, and we will collaborate with the Human Resources Group to align job descriptions with IIA guidance.

Detailed Observations

IO2

Observation

While Internal Audit acquired a data analytics tool in 2022, the overall use of data analytics (DA) remains immature. A more robust use of data analytics would allow the expanding of capabilities related to data extraction and analysis, fraud prevention/detection, and executive and departmental reporting using technology and Computer Assisted Audit Techniques (CAATs).

Management Response

Agree. Once we achieve consistent adherence to essential operational procedures, we will explore advancing our use of data analytics and take advantage of the aforementioned opportunities.

Detailed Observations

IO3

Observation

IA Strategic Plan: The current strategic plan is part of the annual business plan. However, it is very high level and does not include detailed timelines with specific measurable targets. Accordingly, the plan could be strengthened by creating a 3-5 year rolling plan that is updated annually.

We recommend Internal Audit :

1. Create a strategic plan that focuses on critical success factors
2. Clear the backlog of audit reports
3. Track and clear management action items
4. Create a plan to update department policies and guidelines
5. Create a plan to reinstitute the QAIP process and to update the related procedures

Detailed Observations

IO3 (con't)

Management Response

Agree. After creating a vision statement and updating our mission statement, the next phase in our strategic plan is to perform a formal gap analysis regarding talent, processes, and technology. We have begun clearing the backlog (carry-over) of audit reports, which we expect to complete this fiscal year. A follow-up process has also been established to review the status of the 61 recommendations and associated management action plans. The update of our audit manual is discussed below in IO4, and we will resume the internal QAIP process in FY 2024/25.

Detailed Observations

IO4

Observation

The current manual covers most of the topics that are typically covered in a small IA department audit manual. However, we did see opportunities to enhance the guidance in several procedures.

We discussed the gaps and enhancements with audit management. We recognize that, individually, that process is being updated under new IA leadership. While the gaps are not significant, collectively they indicate the need to refresh the manual and strengthen conformance with the Standards. We encourage Internal Audit to:

1. Develop a plan with realistic target dates to update their IA manual
2. Use IA staff “monthly staff meeting” to cover the new Global Internal Audit Standards (GIAS)

Management Response

Agree. We will prioritize updating our audit manual once we have hired a new senior audit manager. Currently, we include Standards coverage at our monthly team meetings and will continue to do so after the release of the new GIAS.

Detailed Observations

105

Observation

No Key Performance Indicators (KPIs) are used in the monthly General Auditor report prepared for the board. No KPIs are generated within Internal Audit for use in monitoring department progress. The use of KPIs could strengthen the management of Internal Audit and help the board to better understand progress via a visual aid.

We recommend Internal Audit develop Key Performance Indicators (KPIs) and track progress via an Internal Audit dashboard.

Management Response

Agree. We expect to develop KPIs as part of our strategic plan for 2024 and will include them in future quarterly status reports to the Board and management.

Detailed Observations

IO6

Observation

The approved internal audit charter calls for the internal audit activity to:

1. “Assist in the investigation of significant suspected fraudulent activities within the organization.
2. Assure reporting to the Finance, Audit, Insurance and Real Property Committee on the results, as appropriate.”

However, clarification is needed to identify who internal audit is to assist and what internal audit’s role is in these investigations. We recommend Internal Audit work with management to obtain and document clarity regarding their role in investigations of suspected fraudulent activities.

Management Response

Agree. As part of the corrective action for CGI above, we will collaborate with the Board to clarify our role in investigating complaints of suspected fraudulent activities.

Detailed Observations

I07

Observation

IA Charter has not been updated in several years.

We recommend the charter be reviewed annually and presented to the Audit Subcommittee (and the Board) annually, even without changes.

Management Response

Agree. We have established an annual planning calendar for recurring items that includes our charter. A review of our charter, in accordance with Administrative Code Section 6451, will be conducted with the Board in 2024.

Detailed Observations

IO8

Observation

1. There is no defined consistent risk framework used across the company.
2. Accordingly, there is an opportunity for IA to provide training and advisory services (COSO, How to prepare for an audit, etc.) to close this educational gap.
3. Assurance coordination with other departments is minimal.

