

The Metropolitan Water District of Southern California

Agenda

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

Audit Committee

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

Audit Subcommittee of the Executive Committee - Final

Meeting with Board of Directors *

July 23, 2024

9:30 a.m.

**Tuesday, July 23, 2024
Meeting Schedule**

**09:30 a.m. Audit
11:30 a.m. Break
12:00 p.m. Exec**

Agendas, live streaming, meeting schedules, and other board materials are available here:
<https://mwdh2o.legistar.com/Calendar.aspx>. Written public comments received by 5:00 p.m. (business days) before the meeting is scheduled will be posted under the Submitted Items and Responses tab available here:
<https://mwdh2o.legistar.com/Legislation.aspx>.

If you have technical difficulties with the live streaming page, a listen-only phone line is available at 1-877-853-5257; enter meeting ID: 891 1613 4145.

Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via in-person or teleconference. To participate via teleconference 1-833-548-0276 and enter meeting ID: 815 2066 4276 or to join by computer [click here](#).

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

Teleconference Locations:

3008 W. 82nd Place • Inglewood, CA 90305

3024 Fairview Drive • Vista, CA 92084

525 Via La Selva • Redondo Beach, CA 90277

1368 Highland Oaks Drive • Arcadia, CA 91006

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

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

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

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

- A. Approval of the Minutes of the Audit Subcommittee of the Executive Committee for May 28, 2024 (Copies have been submitted to each Director, Any additions, corrections, or omissions) [21-3600](#)

Attachments: [07232024 Audit 2A \(05282024\) Minutes](#)

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

3. **SUBCOMMITTEE ITEMS**

- a. Global Internal Audit Standard 7.1: Organizational Independence [21-3601](#)
 - b. General Auditor's Quarterly Report [21-3602](#)

Attachments: [07232024 Audit 3b General Auditor Quarterly Report](#)

- c. Discussion on Ransomware Readiness Assessment [Any discussion of threats to public services or facilities to be heard in closed session. Conference with Charles Eckstrom, Group Manager of Information Technology, Jacob Margolis Director of Info Tech Services, and Scott Suzuki, General Auditor; may be heard in closed session pursuant to Gov. Code Section 54957(a)] [21-3679](#)

- d. Advisory Services: Introduction to Fraud [21-3603](#)

Attachments: [07232024 Audit 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.

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

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

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Minutes

AUDIT SUBCOMMITTEE OF THE EXECUTIVE COMMITTEE

May 28, 2024

Chair Ortega called the meeting to order at 9:33 a.m.

Members present: Directors Cordero (teleconference posted location), De Jesus (teleconference posted location), and Garza.

Members absent: Director Armstrong and Fong-Sakai.

Other Board Members present: Directors Bryant, Dennstedt, Dick, Fellow (teleconference posted location), Goldberg, Gray (teleconference posted location), Lefevre (teleconference posted location), McMillan, Miller (teleconference posted location), Morris, and Ortega.

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

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

None

CONSENT CALENDAR ITEMS – ACTION

2. CONSENT CALENDAR OTHER ITEMS – ACTION

- A. Subject: Approval of the Minutes of the Audit Subcommittee of the Executive Committee for April 23, 2024 (Copies have been submitted to each Director, any additions, corrections, or omissions)

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

The vote was:

Ayes: Directors Cordero, De Jesus, and Garza

Noes: None

Abstentions: None

Absent: Directors Armstrong and Fong-Sakai

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 on Macias Gini & O'Connell, LLP External Auditor Fiscal Year 2023/24 Audit Plan

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 2023/24 audit plan.

- b. Subject: General Auditor's Internal Audit Plan for fiscal year 2024/25

Presented by: Scott Suzuki, General Auditor
Kathryn Andrus, Deputy General Auditor

Mr. Suzuki and Ms. Andrus presented the General Auditor's Internal Audit Plan for fiscal year 2024/25.

The following Directors asked questions and provided comments:

1. Miller
2. Garza
3. Goldberg
4. Miller
5. Cordero
6. Ortega
7. Dick

Staff responded to the Directors' comments and questions.

4. FOLLOW-UP ITEMS

Director Dick requested follow-up on full-time equivalent employees.

Directors Ortega and Garza requested follow-up on investigative procedures at Metropolitan.

