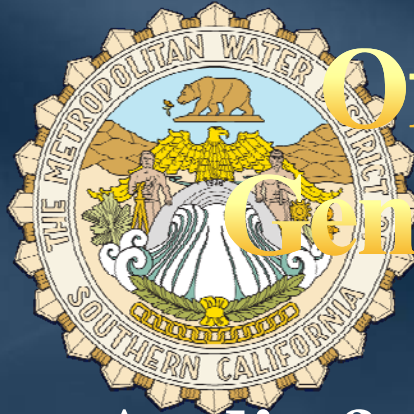


# 2009/10 Annual Audit Plan



## Office of the General Auditor

Audit & Ethics Committee

June 23, 2009

# Audit Department Mission

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**“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”**

Institute of Internal Auditors (IIA)  
International Standards for the Professional Practice of Internal Auditing  
and the profession's Code of Ethics



# Why Do Organizations Need Internal Audit?



**Objective and Independent** - Internal Audit provides a fresh, unbiased views of the company. Internal Auditors should be independent of the activities they audit. Designing, installing, and managing operations are not audit functions. Also, drafting of procedures is not an audit function. Performing such activities is presumed to impair audit objectivity. Internal Audit cannot require corrective action; only management can.

**Assurance** - Board of Directors and Management need to assure themselves that the system of internal control is functioning as intended, that policies and procedures are complied with, that information is reliable, that assets are safeguarded, and that overall objectives and goals of the organization are being accomplished.



# Internal Audit Department



**Risk-focused** - Internal Audit focuses on risk and allocates time and resources accordingly. Internal Audit identifies and addresses critical risks and exposures before they develop into problems, shares insights gained from company experience across common business units and processes.

## Engine of Corporate Governance Improvements.

As long as risk and cash flows represent two basic determinants of the enterprise value, proficiency of internal audit in mitigating risks and controlling cash flows represents an engine of enterprise value enhancement, which is the basic domain of corporate governance.



# Internal Audit Department



**Proactive** - Internal Audit is proactive, not only reactive. World-Class Internal Audit is about finding the right balance between protecting or safeguarding assets and enhancing stakeholder value. The level of consultative support required of the Internal Auditor correlates with the organization's ability to respond to business challenges.

**Problem Solving** - Internal Auditing is one of the very few activities solely concentrated on problem solving, and as such Internal Auditing becomes a catalyst for change. Treating symptoms rather than underlying reasons is probably acceptable in short-run, but it is not sufficient in the long-run since symptoms will certainly reappear. Therefore properly structured Internal Auditing helps in identifying problems and in solving them.



# Internal Audit Department



**Consulting** - In addition to being problem-focused, Internal Auditing is also opportunity-focused, providing out-of-the-box creative solutions to the issues of benchmarking; economy, efficiency, and effectiveness of operations; process improvements.

## Empowered by Board/Respected by Management

The best reporting structure for the Internal Audit is to report directly to the Board of Directors. Internal auditors should also have the support of senior management so that they can gain the cooperation of audit clients and perform their work free from interference. Internal Audit is respected by all organizational levels as valued business advisors capable of thinking “out-of-the-box” and providing effective resources and solutions to business challenges.



# Corporate Governance Defined

**Corporate governance** is the systems and processes an organization has in place to protect the interests of and add value to its diverse stakeholder groups, e.g. member agencies, employees, customers, vendors, community, etc.



# Worldwide Shift in Expectations

## Transparency

Are stakeholders informed about the organization's strategy, prospects and performance?

## Accountability

Can stakeholders be assured that the board of directors and management are keeping their best interests in mind?

Effectiveness of good governance

## Risk

Does the organization identify and manage risks within the organization's risk appetite?

## Control

Do the legal and economic structures of the organisation allow stakeholders to intervene if management is performing poorly?



# Governance Roles



## **Board**

Act on behalf of stakeholders; approve direction, objectives and policies and monitor implementation

## **Management**

Execute Board direction to achieve objectives, consistent with policies

## **Internal Audit**

Monitor and report on achievement of objectives in compliance with policies and requirements

## **External Audit**

Monitor and report on achievement of financial reporting objectives in compliance with policies and accounting standards

# Internal Audits Role In Auditing Corporate Governance

New Internal Audit Standards (Section 2130):

- Promote appropriate ethics and values within the organization
- Ensure effective organizational performance management and accountability.
- Effective communicating risk and control information to appropriate areas of the organization.
- Effective coordinating the activities of and communicating information among the board, external and internal auditors and management.