We recommend Internal Audit explore these opportunities to add additional value to Metropolitan.

Management Response

Agree. As staffing resources become available, we will look for ways to facilitate establishing an enterprise risk management function, formalizing a combined assurance model, and developing an organizational assurance map.

Detailed Observations

IO9

Observation

While the CAE has a direct reporting relationship with the board and weekly communication with the board chair, there is no formal risk protocol in place. While there is a defined procedure in place for the GA to elevate concerns about management's response to specific audit findings, there is not a defined process in place for risk identified outside of the audit reporting process.

We recommend the GA initiate conversations with senior management and the board regarding what types of other risks could be identified by the CAE and how these would be escalated if necessary.

Detailed Observations

IO9 (con't)

Management Response

Agree. Risks may be identified outside of the audit process through consulting projects, informal discussions with Metropolitan employees, or from board committee meetings. Further discussion of the risk would start with applicable group managers and then escalate to the assistant general manager level, chief of staff, the general manager, and finally, the Board through the Subcommittee on Audits or board chair. This process will be included in a future update of our audit manual.





Subcommittee on Audits

Audit Department Charter Review

Item 3b

January 23, 2024

Item 3b Internal Audit Charter Review

Subject

Walkthrough of the General Auditor Department Charter

Purpose

To perform the annual review of the Audit Department Charter and communicate pending updates.

Next Steps

Make updates to the Charter to ensure full alignment with the Institute of Internal Audit Standards and current department operations and return to the Board for review and approval in Q4.

The Institute of Internal Auditors

What is the IIA?

- The internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications.
- Established in 1941, the IIA today serves more than 200,000 members from more than 170 countries and territories.

Professional Standards



The IIA sets the standards for the way internal auditing is practiced around the world through the International Professional Practices Framework (IPPF).

Administrative Code

6451 Audit Department Charter

- 6451(a) - Mission & Scope of Work
- 6451(b) - Accountability
- 6451(c) - Professional Standards
- 6451(d) - Responsibilities
- 6451(e) - Authority

Audit Department Charter

6451 (a) - Mission & Scope of Work

Mission

- Provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations.
- Helps the organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit Department Charter

6451 (a) - Mission & Scope (cont.)

Scope

The scope of work of the Audit Department is to determine whether the organization's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified, managed and monitored;
2. Significant financial, managerial and operating information is accurate, reliable, and timely;
3. Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;

Audit Department Charter

6451 (a) - Mission & Scope (cont.)

4. Resources are acquired economically, used efficiently, and adequately protected;
5. Programs, plans, and objectives are achieved;
6. Quality and continuous improvement are fostered in the organization's control process;
7. Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Audit Department Charter

6451 (b) - Accountability

The General Auditor shall be accountable to the Board of Directors and the Finance, Audit, Insurance, and Real Property Committee to:

1. Advise on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks;
2. Report significant issues related to the processes for controlling the activities of the organization, including potential improvements in those processes, and provide information concerning such issues through to resolution;
3. Coordinate with other Metropolitan control and monitoring functions (risk management, legal, finance, ethics, security, and environmental)

Audit Department Charter



6451 (c) - Professional Standards

The Audit Department shall govern itself by adherence to the Institute of Internal Auditors' mandatory guidance, including:

- The Definition of Internal Auditing
- The Code of Ethics
- The International Standards for the Professional Practice of Internal Auditing (Standards)

This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department's performance.

These documents constitute the operating procedures for the department and constitute an addendum to the charter.

Audit Department Charter

6451 (c) - Professional Standards (cont.)

