



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

- **General Auditor's 2008/09 Business Plan – Semiannual Report**

## **Summary**

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The General Auditor's Business Plan is designed to provide assurance that Metropolitan's internal controls are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met. These goals are achieved by directing a properly trained staff of professionals with an understanding of the business culture, systems, and processes of Metropolitan. This is a six-month business plan review for the period July 1 through December 31, 2008.

## **Internal Management**

### *Attainment of Business Objectives*

#### **(1) Complete the Annual Audit Plan**

The Executive Committee approved the annual Audit Plan in February 2008. We have developed an audit schedule based on this Audit Plan, and assigned staff accordingly. For the six-month period, the Audit Department:

- (a) Completed twenty audits.
- (b) Assisted KPMG LLP on the completion of the June 30, 2008 external financial audit.
- (c) Performed continuous auditing of the Inland Feeder Project, which included a monthly review of the project and agreeing costs reported to the Board to source documentation and reviewed estimated costs for completion. We also reviewed the progress of obtaining pipe hauling permits from the city of San Bernardino and the impact that these efforts have on project costs. In addition, we reviewed procedures designed to dispose of salvaged equipment to ensure the safeguarding of assets and the propriety of the processes. Finally, our review included an assessment for potential claims and liability exposures in accordance with financial reporting requirements related to contingencies.
- (d) Participated in nine Information Technology implementation projects by monitoring the completion of milestones and by assessing progress against targets.
- (e) Performed client feedback surveys for each completed audit to ensure that the Department is meeting expectations. These surveys revealed high marks in the areas of effective communications, technical skill proficiency, and a professional approach. Overall, on a 1(low) - 5 (high) scale, we averaged 4.3 in providing "value added services."

#### **(2) Monitor Progress Against Audit Plan; Quarterly Assessment of Audit Plan**

The Board ensures appropriate deployment of Audit Department resources by reviewing and approving the Audit Department Business Plan annually. However, due to changes in risk profiles or other factors, it is prudent to periodically assess the Audit Department's Audit Plan for appropriateness and to measure progress against the Audit Plan. In keeping with industry best practices, we formally reassess the Audit Plan on a quarterly basis to evaluate whether (1) the Audit Plan meets the needs and requests of the Board and Management, (2) the Plan is directed at

areas of most concern, and (3) adequate progress is being made against the Audit Plan. Furthermore, we added one audit to the Audit Plan (Rideshare Program) to address a special request by Management.

With regard to our Business Plan, we believe that the 2008/09 Audit Plan continues to address the areas of Board and/or Management concern, and those of highest risk. After reviewing our progress during the past six months versus the Audit Plan and evaluating current resource levels, we believe that the Audit Department is on track towards completing the objectives set forth in the Plan.

**(3) Contribute to Governance and Control Activities:**

**(a) Audit Department Quality Assurance – Self Assessment Review**

Ensuring that Metropolitan's Audit Department exhibits a high degree of professionalism, independence, and integrity, we adhere to the Standards for the Professional Practice of Internal Auditing (Standards), promulgated by The Institute of Internal Auditors. An integral requirement of the Standards involves periodic internal assessments of the Audit Department. Accordingly, we completed a quality assurance self-assessment of the Audit Department in order to examine our continued compliance to the Standards, to evaluate our effectiveness in carrying out our mission, to identify opportunities to enhance management and work processes, and to enhance the Audit Department's value to Metropolitan. The self-assessment includes a review of the risk assessment and audit planning processes; evaluation of audit policies, procedures, and practices; assessment of audit management methods; completion of anonymous client and audit staff satisfaction surveys; and a thorough examination of selected audit work papers. We completed the documentation of this self-assessment in September 2008.

The results of the self-assessment indicate that the practices of the Audit Department continue to either fully or partially comply with the Standards in all areas.

**(b) Audit Report on Internal Controls over Financial Reporting**

In October 2007, Metropolitan's Board of Directors amended the Administrative Code to require the General Auditor to express an opinion as to the effectiveness of internal controls over financial reporting (Administrative Code Section 6451(c)). Accordingly, we have reviewed the internal control over financial reporting of Metropolitan as of June 30, 2008.

We issued our opinion that Metropolitan maintained, in all material respects, effective internal control over financial reporting as of June 30, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We conducted this review in accordance with professional standards that require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal

control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

**(4) Conduct Internal Audit Training. Expand the Effectiveness and Efficiency of Audit Department Operations**

We conducted in-house training on core auditing concepts such as Audit Planning and Preliminary Risk Assessment practices. Emphasis was placed on the preparation of flowcharts and on the use of control matrix to assess the level of risk within a process. These sessions serve to remind staff of the importance of compliance to professional standards and they provide auditors with exposure to industry standards in these areas. In addition, we continuously strive to improve core competencies, including work paper documentation and audit report writing. Consequently, we developed several tools to facilitate more efficient work paper documentation and to aid in the report writing/editing processes. Furthermore, we expanded our internal quality assessments to ensure continued progress in these areas.

**(5) Performance Against Metropolitan Budget**

We effectively managed Department expenses. The Office of the General Auditor actual expenses for the six months ended December 31, 2008 are 54 percent of total year budget, primarily due to open positions partially offset by consultant expenses.

**External Relations**

We have responded to each request made by the Chairman or the Executive Committee and have formed a cooperative relationship with Management. We value being viewed as a proactive, consultative, professional Audit Department and continue to search for ways to improve our “value added” services to Metropolitan. We believe the organization will benefit greatly from efforts being made today by the Audit Department, the Board, Management, and other assurance activities to improve overall governance and control within Metropolitan.

**Audit Department activity for the six months ended December 31, 2008.**

<b>Types of Reviews Completed</b>	<b>Audit Reports Issued</b>
<b>Audits:</b>	
<b>Financial/Operational</b>	16
<b>Information Technology</b>	1
<b>Department of Water Services</b>	1
<b>Enterprise Risk Management</b>	1
<b>Audit Quality Assurance</b>	1
<b>Total Audit Reports</b>	<b>20</b>
<b>Other Activities:</b>	
<b>Participate in nine Systems Development Life Cycles (SDLC)</b>	
<b>Monitor Inland Feeder</b>	
<b>Provide contractually required assistance to external auditors</b>	

**Analysis of Audit Report responses and status of audit findings for the six months ended December 2008:**

<b>Rating</b>	<b>Number of Audits Issued</b>	<b>Responses Received</b>	<b>Number of Audit Findings</b>	<b>Number of Findings Implemented</b>	<b>Number of Findings In Process</b>
<b>Satisfactory</b>	10	10	0	4	0
<b>Generally Satisfactory</b>	8	8	19	5	7
<b>Less Than Satisfactory</b>	2	2	3	3	6
<b>Unsatisfactory</b>	0	0	0	0	0
<b>Total</b>	<b>20</b>	<b>20</b>	<b>22</b>	<b>9</b>	<b>13</b>