### 2011/12 Annual Audit Plan



### Office of the General Auditor

Audit & Ethics Committee June 28, 2011

### Audit Department Mission



"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."

The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing and the profession's Code of Ethics



# Audit Department 2011/12 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.



# Audit Department 2011/12 Objectives (continued)



- Identify training opportunities for audit staff to enhance risk assessment techniques and broaden their knowledge of Metropolitan operations. Utilize this knowledge to fine-tune the Annual Audit Risk Assessment and Audit Plan.
- Promote professional certifications and reinforce core competencies by supporting ongoing continuing education and GASB training.
- Efficiently manage the department's budget for maximum effectiveness of stated budgetary objectives.
- Uphold the mission, roles, and responsibilities of the Audit Department.



# **GPS for Auditors**



ward-thinking group of together nearly 70 years ernal Auditors, they envi-

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successfully over s team collabora 's most respecte fessional Standa d. In fact, Profe system (GPS)" o le, dependable gnized standard

#### Where do we go?

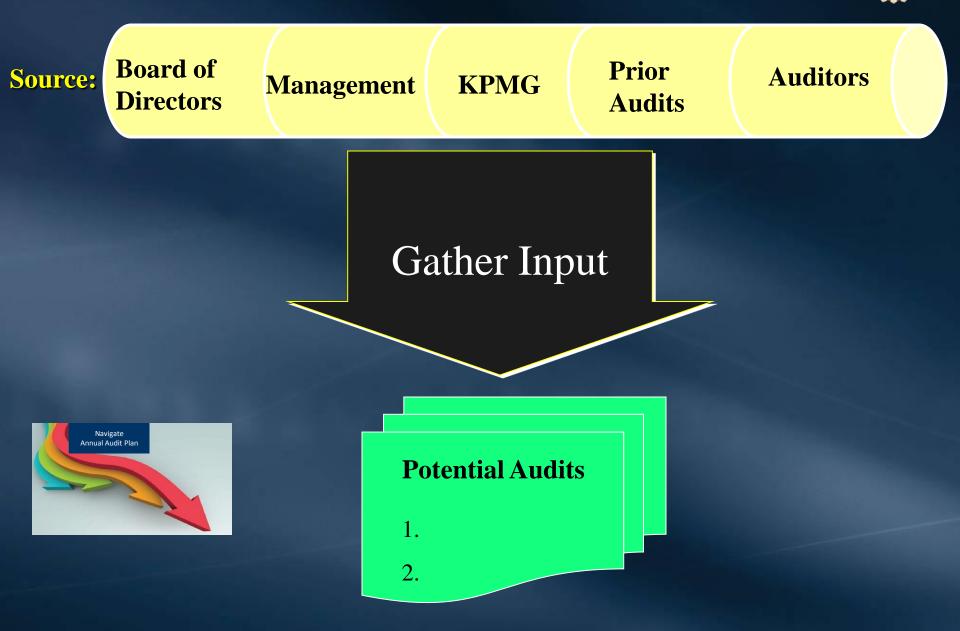
What do we Audit?

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Navigating the Audit Plan

Goals Plans Strategies

### **Determine Audit Universe**





### **Risk Factors**



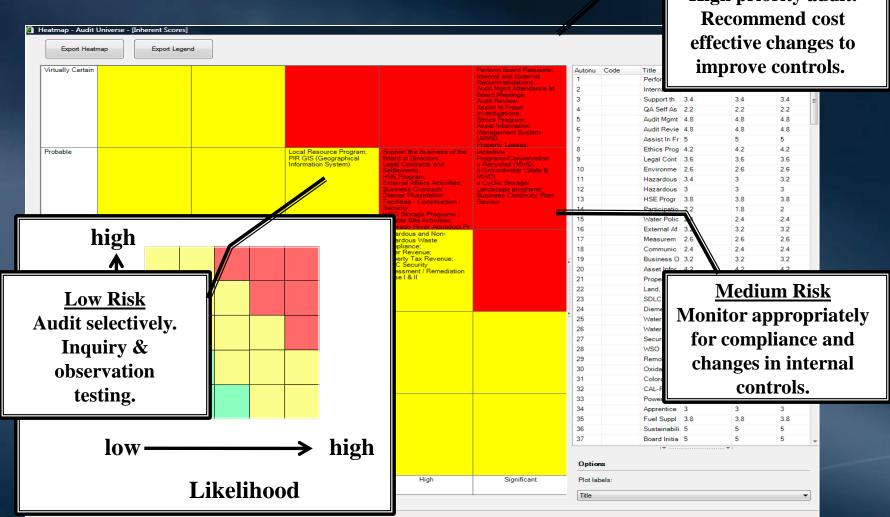
Financial	Political	Legal/ Regulatory	Operational	Auditor Judgment