The following is to be adhered to by Department staff:

- The IIA's Practice Advisories, Practice Guides, and Position Papers, as applicable
- Metropolitan's policies and procedures
- The California Government Code
- Government Audit Standards (GAGAS)
- Audit Department Policy and Procedures Manual

Audit Department Charter

6451 (d) - Responsibilities

1. Develop and present a flexible audit plan to the Finance Audit, Insurance and Real Property Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by Management or the Board of Directors;
2. Report periodically to the Finance, Audit, Insurance and Real Property Committee and Management the status of the current year's audit plan and the sufficiency of department resources;
3. Issue an opinion on internal controls over financial reporting on an annual basis;
4. Submit audit reports to the Finance, Audit, Insurance, and Real Property Committee and Management communicating the auditor's opinion regarding the internal control structure, identifying significant control issues and providing related recommendations;

Audit Department Charter

6451 (d) - Responsibilities (cont.)

5. Evaluate the adequacy and timeliness of Management's responses to, and the corrective action taken on, all significant control issues noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Finance, Audit, Insurance and Real Property Committee the status of Management's progress;
6. Ensure the selection, development, and supervision of competent and professional audit staff;
7. Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain external quality assurance review as required by GAGAS and the Standards;
8. Perform consulting services to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory services;

Audit Department Charter

6451 (d) - Responsibilities (cont.)

9. Evaluate additions or changes in internal control processes coincident with their development and implementation;
10. Keep the Finance, Audit, Insurance and Real Property Committee informed of significant emerging trends and best practices in internal auditing and governance;
11. Assist in the investigation of significant suspected fraudulent activities within the organization. Assure reporting to the Finance, Audit, Insurance and Real Property Committee on the results, as appropriate;
12. Coordinate with external auditors to minimize duplication of effort and ensure that issues raised, as a result of their review, are appropriately addressed;

Audit Department Charter

6451 (e) - Authority

The General Auditor and Audit Department staff members are authorized to:

1. Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality and applicable processes;
2. Have full and free access to the Finance, Audit, Insurance and Real Property Committee, subject to applicable law;
3. Allocate resources, set frequencies, and select subject, determine scopes of work, and apply techniques required to accomplish audit objectives;
4. Obtain the necessary assistance of personnel in units of the organization where they perform audit, as well as other specialized services within or outside the organization;

Audit Department Charter

6451 (e) - Authority

The General Auditor and Audit Department staff are not authorized to:

1. Perform any operational duties for the organization;
2. Initiate or approve accounting transactions external to the internal auditing department;
3. Direct the activities of any organization employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Audit Department Charter

Planned Updates

1. Clarification of:
 - Internal audit's responsibility regarding assisting in the investigation of significant suspected fraudulent activities – Section 6451(d) – Item #11
 - QAIP policy and procedure key activities – Section 6451(d) – Item #7
2. Update of follow-up process to reflect new process in place – Section 6451(d) – item #5
3. Add to the Charter:
 - Adherence to the Core Principles (if still required per the new standards)
 - Information technology under Scope of Work – Section 6451(a)

Audit Department Charter

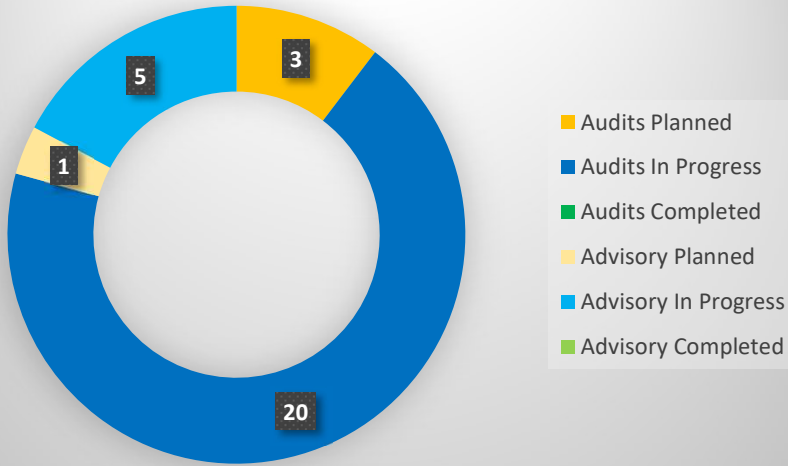
Planned Updates (cont.)

