

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-
would prom
y.

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

Where do we go?

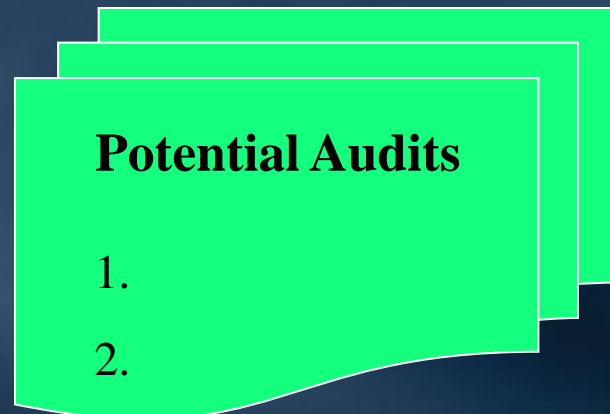
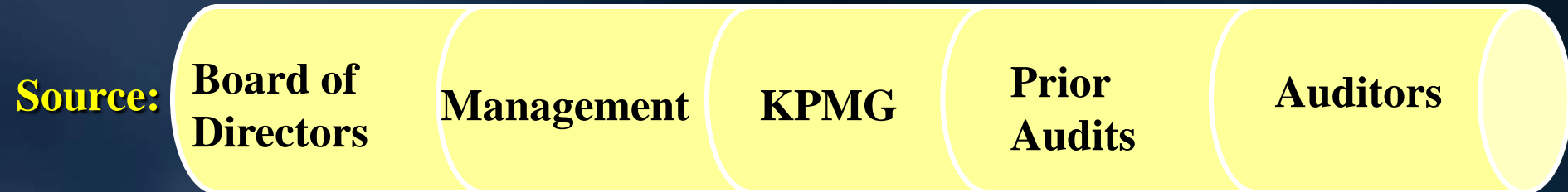
**What
do we Audit?**



**Navigating
the
Audit Plan**

**Goals
Plans
Strategies**

Determine Audit Universe





Risk Factors



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



Audit Department

Risk-Based Internal Audit

Heatmap - Audit Universe - [Inherent Scores]

Export Heatmap

Export Legend

Virtually Certain

Probable

Local Resource Program;
PIR GIS (Geographical
Information System)

Support the Business of the
Board of Directors;
Legal Contracts and
Settlements;
HSE Program;
External Affairs Activities;
Business Outreach;
Diemer Fluoridation
Facilities - Construction;
Security;
WSD Storage Programs;
Waste Site Activities;
Radio River Javelina Pr
ardous and Non-
ardous Waste
pliance;
er Revenue;
erty Tax Revenue;
C Security
essment / Remediation
se I & II

Perform Board Requests,
Internal and External
Recommendations;
Audit Mgmt Attendance at
Board Meetings;
Audit Review;
Assist in Fraud
Investigations;
Ethics Program;
Asset Information
Management System
(AIMS);
Property Leases;
Incentive
Programs/Conservation
o Recycled (MWD)
o Groundwater (State &
MWD)
o Cyclic Storage/
Landscape programs;
Business Continuity Plan
Review

Autonu	Code	Title			
1		Perform			
2		Intern			
3		Support th	3.4	3.4	3.4
4		QA Self As	2.2	2.2	2.2
5		Audit Mgmt	4.8	4.8	4.8
6		Audit Revie	4.8	4.8	4.8
7		Assist In Fr	5	5	5
8		Ethics Prog	4.2	4.2	4.2
9		Legal Cont	3.6	3.6	3.6
10		Environme	2.6	2.6	2.6
11		Hazardous	3.4	3	3.2
12		Hazardous	3	3	3
13		HSE Progr	3.8	3.8	3.8
14		Participatio	2.2	1.8	2
15		Water Polic	2.4	2.4	2.4
16		External Af	3.2	3.2	3.2
17		Measur	2.6	2.6	2.6
18		Communic	2.4	2.4	2.4
19		Business O	3.2	3.2	3.2
20		Asset Infor	4.2	4.2	4.2
21		Prop			
22		Land			
23		SDLC			
24		Dieme			
25		Water			
26		Water			
27		Secur			
28		WSD			
29		Remo			
30		Oxida			
31		Color			
32		CAL-F			
33		Power			
34		Apprentice	3	3	3
35		Fuel Suppl	3.8	3.8	3.8
36		Sustainabili	5	5	5
37		Board Initia	5	5	5