5. FUTURE AGENDA ITEMS

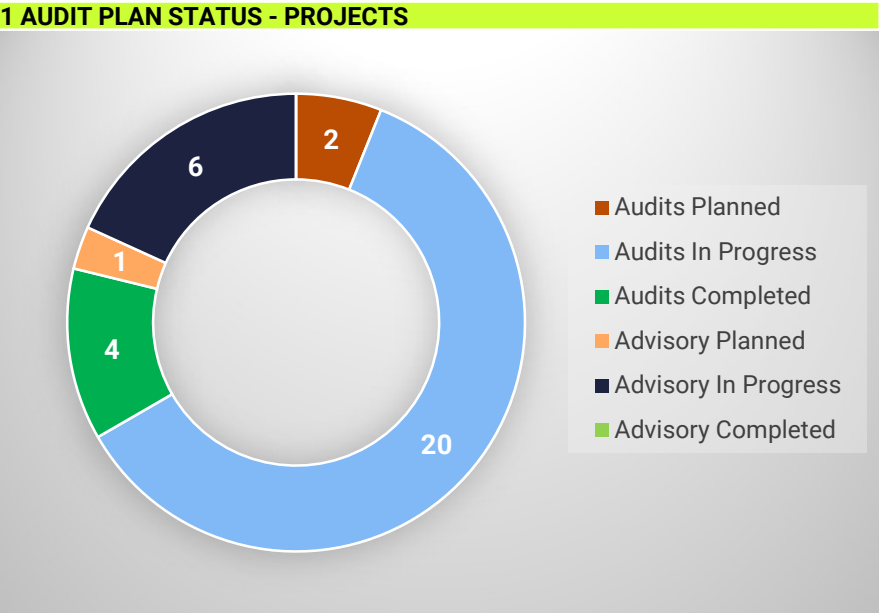
Director Garza requested a future agenda item on fraud.

6. ADJOURNMENT

Meeting adjourned at 10:31 a.m.

Adán Ortega
Chair of the Board

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
OFFICE OF THE GENERAL AUDITOR
DASHBOARD AS OF JUNE 30, 2024



2 AUDIT PLAN STATUS - HOURS

| | |
|------------------------|--------|
| 7/01/23 AUDIT PLAN | 12,698 |
| ADJUSTMENTS | 1,302 |
| ROLLING PLAN | 14,000 |
| ACTUAL HOURS | 14,250 |
| ESTIMATE TO COMPLETE | - |
| REQUIRED HOURS | 14,250 |
| HOURS AVAILABLE/(OVER) | (250) |

3 AUDIT PLAN CHANGES

| | |
|-------------------------------|----|
| AUDIT PLAN PROJECTS - 4/01/24 | 31 |
| ADDED Q4 | |
| See key message points | 2 |
| DELETED Q4 | |
| None | - |
| TOTAL | 33 |

4 CURRENT ASSURANCE COVERAGE/WORK IN PROGRESS

| | |
|-------------------------|----------------------------------|
| Administration | IT |
| Bay Delta | Program Management (engineering) |
| Contracts | Project Management |
| Controller (accounting) | Real Property |
| Cybersecurity | Water Conveyance & Distribution |
| Human Resources | Water Resource Implementation |

5 INTERNAL AUDIT RESOURCES

| | |
|------------------------------|----|
| POSITIONS AUTHORIZED | 12 |
| VACANT | 1 |
| CONTRACTORS (INTERNAL AUDIT) | - |
| CERTIFIED PUBLIC ACCOUNTANTS | 6 |
| CERTIFIED INTERNAL AUDITORS | 5 |
| RESOURCE ADEQUACY | NO |

6 OPEN RECOMMENDATIONS

| | P1 | P2 | P3 | OTHER | TOTAL |
|----------|----|----|----|-------|-------|
| PRIOR FY | NA | NA | NA | 65 | 65 |
| NEW | 2 | 3 | 6 | NA | 11 |
| RESOLVED | 0 | 0 | 0 | 0 | 0 |
| CURRENT | 2 | 3 | 6 | 65 | 76 |

7 QUALITY ASSURANCE & IMPROVEMENT

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

8 IMPAIRMENTS

| | |
|--------------|------|
| INDEPENDENCE | NONE |
| OBJECTIVITY | NONE |

9 FISCAL BUDGET

| | BUDGET | ACTUAL | FY BUDGET | VARIANCE | % |
|----|-----------|-----------|-----------|----------|-----|
| \$ | 4,546,705 | 4,108,429 | 4,546,705 | 438,276 | 10% |