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

### Audit Department **Risk-Based Internal Aud**

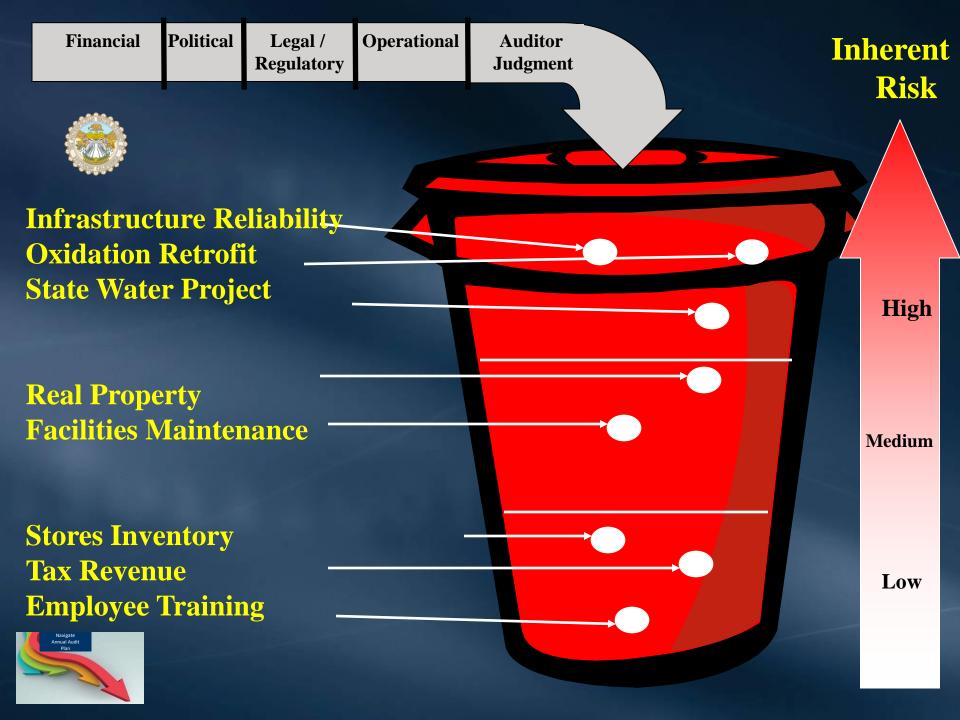
Navigate Annual Audit

Plan



**High Risk** High priority audit.







So, where do we go? And What do we audit?

### **Navigating the Audit Plan**







### Audit Department 2011/12 Proposed Audits



#### Water System Operations

- Physical Security Management
- Colorado River Aqueduct Programs
- Environmental, Health & Safety
- Energy Management
- Treatment Plants

Water Resource Management

WRM Programs

 SWP Water Transfer Program

> Strategic Water Initiatives

• Bay Delta Initiatives

#### **Engineering Services Group**

- Oxidation Retrofit Program
- Infrastructure Reliability
- Major Construction Projects
- Perris Valley
   Pipeline Project



### Audit Department 2011/12 Proposed Audits



#### Chief Financial Officer

- Revenue Bond Issues
- Assist External Auditors
- Employee and Director Expense Reports
- Interest Rate Swap Program
- Operating Revenue
- Computer Assisted Audit Techniques

#### **Real Property**

- Property Leases
- Recreation Facilities

#### **Human Resources**

- •Employee Benefits
- (Health Care)
- •Human Resources follow-up
- •Temporary Workers
- •Employee Separations

#### Business Technology Group

- Consulting Contracts
- Quarterly consulting Contracts Reporting
- End User Security
- Employee Usage of Company Property
- Emergency Preparedness
- Application Security Controls
- System Development Life Cycle Reviews (SDLCs)

### Audit Department 2011/12 Proposed Audits

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### Audit Department Resource Allocation