High Risk

High priority audit.
Recommend cost
effective changes to
improve controls.

high



Low Risk

Audit selectively.
Inquiry &
observation
testing.

low

high

Likelihood

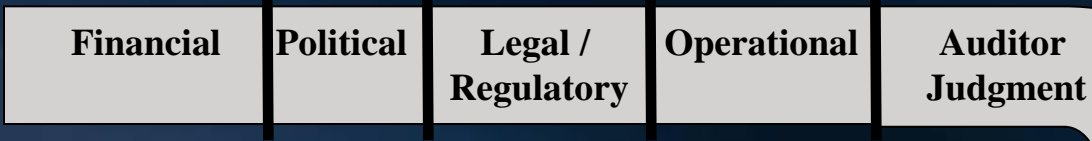
Medium Risk

Monitor appropriately
for compliance and
changes in internal
controls.

Options

Plot labels:

Title

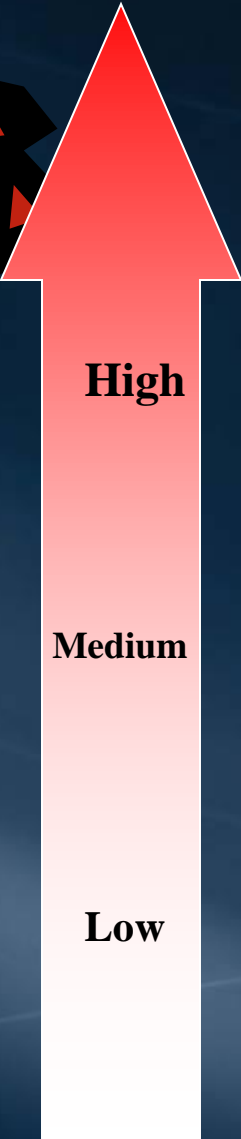
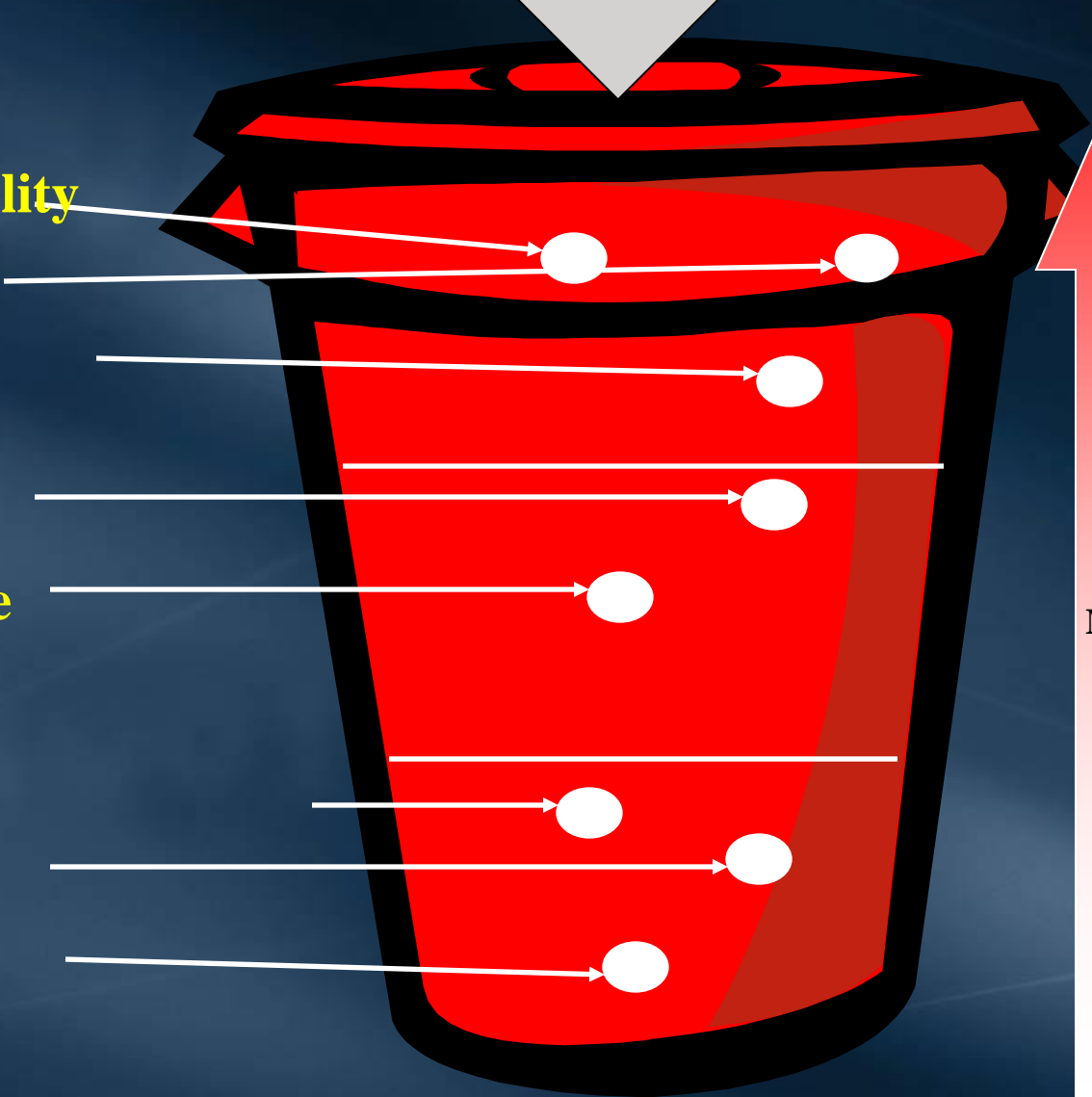


