



## Background

### *Summary*

The General Auditor's business plan is designed to provide assurance that Metropolitan's internal controls adequately mitigate risks, organizational goals are met, and governance processes are efficient and effective. These objectives require a staff of highly trained professionals that have a thorough understanding of the business culture, operational processes, and automated systems of Metropolitan.

### *Audit Department Goals*

With these objectives in mind, the Office of the General Auditor developed a business plan and departmental goals that were approved by the Audit and Ethics Committee in June 2009. These Audit Department Goals were to:

- Provide risk perspective and auditing advice/counsel to the Board and Management on operational, financial, and governance activities.
- Deliver effective, high-quality, risk-focused audit reports designed to communicate the audit opinion regarding the internal control structure, identify significant audit issues, and present recommendations to mitigate noted risks.
- Manage completion time for audits and evaluate the adequacy and timeliness of Management's responses to, and corrective action taken on, all significant controls issues noted in audit reports.
- Emphasize test work of significant projects.
- Identify training opportunities for audit staff to enhance competencies in risk assessment and to 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 and complete a quarterly evaluation of the Audit Plan.
- Effectively manage the department's budget.
- Uphold the mission, roles, and responsibilities of the Audit Department.

The activities described below detail achievements against these goals that were critical to our success during the July through December 2009 time frame.

## Collaborate with BOD/Management to Design the Annual Audit Plan

Ensure that audits of critical operations and systems continue to be emphasized in the Annual Audit Plan. Update the Audit Plan based on a thorough assessment of risks coupled with input from key stakeholders. Allocate Audit resources to the highest risk areas in order to provide insight regarding Metropolitan's governance processes to the Board/Management and emphasize test work in significant areas.



### *Activities*

1. Updated the audit universe of potential audits based on input from Board members, Management, external auditors, and audit staff. Also, integrated this list with the General Manager's 2009/10 Business Plan Objectives and Strategies.
2. Based on the audit opinions issued in the previous year (2008/09) and from our evaluation of the reliability and effectiveness of Metropolitan's controls, reassessed the risk factors on a scale of 1 to 5 for each potential audit. The risk factors used in the model continue to be: financial, political, legal/regulatory, operational, and auditor judgment. Therefore, the highest risk score that an area could receive is 25.
3. Emphasized test work of significant projects. We allocated audit resources to the highest risk areas to develop the 2009/10 Audit Plan, which was presented to the Audit and Ethics Committee in June 2009. Assigned audit staff to the Audit Plan based, in part, on staff auditor's own interests and requests.
4. Maintained continuous audit presence for higher risk projects (e.g., Inland Feeder Construction contract work and the Equipment and Materials auction, Oxidation Retrofit Projects, Perris Valley Pipeline Project, and the Quarterly Consulting Contract Reports).
5. Participated in 13 Systems Development Life Cycle projects. These efforts involve a review and evaluation, at various stages in the development of a selected system or large scale enhancement, to an existing application. Audit activities included continuous monitoring of compliance with the systems development process and a report of the status of the controls being built into the system to ensure completeness, accuracy, data security, and proper authorization.

### **Perform Quarterly Assessments of the Annual Audit Plan**

Monitor progress against the Annual Audit Plan. Perform periodic assessments of the organization's risk profile and progress against the Annual Audit Plan. Make adjustments as needed.

1. Conducted biweekly Audit Staff meetings to assess progress against the Annual Audit Plan and to aid in assisting staff on complex audit technical issues. Assigned Principal Auditors (senior level auditor) to each staff auditor to aid in on-the-job training and to provide valuable coaching assistance.
2. Performed quarterly assessments of the Department's performance against the Annual Audit Plan and adjusted the plan for changes in audit risk profile, Board or Management requests, and emerging issues. The Water Resource Management Conservation Program Review, the Transit Reimbursable, Property Leases, and the Human Resources Audits are examples of reviews that were initiated as the result of Board or Management requests.
3. 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 professional approach.
4. Revised the Annual Audit Plan to adjust for resource limitations due to an Audit Department staff vacancy. Furthermore, modified staff reporting lines due to temporary audit management limitations to ensure that the audit supervision is thorough and appropriate.



## Continued Development & Supervision of Audit Staff

Ensure effective development and supervision of Audit Department staff. Provide ongoing training and coaching to ensure auditors continue to develop necessary professional and technical skills, and are knowledgeable about emerging issues. Solicit feedback from Audit Department staff regarding development and supervision. Uphold the mission, roles and responsibilities of the Audit Department.

