

# 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 - Final**

Meeting with Board of Directors \*

**May 23, 2023**

**8:30 a.m.**

## **Tuesday, May 23, 2023 Meeting Schedule**

**08:30 a.m. Audits  
10:30 a.m. PAE  
12:30 p.m. Break  
01:00 p.m. Exec  
02:00 p.m. BOD Wksp -  
LTRPPBM**

Agendas, live streaming, meeting schedules, and other board materials are available here: <https://mwdh2o.legistar.com/Calendar.aspx>. A listen only phone line is available at 1-877-853-5257; enter meeting ID: 862 4397 5848. Members of the public may present their comments to the Board or a Committee on matters within their jurisdiction as listed on the agenda via in-person or teleconference. To participate via teleconference (833) 548-0276 and enter meeting ID: 815 2066 4276 or click <https://us06web.zoom.us/j/81520664276?pwd=a1RTQWh6V3h3ckFhNmDsUWpKR1c2Zz09>

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\* 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 March 28, 2023 (Copies have been submitted to each Director, Any additions, corrections, or omissions)

**[21-2170](#)**

**Attachments:** [05232023 Audits 2A \(03282023\) Minutes](#)

## **\*\* END OF CONSENT CALENDAR ITEMS\*\***

### 3. SUBCOMMITTEE ITEMS

- a. Annual Risk Assessment Workshop

[21-2300](#)

**Attachments:** [05232023 Audits 3a.1 Presentation](#)  
[05232023 Audits 3a.2 Presentation](#)

### 4. FOLLOW-UP ITEMS

NONE

### 5. FUTURE AGENDA ITEMS

### 6. ADJOURNMENT

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

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

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

# **THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

## **MINUTES**

### **SUBCOMMITTEE ON AUDITS**

**March 28, 2023**

Chair De Jesus called the hybrid teleconference and in-person meeting to order at 9:00 a.m.

Members present: Directors Armstrong, De Jesus, and Miller.

Members absent: Director Jung.

Other Board Members present: Directors Abdo, Atwater, Goldberg, McCoy, Ortega, and Smith.

Committee Staff present: Andrus, Parsons, Ros, Suzuki.

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

None

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

#### **2. CONSENT CALENDAR ITEMS - ACTION**

None

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

#### **3. SUBCOMMITTEE ITEMS**

- a. Subject: Administrative Code amendments regarding individual Board of Director requests for audit assignments

Presented by: Scott Suzuki, General Auditor

Mr. Suzuki presented the committee with background of audit assignments, overview of the current code, and proposed changes.

The following Directors asked questions and provided comments:

1. De Jesus
2. Armstrong
3. Miller

4. Ortega
5. Smith

Staff responded to Directors' comments and questions.

- b.     Subject:                 Discuss form and content changes to General Auditor Engagement Report
- Presented by:         Scott Suzuki, General Auditor

Mr. Suzuki presented the committee with an overview of proposed improvements to General Auditor reports.

The following Directors asked questions and provided comments:

1. De Jesus
2. Miller
3. Armstrong

Staff responded to Directors' comments and questions.

**4.     FOLLOW-UP ITEMS**

None

**5.     FUTURE AGENDA ITEMS**

None

**6.     ADJOURNMENT**

Meeting adjourned at 9:25 a.m.

David De Jesus

Chair



Subcommittee on Audits

# Developing the Risk-Based Audit Plan

Item 3a.1

May 23, 2023



## Developing the Risk-Based Audit Plan



# Annual Risk Assessment & Audit Plan

- Understand the organization
- Identify, assess, and prioritize risks
- Coordinate with other providers
- Estimate resources
- Propose plan and solicit feedback
- Finalize and communicate plan
- Assess risks continuously
- Update plan and communicate updates

## Developing the Risk-Based Audit Plan



# Understand Metropolitan

- Identify business objectives, strategies, and structure
- Identify and review key documents
- Consult with key stakeholders
- Create the audit universe



## Developing the Risk-Based Audit Plan



The image shows a risk assessment matrix titled "RISK ASSESSMENT". The matrix is a 3x5 grid. The columns are labeled "Assessment Item", "RARE (A)", "UNLIKELY (B)", "POSSIBLE (C)", "LIKELY (D)", and "ALMOST CERTAIN (E)". The rows are labeled "Severity", "CRITICAL (5)", and "SERIOUS (4)". The cells contain risk levels: "LOW", "MEDIUM", and "HIGH". The colors of the cells are: Green for LOW, Yellow for MEDIUM, and Red for HIGH.