10 KEY MESSAGE POINTS

New audits added for sole source contracts, state funding for Pure Water
FY 24/25 audit plan approved by Board
FY 24/25 business plan preparation in progress
Resource adequacy is RE vacant senior audit manager position; collaborating w HRS to fill ASAP in FY 24/25
Three audit reports issued in new format with 11 recommendations during FY 2023/24



Audit Subcommittee of the Executive Committee

Advisory Services: Introduction to Fraud

Item 3d

July 23, 2024

Item #3d
Committee
Request

Subject

Advisory Services: Introduction to Fraud

Purpose

To provide information to the Board on occupational fraud

Introduction to Fraud

Presentation

1. Fraud Basics
2. Fraud Research



Fraud Basics

Fraud Basics

ACFE

- The Association of Certified Fraud Examiners (ACFE) is the world's largest anti-fraud organization.
- The mission of the ACFE is to reduce the incidence of fraud and white-collar crime and to assist the membership in fraud detection and deterrence.
- 90,000+ worldwide members founded in 1985
- Members include CPAs, auditors, lawyers, investigators, law enforcement officers, security professionals, executives, managers, and anyone whose job involves preventing, detecting, or deterring fraud

Fraud Basics

Fraud Defined

- “Fraud” is any activity that relies on deception in order to achieve a gain.
- Fraud becomes a crime when it is a “knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment” (Black’s Law Dictionary).
- In other words, if you lie in order to deprive a person or organization of their money or property, you’re committing fraud.

Source: Association of Certified Fraud Examiners (ACFE)

Fraud Basics

Why Do People Commit Fraud?

Fraud Triangle

- Unshareable Financial Need
- Perceived Opportunity
- Rationalization



Source: Association of Certified Fraud Examiners (ACFE)

