THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Report

Office of the General Auditor

- **General Auditor's Report for August 2025**

Summary

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

Purpose

Informational

Attachments

One report was issued during this period:

1. First Follow-up Review: Bay Delta Leases

Detailed Report

Audit & Advisory Projects

Twenty-five projects are in progress:

- Seven audit projects are in the report preparation phase.
  - A draft report was issued for Cybersecurity Audit: Inventory & Control of IT Software Assets; the management response is due 9/26/2025.
- Eighteen projects are in the execution phase, including eight audits and ten advisories.

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

Follow-Up Reviews

Twelve audits are in the follow-up phase:

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

No follow-up review forms are overdue.

Date of Report: September 9, 2025

Other General Auditor Activities

1. **External Resources RFQ**
   Evaluation of submittals received for the specialty internal audit services RFQ is in process.

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

3. **FY 2025-26 Annual Shutdown**
   Attended the in-person meeting to gain an understanding of operational, safety, environmental, and public outreach activities.

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

5. **Training**
   Staff attended Civil Treatment in the Workplace training.

Office of the General Auditor

First Follow-up Review: Bay Delta Leases

Project Number: 22-2402
August 28, 2025

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Executive Summary

BACKGROUND

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

WHAT WE DID

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

WHAT WE CONCLUDED

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

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: August 28, 2025

To: Audit Committee

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

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

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

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

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

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

Attachments

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

RESULTS

RECOMMENDATIONS & CURRENT STATUS

1 Insurance Requirements

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

Recommendation 1

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

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

Current Status

In Process.

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

2 Credit Policy

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

Recommendation 2

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

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

Current Status

In Process.

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

3 Database Accuracy

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

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

Recommendation 3

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

Current Status

In Process.

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

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

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

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

AUDIT TEAM

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

APPENDIX A: IMPLEMENTATION STATUS DEFINITIONS

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

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

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

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