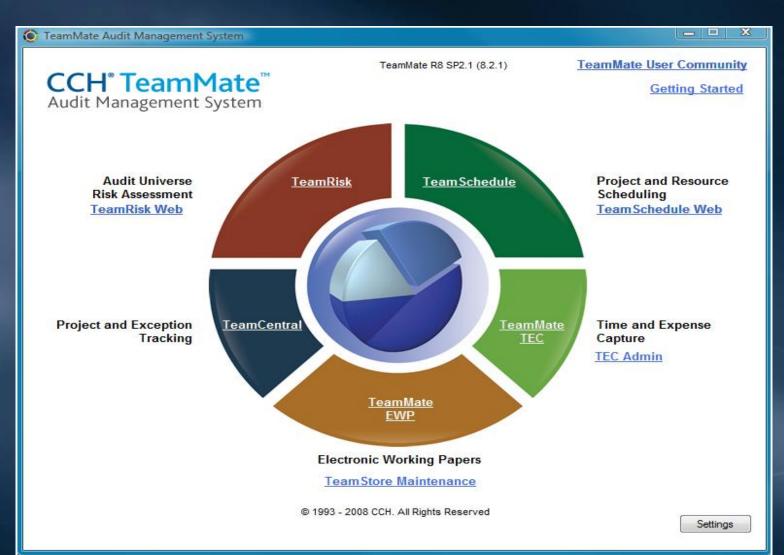
Audit Area	Budgeted Hours	% of Total
Finance/Operational/Compliance	6,975	62%
Information Technology	1,000	9%
<b>Board/Committee Meetings and Support</b>	925	8%
Assist External Auditors (Contractual)	800	7%
Board and Management Initiatives	500	4%
Comfort Letters	450	4%
Follow-up Reviews	350	3%
Special Reviews	300	3%
Total	11,300	100%