ACFE Fraud Tree

- Corruption
- Asset Misappropriation
- Financial Statement Fraud

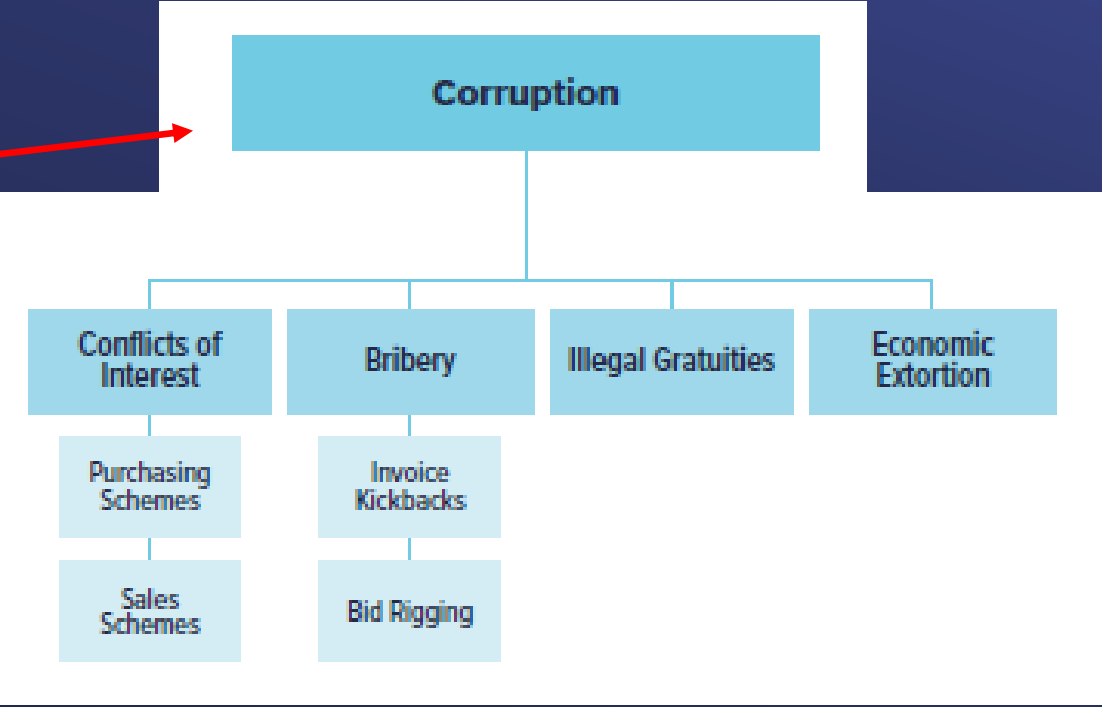


- Against individuals
- External organizational fraud

Corruption

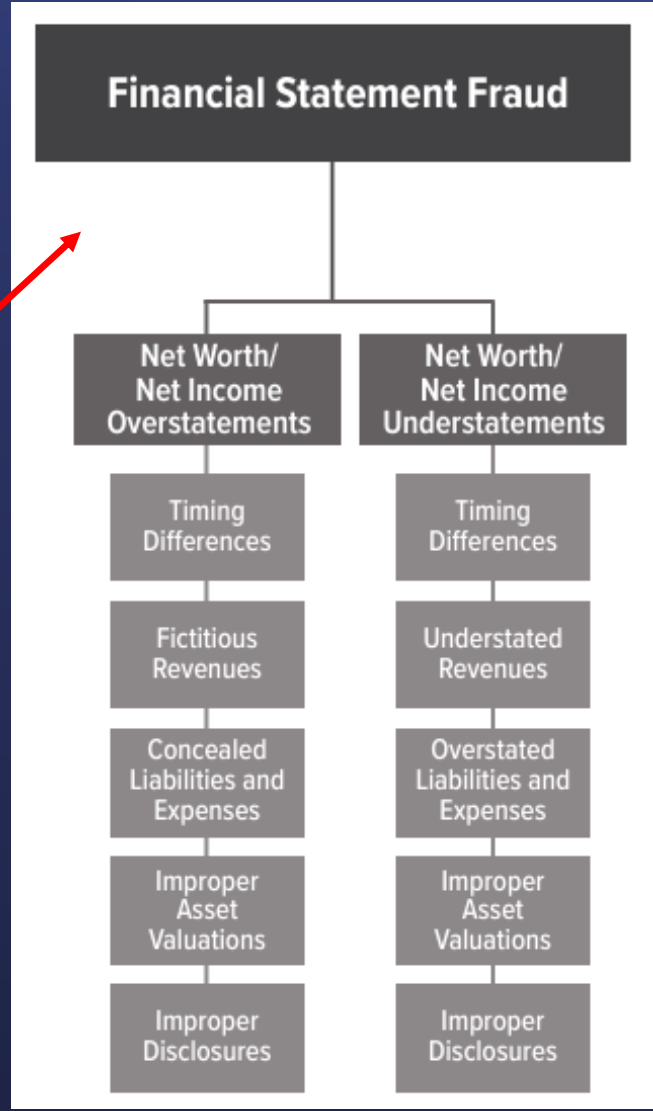
Includes conflicts of interest, bribery, illegal gratuities, and economic extortion