### *Activities*

1. Conducted training sessions during biweekly Audit Department Staff meetings. 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. Staff meetings also facilitate frank discussions on the challenges faced during fieldwork and promote the exchange of ideas and resolutions to these issues.
2. Staff meetings also attest our effort to affirm the goal of being a proactive/consultative audit function.
3. Provided additional training to Audit Department staff on a major upgrade to the TeamMate software. These upgrades will increase auditor productivity by eliminating current manual processes.
4. Presented follow-up material on the Fraud Risk Primer Training and Awareness Program that was given to the staff last year. These discussions serve to remind staff of the responsibility to design the audit testing program and to provide reasonable assurance of detecting material misstatements resulting from fraud. These training sessions were collaborative in that staff was encouraged to participate in the discussion of risks and controls and in identifying audit tests that effectively test for weaknesses in the internal control structure.
5. Utilized monitoring assignments such as the Inland Feeder, Oxidation Retrofit, and Perris Valley Pipeline projects to develop auditors' consultative skills, and increase their operations knowledge while at the same time contributing their risk perspective to the team.

## Perform Post-Audit Evaluations of Risk

Evaluate Management's response to the audit reports to ensure that the internal control structure has been improved (existing controls strengthened) or enhanced (new controls added). Perform verification tests of selected responses to confirm that changes made to controls achieve the intended purpose. Complete detailed review of Management responses for all audits that receive a "Less Than Satisfactory" or lesser audit opinion.

1. As noted, we recognize that our stakeholders are requesting more clarity and the prioritization of audit results so that they know which issues require their immediate attention. We have worked diligently on meeting these expectations and in maintaining high quality audit reports. Upon completion of the audit, we request a response from Management within 30 days of the issuance of the audit report.



2. Received timely responses for all audit reports issued. Reviewed responses for propriety and completeness and noted no deficiencies.
3. Reviewed Management responses for the three audits receiving “Less Than Satisfactory” opinions during the July through December time frame (Water Resource Management Program – Imperial Irrigation District/MWD Water Conservation Program, Sustainability of Water Supply Agreements Bay Delta Issues, and Information Technology Consulting Agreements with CBH, Incorporated and Total Resource Management, Incorporated). Consulted with Management on the development of these responses and performed tests to ensure that control changes made are effective and efficient. We believe that Management’s acceptance of these reports is the result of the “risk focus” of our audit process and of the quality of recommendations that assist Management in improving the internal control structure.
4. Audit reports with opinions continue to provide a number of significant benefits.
  - a. Help Board members and Senior Management assess audit results more quickly.
  - b. Provide the basis for prioritizing follow-up attention from the Board, Management, and/or the Audit Department.
  - c. Offer useful comparative information on the severity of issues or trends across the organization.
5. Completed follow-up reviews for the special request evaluation of the Water Resource Management Conservation Program presented to the Board in July 2009. We will continue to communicate with the Board regarding Management’s progress in strengthening the control environment.

## **Contribute to Governance and Control Activities**

Four major groups are involved in Metropolitan’s governance process, including (1) the Board of Directors and its committees, (2) Management, (3) operating staff, and (4) the assurance group, which includes the Audit Department and external auditors.

### **Fraud Risk Awareness Program**

Fraud risk training was conducted with the Office of the General Counsel staff to increase awareness of the nature, causes, and cost of occupational fraud and abuse throughout the nation. This program was designed to define fraud and identify the types of occupational fraud that occur within organizations. It also discussed how and why fraud happens in companies and described the controls that are used to mitigate these risks. The program also presented results from the 2008 Report to the Nation on Occupational Fraud & Abuse published by the Association of Certified Fraud Examiners. The Fraud Risk Assessment Program concluded that there were five things that organizations can do to minimize fraud risk:

1. Expect some level of fraud.
2. Look for it.
3. Be alert for red flags that warn of fraud risk.
4. Consider pre-employment screening for newly recruited.
5. Consider developing a fraud policy.



We have had requests to present this session to the Chief Financial Officer's Office and to the Corporate Resources Group.

### **Contract Administration Workshop**

We conducted training sessions during the Contract Administration Workshop on Audit Evidence and Supporting Documentation. These classes were designed to explain the audit evidence gathering process and to discuss the characteristics of sufficient, competent supporting documentation. Although the sessions concentrated on the invoice review process, this setting provided the opportunity to present results (audit findings) from our contract audit reviews conducted over the past 2 years. We also briefly discussed fraud awareness and the responsibilities of the Agreement Administrator to manage the contract in accordance with sound business practices.

### **Performance Against MWD Budget**

We effectively managed the Audit Department expenses within the approved budget. The Office of the General Auditor's year-to-date actual expenses will be below budget forecasts, despite higher than planned consultant expenses.

### **Teamwork Across Functional Areas**

Client surveys requested after each audit, and as part of the Quality Assessment, revealed that our Audit Clients give us high marks in the areas of effective communications, timeliness of the audit process, proficiency in technical matters, constructive and positive approach, professionalism, and in providing a "value-added" service. We are proud of these responses.

### **Effectively Work With Board of Directors**

We are highly committed to being a proactive, consultative Audit Department. We have responded to each request made by the Chairman of the Board or the Audit/Executive Committee and have formed a cooperative relationship with Senior Management. While recognizing that our primary duty is to the Board, we endeavor to balance this duty with a supportive, advisory role with Management.