### Audit Department Automated Audit System

Navigate Annual Audit

Plan





Navigate Annual Audit Plan	A	idit ]	Depa	rt	n	1	en	It			
TeamMate Audit Management System     CCH <sup>®</sup> TeamMate <sup>™</sup> Audit Management System     End And Universe	TeamMate R8 SP2.1 (8.2.1) <u>TeamMate User</u> <u>Getti</u>	Community ing Started	TeamMat	e							
Edit Tools Close Add Item Add Sub Item Envand Item Verse Iby © Entity © Entity © Contact ● Auditor  Verse Iby ©  I ● ©  I ● ©  I ● Internal and Envand Recoversand	Delete         Edit           Show: A0         •           General         Contributors           Tifle:         MVD Audit           Code         •           Description:         •			udita	ble	Se	gme	nts	De	fine	ed
Project	Code (Filename)         Project Name           1200-01         Legal Contracts and Settlem           1500         External Affairs Activities           2001         Mussell Containment Progra           2002         Chemical Management           2012         Water Quality Regulatory Re           2015-01 PD         Board Initiative on Infrastruc           2015-01Datier         Board Programs           2015-01Datier         Board Programs	2004-05 2005-06 2006-07 Monitoring 2 ents m eporting System ture Reliability-PD ture Reliability t 7 0 #	Organize Refresh Tools Snapshot Clos 207-38 ComfortLetters Special Requests Cancell Unit Legal EA WSO Water System Operations WSO Uso Uso Uso Uso Uso Uso Uso Uso	ed On Hold IT	Backur           Start Date           1/29/200           1/16/200           1/16/200           1/28/200           8/19/200           12/22/20           8/20/200           M           R           Cum, Cum	9 9 9 9 8 8 8 8 8 0 8 8	P Q R	\$ T U	U V V Boa	X Y	rojects
Otherner Fluordation Facilities - Construction     Water System Control Master Plan     Water System Control Master Plan     Water Quality     Security     Social Strange Programs     Control Annual Activities	al 2150-01 Remote Site Activities     al 2200-03 Retroft Programs Shinmici     2200-08 Oxidation Retroft Programs     2200-09 Oxidation Retroft Programs     al 2200-09 Oxidation Retroft Programs     al 2400-1 Sustainability of Water Supp     al 2351 Energy Management     al 2400 Revenue Cycle     al 3000-01 Employee and Director Expe	1 Plan?     2     SOLC.SOLMASHADMIN monader and	Audit Project Description Montor development / enhancement of VSO's maintenance management spatem. Phase I - Hand Med implementation, Phase I - Indevelop to	Hours           IT         Finance         Total           100         10         10		Urg.	Risk Leve	ls Operat. Auditor Judgm.	Points Points (Y/N) (		Reviewe d FYEnded Monitoring
Subandantity of Valer Supply     Subandantity of Valer Supply     Subandantity or Valer Supply     Massel Containment Program     ScDA Supply Containment     ScDA Supply Containment     ScDA Supply Contain	3000-02 Employee and Director Exp 3300-01 Accounts Payable 3350-07 Assist External Auditors - F 3350-08 Assist External Auditors - F 4100-03 Water Conservation Program 4100-04 WRM Program - IID/MWI 4100-05 WRM Programs - Semitrop	2 17 Consulting contracts	ORACLE financials and software version upgrade. Audit bid/award controls, contract administration (payment, monitoring) for multiple constaining contracts(SIRMM annual) (Consider Induiting a realized of Lake Science assopment contract (Funded) and Columbia regionaris (Engineering Services conculting contract requested by VRM). Review contract compliance (Johnson Contrals, Inc., etc.)	800 80	0 430 5	585 CRG	4 5 3	5 5	22	00	2008
	A 100-02     Wick Transfer Agreement     A 200-01     Agency temporary agreement     A 400-01     Adeshare     A 4650     Disability Management     A 4700-02     Quartery Financial Statement     A 7700-02     Quartery Financial Statement	K 400 Major construction projects (excluding hand Freeder and DVLR)	Preview controls over construction contracts (project management, change orders: control contracter and encodituse) encluding those already covered under a separate project. For example, nerview San Diego Pipelne MC, Vegnouch Solids Handling, Cental Pool Augmentation, Pipelar auf Padeatement Program. Follow up to Himan Resources audit (report issued January 2006). Preview the budgetes autings for the 2009 Stoces algoes and comparison with	600 60 50 5		185 CRG 235 CRG	5 5 3	4 5	22 22 Y	0C	2008
Prioritization of th	M:\TeamMate Share'Data\1200-01.109	20 sp.0e add Cost Savings Assessment 21 100 kiternal and External Recommendations 22 add Tax Revenue 23 costiliar Maintens seas	the pitor focal year. Ensure savings measures are reasonable and determine possible increased risks due to cuts. Review State, entennal autor or pailing assessment recommendations: paintipule as an event and one opposition control and control tradement IA Quality Assessment recommendations. Review controls for collection and accounting of Lan revenues. Ensure District assets mellinking, pumps, etc.) are properly maintained.	75 7 50 200 25 200 20	D 480 E	510 BOD 710 CFO	2 5 5 4 5 5 5 5 4	5 5 4 4 3 5	22 N 22 22	00	·
Universe by Level		26	asses compliance with maintenance procedures. Review Maintenance Actors Place, Bolow du togrin add. Monitor Implementation work bloggades to the Assee Information Management Suptem. Monitor roors prepared by the Controller, test experse alternation propring and compares with established policies, analge expense trends and essonare. Review Monitor and review oreall agreement administration for Penis Valey Predire endorheim a avenues.	300 300 50 5 150 15 150 18 30 30 18	0 530 7	010 CRG 010 CRG 160 CFO 250 CRG	4 4 3 4 5 3 3 5 5 5 4 4	5 5 4 5 3 5 3 5	21 21 21 21 21	00 00 7 00 7	2005 Manitoring 2008

# Audit Department Quality Assurance



"The Chief Audit Executive must develop and maintain a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity."

International Standards for the Professional Practice of Internal Auditing Standard 1300