# Determine Audit Universe



**Source:**

**Board of  
Directors**

**Management**

**KPMG**

**Prior  
Audits**

**Auditors**

**Gather Input**

**Potential Audits**

- 1.
- 2.

# Risk Factors



- Risk rating scale = 1 (low risk) through 5 (high risk)
- Highest risk rating = 25
- Lowest risk rating = 5

Financial

Political

Legal  
Regulatory

Operational

Auditor  
Judgment

**Inherent  
Risk**



**Inland Feeder Project  
Ozone Retrofit  
State Water Project**

**Payroll  
Water Inventory**

**Stores Inventory  
Other Receivables  
Training Department**



High

Medium

Low



# 2009 - 10 Audit Plan

<i>Audit Area</i>	<i>Budgeted Hours</i>	<i>% of Total</i>
<i>Finance/Operational/Compliance</i>	<i>7,640</i>	<i>59%</i>
<i>IT Audits/Financial Reporting Controls</i>	<i>1,680</i>	<i>13%</i>
<i>Board/Committee Meetings &amp; Support</i>	<i>1,500</i>	<i>12%</i>
<i>Follow-up Reviews</i>	<i>500</i>	<i>4%</i>
<i>Contractually Required (KPMG)</i>	<i>700</i>	<i>5%</i>
<i>Special Reviews</i>	<i>400</i>	<i>3%</i>
<i>BOD and Management Initiatives</i>	<i>450</i>	<i>3%</i>
<i>Comfort Letters</i>	<i>150</i>	<i>1%</i>
<i>Total</i>	<i>13,020</i>	<i>100%</i>

# Risk Based Auditing



# Internal Audit Department 2009/10 Objectives



- **Provide risk perspective and auditing advice/counsel to the Board and management** in operational and financial activities.
- Effective **risk focused audit reports** designed to communicate the General Auditor's opinion regarding the internal control structure, significant control issues, and recommendations to mitigate noted risks.
- **Completion time for audits and evaluating the adequacy and timeliness of management's responses** to, and corrective action taken on, all significant control issues noted in audit reports.
- **Emphasize test work of significant projects.**





# Internal Audit Department

## 2009/10 Objectives (continued)



- Identify training **opportunities for audit staff to enhance competencies** in risk assessment and broaden their knowledge of Metropolitan operations. Utilize this knowledge to fine-tune the Annual Audit Risk Assessment and Audit Plan.
- Find new ways to **improve current performance** through benchmarking and quarterly evaluation of the Audit Plan. Increase knowledge sharing and team processes.
- Efficiently **manage the department's budget for maximum effectiveness** of stated budgetary objectives.
- **Uphold the mission, roles, and responsibilities of the Audit Department.**



# Internal Audit Department 2009/10 Proposed Audits



## Water System Operations

- Oxidation Retrofit Program
- Infrastructure Reliability
- Sustainability of Water Supply
- Water Quality
- WSO Storage Programs
- Emergency Preparedness
- Colorado River Aqueduct programs
- WSO - Proposition 13 Conjunctive Use Programs

## Water Resource Management

- State Water Project
- SWP Water Transfer Program
- WRM Programs

## Corporate Resources Group

- Inland Feeder Project
- Consulting Contracts
- Major Construction Projects (excluding Inland Feeder and DVLR)
- Cost Savings Assessment
- Facilities Maintenance
- Management System (AIMS)
- Monitor Perris Valley Pipeline Projects
- Quarterly Consulting Contracts Reporting
- Surplus Personal Property
- Employee Usage of Company Property
- Company Housing
- Transit Reimbursement Program
- Purchasing Activities

# Internal Audit Department 2009/10 Proposed Audits



## Chief Financial Officer

- Revenue Bond Issues
- Assist External Auditors
- Tax Revenue
- Employee and Director Expense Reports
- Treasury Controls
- Federal Grants
- State Grants
- Budget and Financial Reporting
- Other Income, Expense, and Receivables
- Cash Management

## Board of Directors

- Perform Board requests

## Chief Executive Officer

- Perform Management requests
- Business Outreach
- Communication and Services with Member Agencies and other Public Entities

## Human Resources

- Employee Benefits
- Disability Management
- Employee Memberships
- Employee Training Programs

## Ethics

- Assist in Internal and External Fraud Investigations

# Internal Audit Department Automated Audit System



TeamMate Audit Management System

TeamMate R8 SP2.1 (8.2.1)

[TeamMate User Community](#)  
[Getting Started](#)