Inherent Risk

Infrastructure Reliability
Oxidation Retrofit
State Water Project

Real Property
Facilities Maintenance

Stores Inventory
Tax Revenue
Employee Training





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

Board of Directors

- **Perform Board Requests**

Ethics

- **Assist in Internal and External Fraud Investigations**

General Manager

- **Perform Management Requests**



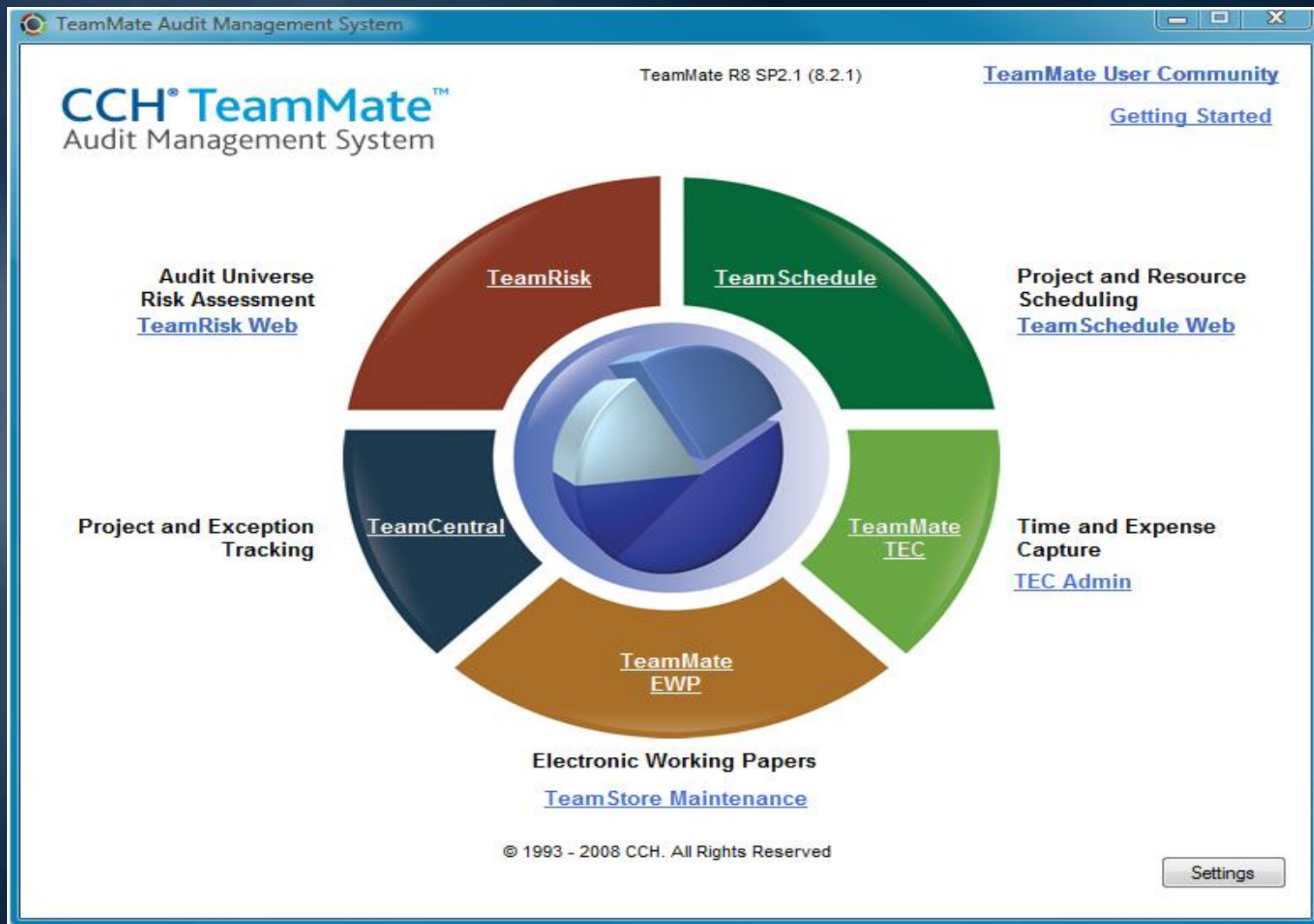
Audit Department Resource Allocation



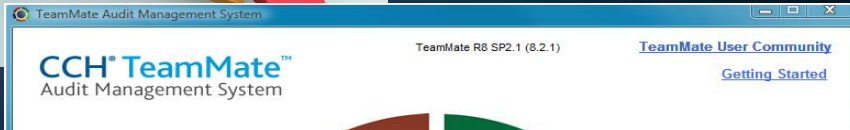
Audit Area	Budgeted Hours	% of Total
Finance/Operational/Compliance	6,975	62%
Information Technology	1,000	9%
Board/Committee Meetings and Support	925	8%
Assist External Auditors (Contractual)	800	7%
Board and Management Initiatives	500	4%
Comfort Letters	450	4%
Follow-up Reviews	350	3%
Special Reviews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