### Audit Department Quality Assurance and Improvement Program





-	G	Н	1	J	К	L	М	N	0	Р	Q	B	S	Т	U	V	V	AE		
1	Team Mate #	Audit Projects by Title	Audit Project Description	Hours		nouro		Hours Curr IT Hour		Cum. Fin. Hours	in. Org.	Risk Levels					Total Risk points	Board/ Manage ment Reques t	Mus t Do	
2				IT	Finance	Total				Financ.	Political	Legal/Re g	Operat.	Auditor Judgm.		(Y/N)	(Y/N)			
3																				
4	Various	Carryover audits from 2010/11 Audit Plan	Complete in process audits.	100	635	735	100	635	Various	5	5	5	5	5	25		Y			
5	1400	Revenue bond issues and restructuring	Review drafts of text and tables of Preliminary Official Statements/Official Statements related to all debt issues; issue "comfort letters" to underwriters. Contractually required.		450	450	100	1,085	CFO	5	5	5	5	5	25		Y			
6	5000	Assist external auditors	Assist external auditors in quarterly audits of interim cash basis financial statements and year-end audit of accrual basis financial statements for current fiscal year. Contractually required.		800	800	100	1,885	CFO	5	5	5	5	5	25		Y			
7		Perform Board requests	Perform reviews at the request of the Board.		300	300	100	2,185	BOD	5	5	5	5	5	25	Y	Y			
8	5500	Perform Management requests	Perform reviews at the request of Management. General Auditor attendance at Board & Management meetings. Ensure		200	200	100	2,385	CEO	5	5	5	5	5	25	Y	Y			
9	6000	Audit Management attendance at Board meetings	General Auditor actendance at Board & Management meetings. Ensure timely, thorough information is provided to the Board; maintain sound relationships with the Board. Review Board letters and GM monthly reports.		325	325	100	2,710	AUD	4	5	5	5	5	24		Y			
10	6010	Audit Review	General Auditor review of audits and audit reports.		650	650	100	3,360	AUD	- 4	5	5	5	5	24		Y			
11	2200	Oxidation Retrofit Program	Includes water treatment plant upgrade with new ozone disinfection system. Encompasses Skinner, Weymouth, Diemer, Jensen, and Mills. Cumulative estimate over \$800 million. Diemer construction (Shimmick) audit schedule to complete in 2011/12.		400	400	100	3,760	ESG	5	4	5	5	4	23					
12	2250	Infrastructure reliability	Review the infrastructure rehabilitation program on conveyence and distribution systems. Projects include Diemer North Access Road, Weymouth Treatment Plant, Box Springs Feeder Refurbishment, and Diemer electrical upgrades. 2011/12 projects include Copper Basin Outlet Rehab, Etiwanda & Rialto Pipeline Replacements. Conduct a review of Weymouth Plant Improvements program including project cost tracking, completion and closeout as well as administration and invoice accuracy.		400	400	100	4,160	ESG	•	5	5	5	4	23					
13	2400	Bay-Delta initiatives	Provide assistance as needed to Sacramento - San Joaquin Bay Delta programs, including review of consulting contracts. Focus initially on monitoring activities.		250	250	100	4,410	B-D	3	5	5	5	5	23	Y				
14	4520	Human Resources	Assess selected programs and processes within the HR function including cost-effective processes and programs in staffing and development. Major initiatives include Workforce Planning/Talent Management; web based capabilities; succession planning; and evaluating total compensation plan. Follow-up requested in 2011/2.		250	250	100	4,660	HB	•	5	5	4	5	23	Y	Y			
15	5551	Assist in internal and external fraud investigations	Provide support as needed to Legal/Ethics regarding hotline calls or fraud investigations. Perform data gathering analytics on various areas and assess risk for improper transactions.		50	50	100	4,710	Ethics	4	5	5	5	4	23		Y			
16	2000	Major construction projects	Review controls over construction contracts (project management, contingency, change orders, contract compliance and expenditures) excluding those already covered under a separate project. Capital Investment Plan projects are grouped into Supply and Delivery Reliability; Infrastructure Reliability (see below); Cost/Efficiency/Productivity; Water quality; and Regulatory categories. Refer to 2011/12 Capital Investment Plan Appendix for specific projects.		600	600	100	5,310	ESG	5	5	3	•	5	22					
17	2320	Perris Valley Pipeline Projects	Monitor and review overall agreement administration for Perris Valley Pipeline supply and delivery reliability projects Pipeline construction on South Reach to be completed by summer 2011; tunnel work deferred until 2017/18.		200	200	100	5,510	ESG	5	4	4	3	5	21					
18	5010	Employee and Director Expense Reports	Monitor reports prepared by the Controller; test expense claims for propriety and compliance with established policies (C-04); analyze expense trends and exposure. Required.		250	250	100	5,760	CFO	3	5	5	3	5	21	Y	Y			
			Evaluate controls over the Swap Program, including program administration and reporting, and compliance with terms and conditions of																	