**CCH® TeamMate™**  
Audit Management System

**Audit Universe Risk Assessment**  
[TeamRisk Web](#)

**Project and Resource Scheduling**  
[TeamSchedule Web](#)

**Time and Expense Capture**  
[TEC Admin](#)

**Electronic Working Papers**  
[TeamStore Maintenance](#)

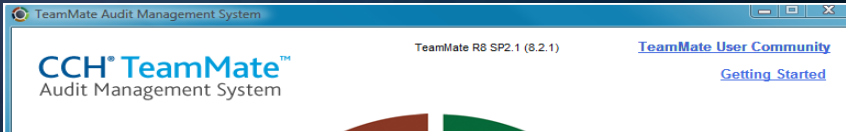
**Project and Exception Tracking**

[TeamCentral](#)

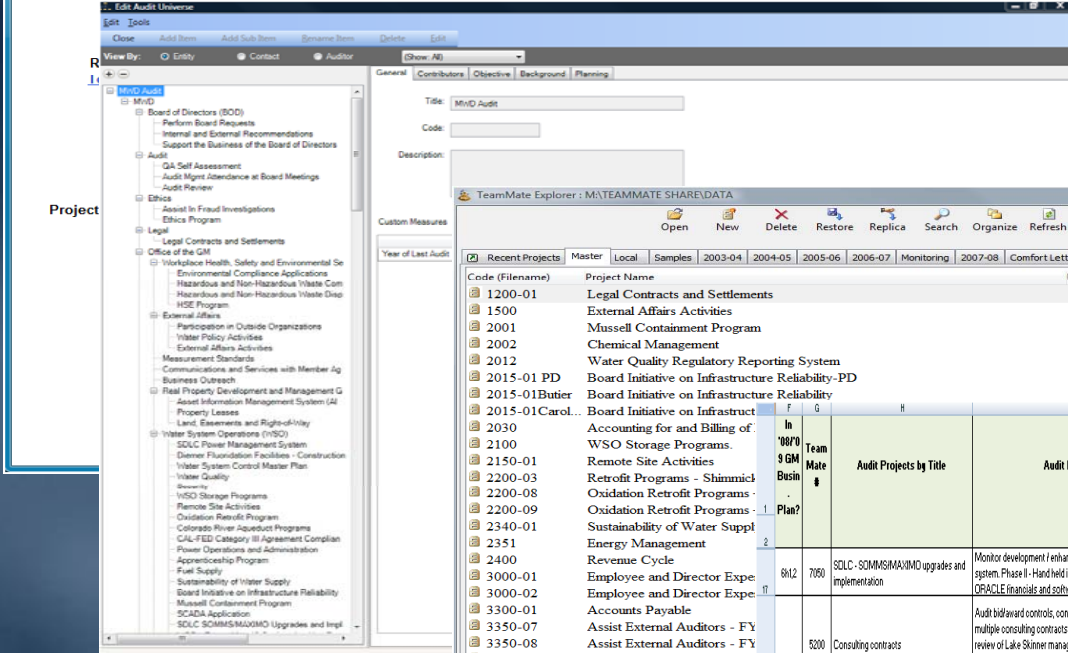
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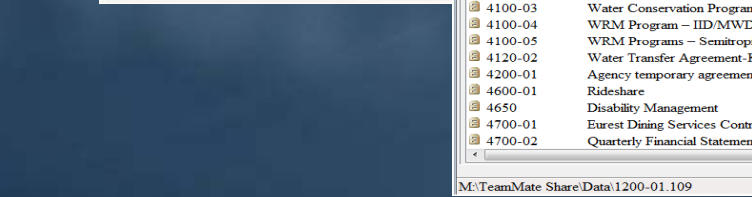
# Internal Audit Department