Assessment Item	RARE (A)	UNLIKELY (B)	POSSIBLE (C)	LIKELY (D)	ALMOST CERTAIN (E)
Severity	MEDIUM	MEDIUM	HIGH	HIGH	HIGH
CRITICAL (5)	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM
SERIOUS (4)	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM

# General Auditor's Risk Assessment

- Significance of independent risk assessment
- Understanding Metropolitan's business objectives, strategies, and risks
- Documenting risks
- Risk assessment approach
- Measuring risks
- Validating risk assessment

## Developing the Risk-Based Audit Plan



# Additional Planning Considerations

- Management and Board requests
- Engagement frequency and timing
  - Mandated audits
  - Mission-critical audits
  - Associated resource requirements
  - Coverage of risks by assurance providers
- Audit plan reserves or allocations for contingency, special projects, advisory services, or on-demand requests

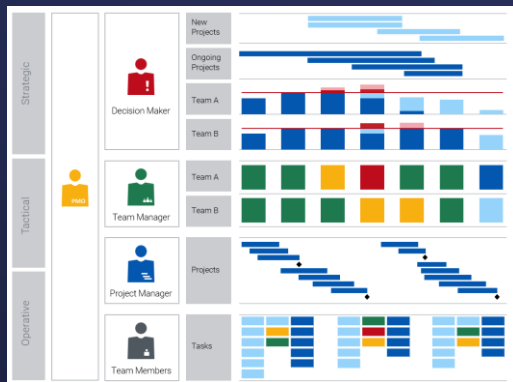
## Developing the Risk-Based Audit Plan



## Estimate Resources

- Assess team skills
- Coordinate coverage with other assurance and consulting providers
- Identify any additional skills required
- Calculate available plan hours
- Identify audit and advisory engagements

## Developing the Risk-Based Audit Plan



# Draft the Audit Plan

## Audit Plan Document Components

- Executive summary
- Risk assessment process
- Planned audit and advisory engagements
- Risk coverage map
- Resource plan

## Developing the Risk-Based Audit Plan



# Propose the Plan and Solicit Feedback

Share with the Board and senior management

- Results of the risk assessment
- How results drive the audit plan
- Confirm coverage of high-risk areas
- How engagements will add value to Metropolitan
- Disposition of any Board or management requests

## Developing the Risk-Based Audit Plan



# Communicate to Finalize the Audit Plan

- Present the audit plan to the Board for approval via the FAIRP Committee and Subcommittee on Audits
- Continuously monitor risks affecting Metropolitan
- Present changes quarterly to Subcommittee on Audits







Subcommittee on Audits

# Board Risk & Internal Control Discussion

Item 3a.2

May 23, 2023



# Definition of Risk



## What is a Risk?

- The possibility of an event occurring that will impact objectives (IIA)
- Positive (opportunity) or negative
- Risk is generally measured in terms of:
  - Impact or consequence
  - Likelihood or probability
  - Velocity

# Definition of Internal Control



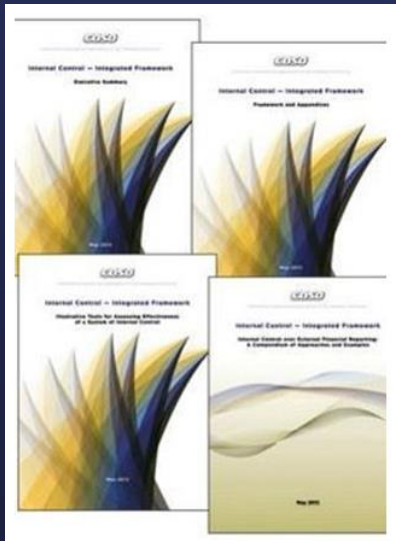
## What is Internal Control?