4. Strikeout of:
 - Issuing an opinion on internal controls over financial reporting on an annual basis – Section 6451(d) – item #3
 - References to Yellow Book Standards (i.e. GAGAS)
5. Miscellaneous minor corrections (e.g. usage).

Updated IIA Standards were released on Tuesday, January 9, 2024, effective January 2025 with early adoption allowed. We will evaluate the new Standards and incorporate necessary changes to the Charter, as appropriate.



1 AUDIT PLAN STATUS - PROJECTS



2 AUDIT PLAN STATUS - HOURS

7/01/23 AUDIT PLAN	4,480
ADJUSTMENTS	3,660
ROLLING PLAN	8,140
ACTUAL HOURS	5,228
ESTIMATE TO COMPLETE	2,784
REQUIRED HOURS	8,012
VARIANCE AVAILABLE/(SHORT)	128

3 AUDIT PLAN CHANGES

AUDIT PLAN PROJECTS	28
ADDED Q2	
Contract & Project Cost Audit (CF)	1
DELETED Q2	
None	-
TOTAL	29

4 CURRENT ASSURANCE COVERAGE/WORK IN PROGRESS

Cybersecurity	Contracts	Water Resources
IT	Finance	Compliance
Real Property	Human Resources	Asset Management

5 INTERNAL AUDIT RESOURCES

METROPOLITAN	12
OPEN	1
CONTRACTORS (INTERNAL AUDIT)	-
CERTIFIED PUBLIC ACCOUNTANTS	6
CERTIFIED INTERNAL AUDITORS	5
RESOURCE ADEQUACY	NO

6 OPEN RECOMMENDATIONS

	P1	P2	P3	OTHER	TOTAL
PRIOR	NA	NA	NA	61	61
NEW	0	0	0	NA	0
IMP/CLSD	0	0	0	0	0
TOTAL	0	0	0	61	61

7 QUALITY ASSURANCE & IMPROVEMENT

EXTERNAL QUALITY ASSESSMENT	DUE 2028
------------------------------------	-----------------

8 IMPAIRMENTS

INDEPENDENCE	NONE
OBJECTIVITY	NONE

9 FISCAL BUDGET

	BUDGET	ACTUAL	FY BUDGET	VARIANCE	%
\$	2,273,353	2,202,851	4,546,705	70,501	3%

10 KEY MESSAGE POINTS

Senior audit manager recruitment and RFQ for audit services in progress to address resource adequacy
 External quality assessment completed, rating: generally conforms
 Special project for Colorado River Water User Association completed



Subcommittee on Audits

Audit Deficiency

Item 3d

January 23, 2024

Item 3d Audit Deficiency

Subject

Macias, Gini & O'Connell, LLP Significant Deficiency Finding

Purpose

Discuss the Significant Finding from Macias, Gini & O'Connell, LLP's Final Report

Next Steps

Implement short- and long-term remediation for staff off-boarding access control

Audit Deficiency

Background

- External auditor, Macias, Gini & O'Connell LLP (MGO), found a significant deficiency in staff off-boarding access control
- Off-boarding of staff includes removing access to the MWD network, Oracle EBS, MyHR, WINS and MS 0365
- This control was not included in the scope of external audits over the previous five years
- During that time, IT has implemented a new IT Service Management system

Audit Deficiency

Audit Finding

- MGO sampled eight instances of off-boarding access control for staff that left MWD
- Results included:
 - Four staff records indicated that access was removed
 - Three staff records could not be found for removing network and MyHR access
 - One staff had access to Oracle EBS; however, their network access had been disabled.

Audit Deficiency

Action and Remediation

- IT immediately verified that the four staff had access removed
- Root cause
 - Record keeping deficiency - workflow in the new IT Service Management system made retrieving the access status difficult
- Short-term remediation
 - Workflow streamlined to ensure better record keeping
 - Weekly off-boarding management reports produced for verification

Audit Deficiency

Action and Remediation

- Long-term remediation
 - Develop a comprehensive off-boarding automated workflow in the IT Service Management system
 - Will include both IT and HR off-boarding tasks
 - Target date for completion – End of January 2024