TeamMate



Auditable Segments Defined



MWD Projects



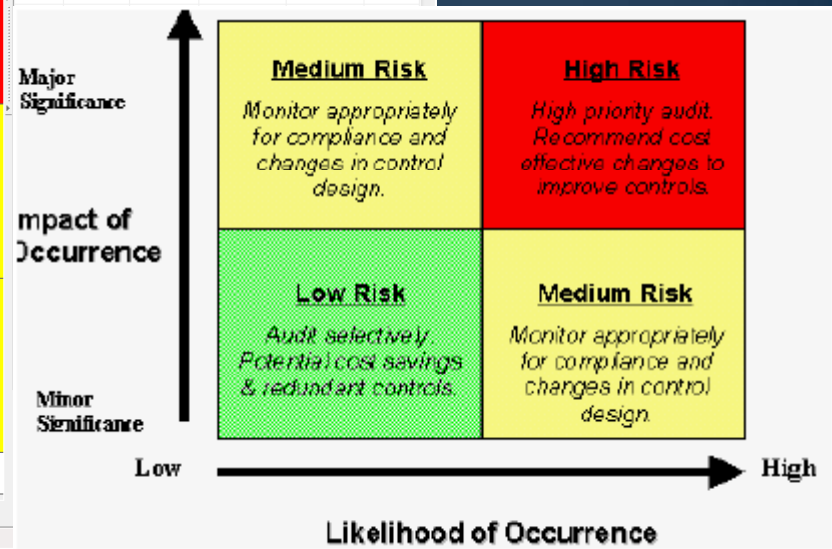
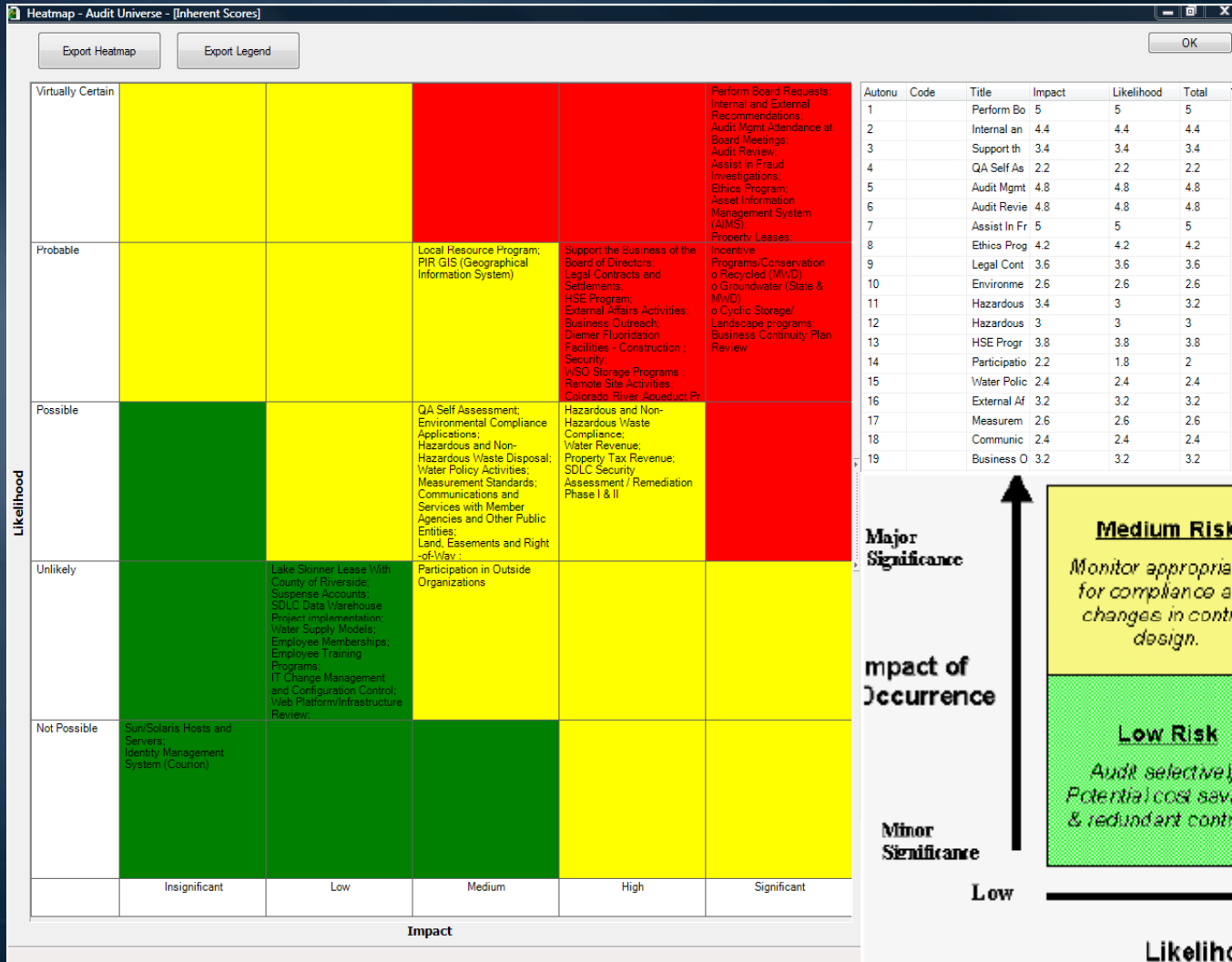
In '08/09	Team Mate #	Audit Projects by Title	Audit Project Description	Hours	Cum. IT	Cum. Fin.	Org.	Risk Levels					Total Risk points	Boa rd/ Man- age- ment	Mus- t Do	Type	Last Review d
								Financ	Political	Legal/ Reg	Operat	Auditor Judgm.					
6812	7050	SDLC - SCIMMS/IMD upgrades and implementation	Monitor development / enhancement of WSD's maintenance management system, Phase II - Hand held implementation, Phase III - Interface to ORACLE financials and software version upgrade.	100	100	430	4,785	WSD	4	5	4	5	5	23		OC	Monitoring
5200		Consulting contracts	Audit bid/award controls, contract administration (payment, monitoring) for multiple consulting contracts (\$50MM annually). Consider including a review of Lake Skinner management contract (if awarded) and Chuchivalla programs (Engineering Services consulting contract requested by WRM). Review contract compliance (Johnson Controls, Inc., etc.)	800	800	430	5,585	CRG	4	5	3	5	5	22		OC	2008
4900		Major construction projects (excluding Inland Feeder and DVLRI)	Review controls over construction contracts (project management, change orders, contract compliance and expenditures) excluding those already covered under a separate project. For example, review San Diego Pipeline #6, Viequesmouth Solids Handling, Central Pool Augmentation, Repair and Replacement Program.	600	600	430	6,885	CRG	5	5	3	4	5	22		OC	2008
595d	add	Human Resources	Follow up to Human Resources audit (report issued January 2008)	50	50	430	6,295	CRG	4	5	5	4	4	22	Y	Y	OC
593c	add	Cost Savings Assessment	Review the budgeted savings for the 2008-10 fiscal year in comparison with the prior fiscal year. Ensure savings measure are reasonable and determine possible increased risks due to cuts.	75	75	430	6,310	CRG	2	5	5	5	5	22	N	N	F
1050		Internal and External Recommendations	Review State, external audit or quality assessment recommendations; participate as needed in response/corrective action. Implement IIA Quality Assessment recommendations.	50	200	250	480	BOD	4	5	5	4	4	22		OC	-
add		Tax Revenue	Review controls for collection and accounting of tax revenues.	200	200	480	6,710	CFO	5	5	4	3	5	22			
5060		Facilities Maintenance	Ensure District assets (machines, pumps, etc.) are properly maintained, assess compliance with maintenance procedures. Review Maintenance Action Plan. Follow up to prior audit.	300	300	480	7,010	CRG	4	4	3	5	5	21		OC	2005