The Fraud Tree



Financial Statement Fraud

The Fraud Tree

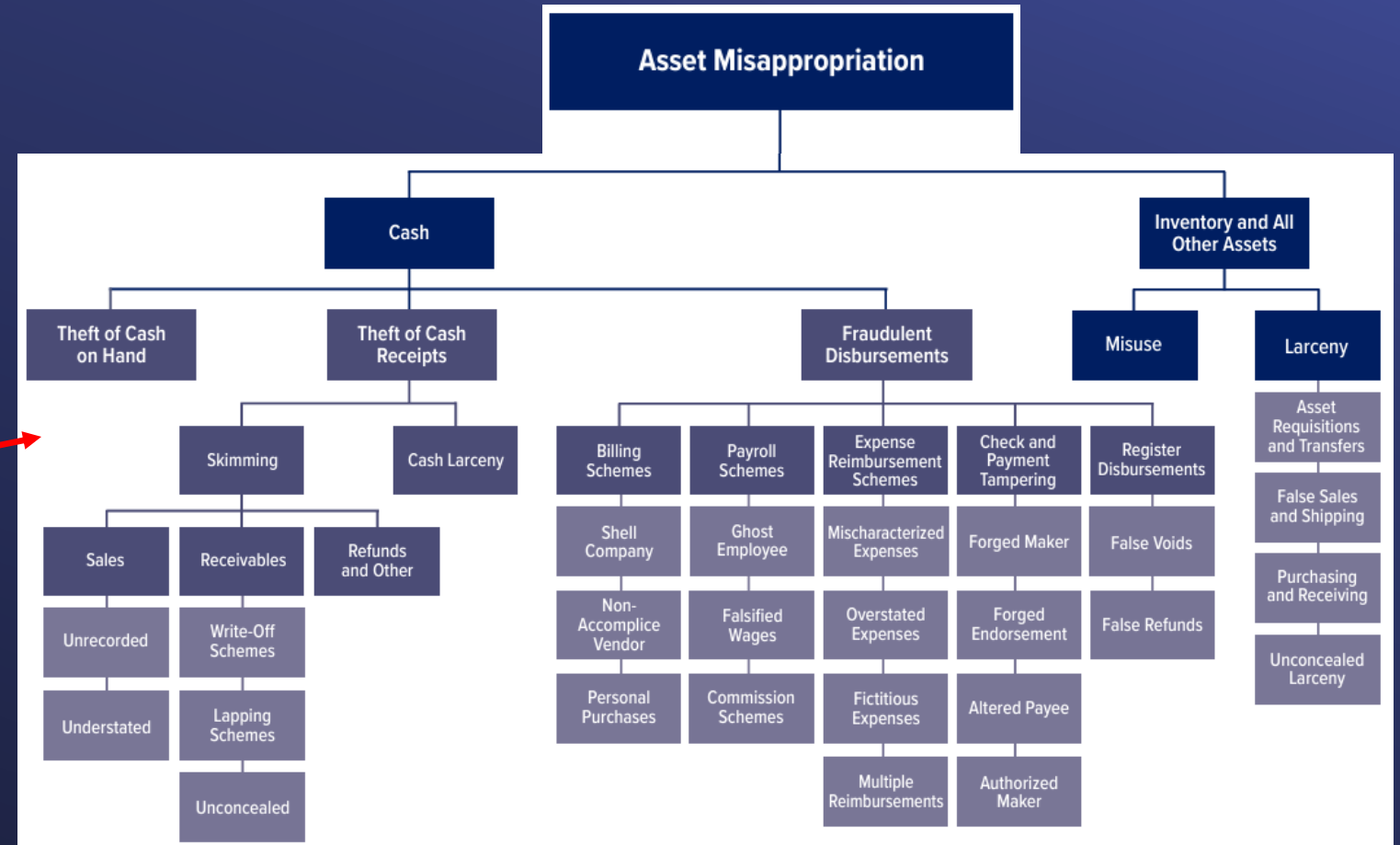


Includes overstatement of income/assets, understatement of expenses/liabilities

Asset Misappropriation

Includes theft of cash, fraudulent disbursements, misuse/theft of district property

The Fraud Tree



Fraud Cases

Magnolia School District

Orange County education official pleaded guilty to embezzling nearly \$16 million from a school district

City of Placentia

Financial services manager embezzled over \$5 million from the city

Dixon, Illinois

Comptroller embezzled over \$54 million from a city of 15,000; largest municipal fraud



Fraud Research

Fraud Research

ACFE

Occupational Fraud 2024:

A Report to the Nations[®]

- 13th edition
- Largest and most comprehensive study on the costs and effects of occupational fraud
- Objective is to help improve the collective ability to protect organizations from the harm caused by occupational fraud

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Concealment of Fraud

- Created fraudulent physical documents
- Altered physical documents
- Created fraudulent electronic documents or files
- Altered electronic documents or files
- Destroyed or withheld physical documents

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Fraud in Government Organizations

- Included 296 Cases of Occupational Fraud
 - National (47%)
 - State/Provincial (29%)
 - Local (23%)
- Median Loss \$150,000; Average Loss \$2,306,000
- Only 19% of fraudsters were at the executive level, but they caused the largest loss (Median Loss \$313,000)

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Fraud in Government Organizations (con't)

- Occupational Fraud Schemes
 - Corruption (56%)
 - Billing (26%)
 - Noncash (20%)
 - Payroll (16%)
 - Expense Reimbursements (15%)
- Top Three Ways Fraud is Detected
 - Tip (44%)
 - Internal Audit (18%)
 - Management Review (11%)

Source: ACFE Occupational Fraud 2024: A Report To The Nations

Fraud Research

Recommendations

- Develop fraud risk assessment
- Benchmark anti-fraud program
- Improve fraud prevention & detection efforts
- Sell fraud prevention to management & clients
- Understand who puts the organization at greatest risk
- Educate others about occupational fraud and ways to effectively combat it

Source: ACFE Occupational Fraud 2024: A Report To The Nations



Advisory Services:
Introduction to Fraud

Thank You

Questions?