A process, effected by the entity's Board of Directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to:

- Operations
- Reporting
- Compliance

SOURCE: COSO, May 2013

# COSO Internal Control



## What is COSO Internal Control-Integrated Framework

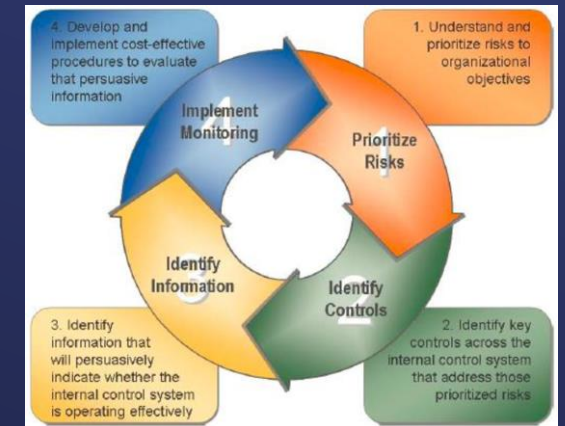
- Released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 and updated in 2013
- Recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control
- Future initiative for Metropolitan to adopt COSO

# COSO Components



## Components of COSO Internal Control-Integrated Framework

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring



## Administrative Code



# 6451(d) Audit Department Charter Responsibilities

(1) Develop and present a flexible annual 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

## Risk Considerations

# Internal Risks

- Integrity, ethical values, culture
- Role, authority, responsibility
- Management's philosophy and operating style
- Legal/compliance
- Organizational structure
- Documentation of governance-related decision-making
- Personnel and resource capabilities (e.g., capital, time, processes, systems, and technologies)
- Management of third-party business relationships
- Needs and expectations of key internal stakeholders
- Internal policies



## Risk Considerations

# External Risks

- Political
- Environmental
- Social
- Technological
- Economic
- Legal

## Risk Considerations

# Internal Audit Focus

Operational and compliance risks receive the most audit effort:

- Operational (20%)
- Compliance/regulatory (20%)
- Cybersecurity (9%)
- Financial (8%)
- Fraud (8%)
- Other IT (7%)

SOURCE: IIA Pulse of Internal Audit 2023



## Risk Considerations

# Audit Project Considerations

Internal audits commonly consider in each project:

- Fraud (92%)
- IT (68%)
- Governance / culture (67%)
- Cybersecurity (54%)
- Cost/expense reduction (55%)
- Sustainability (24%)

SOURCE: IIA Pulse of Internal Audit 2023

## Risk Considerations

# Highest Risk Areas

In the public sector, technology drives the highest two risks:

- Cybersecurity (73%)
- Other (60%)
- Compliance / regulatory (48%)
- Third-party relationships (43%)
- Operational (30%)
- Governance/ Culture (28%)

SOURCE: IIA Pulse of Internal Audit 2023

## Risk Considerations

# Prior Audit Risk Assessment

Risks identified previously at Metropolitan:

- Water resources
- Cybersecurity
- Power operations
- Contracting
- Asset management
- Grants
- Enterprise risk assessment
- Strategic planning
- Budget
- Board governance
- Board member orientation
- Accountability and performance management

## Risk Considerations

# Non-Financial Risks

- Social responsibility
- Reputational
- Data governance
- Intellectual property
- Compensation
- Employee conduct
- Labor management
- Ethical and corporate culture
- Public health
- Diversity, equity, and inclusion
- Human resources
- Environmental (greenhouse gas emissions, waste management, material sourcing, climate change)

## Risk Considerations

# Board Committee & Functional Areas

## Engineering, Operations, and Technology

- Water Systems Operations
- Engineering
- Information Technology

## One Water & Stewardship

- Colorado River
- Bay-Delta
- Water Resource Management

## Legislation, Regulatory Affairs, and Communications

- External Affairs

## Legal and Claims

- General Counsel

## Risk Considerations

# Board Committee & Functional Areas (con't)

## Finance, Audit, Insurance, and Real Property

- Finance
- Audit
- Real Property

## Ethics, Organizational, and Personnel

- Ethics
- Human Resources
- EEO

## Equity, Inclusion, and Affordability

- DEI

## Risk & Internal Control Discussion

# Board Input

- Risks
- Internal control
- Associated projects

Thank You

## Presenters

- Scott Suzuki, General Auditor
- Kathryn Andrus, Deputy General Auditor
- Chris Gutierrez, Audit Program Manager
- Arturo Castro, Principal Auditor
- Andrew Lin, Principal Auditor
- Bonita Leung, Deputy Auditor III