94d	add	SDLC - Asset Information Management System (AIMS)	Monitor implementation over the Upgrades to the Asset Information Management System.	50	50	530	7,010	CRG	4	5	3	4	5	21		OC	Monitoring
3000		Employee and Director Expense Reports	Monitor reports prepared by the Controller; test expense claims for propriety and compliance with established policies; analyze expense trends and exposure. Required.	150	150	530	7,860	CFO	3	5	5	3	5	21	Y	OC	2008
4930		Monitor Penix Valley Pipeline Projects	Monitor and review overall agreement administration for Penix Valley Pipeline engineering agreements.	80	80	620	7,250	CRG	5	4	4	3	5	21			

Prioritization of the Audit Universe by Level of Risk



# Internal Audit Department

## Risk-Based Internal Audit Plan




# Internal Audit Department Web Page



HOME > AUDIT Site Index

## Audit Department



### Audit Department Charter

The Mission of the Audit Department of The Metropolitan Water District of Southern California is to provide independent, professional and objective assurance and consulting services designed to add value and improve Metropolitan's operations. Metropolitan's Audit Department helps the District accomplish objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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#### SCOPE OF WORK

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

- Risks are appropriately identified, managed and monitored.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected.
- Programs, plans and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving management internal control, efficiency and the organization's image may be identified during audits. They are communicated to the appropriate level of management.

#### ACCOUNTABILITY

The General Auditor reports to the Board of Directors and is accountable to the Executive Committee to:

- Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks.
- Periodically report significant issues related to the processes for controlling the activities of the District, including potential improvements to those processes and to provide information concerning such issues through to resolution.
- Coordinate with other control and monitoring functions (risk management, legal, finance, ethics, security, and environmental).

For comments or questions please contact General Auditor  
[Gerald C. Riss](#)