Audit Department Automated Audit System



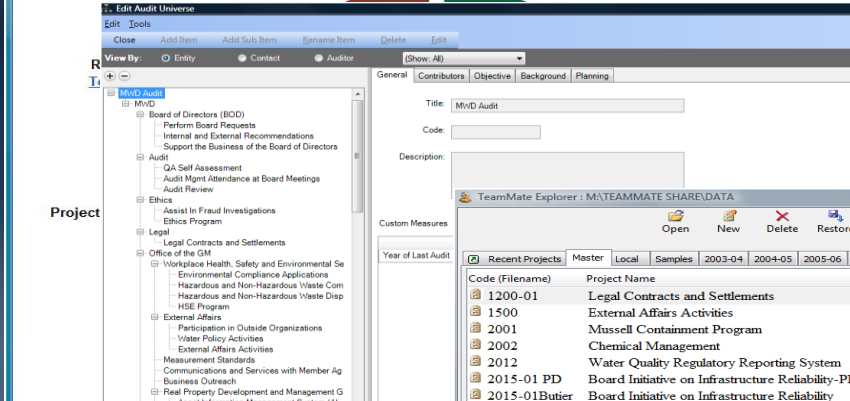
Audit Department

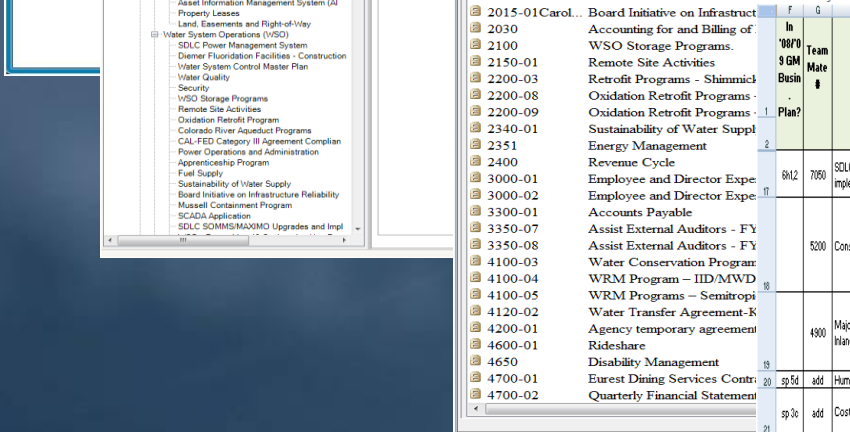



TeamMate

Auditable Segments Defined

MWD Projects







Code (Filename)	Project Name	Unit	Start Date	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.					
1200-01	Legal Contracts and Settlements	Legal	1/29/2009														
1500	External Affairs Activities	EA	1/16/2009														
2001	Mussell Containment Program	WSO	11/20/2008														
2002	Chemical Management	WSO	1/28/2009														
2012	Water Quality Regulatory Reporting System	Water System Operations	8/19/2008														
2015-01 PD	Board Initiative on Infrastructure Reliability-PD	WSO	12/22/2008														
2015-01Butter	Board Initiative on Infrastructure Reliability	WSO	8/20/2008														
2015-01 Carol	Board Initiative on Infrastructure Reliability	WSO	8/20/2008														
2030	Accounting for and Billing of WSO Storage Programs.																
2100	Remote Site Activities																
2150-01	Retrofit Programs - Shinnick																
2200-03	Oxidation Retrofit Programs -																
2200-08	Oxidation Retrofit Programs -																
2200-09	Oxidation Retrofit Programs -																
2340-01	Sustainability of Water Supply																
2351	Revenue Cycle																
2400	Employee and Director Expense																
3000-01	Employee and Director Expense																
3000-02	Accounts Payable																
3300-01	Assist External Auditors - FY																
3350-07	Assist External Auditors - FY																
4100-03	Water Conservation Program																
4100-04	WRM Program - IID/MWD																
4100-05	WRM Programs - Semitropi																
4120-02	Water Transfer Agreement-K																
4200-01	Agency temporary agreement																
4600-01	Rideshare																
4650	Disability Management																
4700-01	Eurest Dining Services Contr																
4700-02	Quarterly Financial Statement																

Prioritization of the Audit
Universe by Level of Risk

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



- Policies and procedures
- In-house seminars and training
- Continuing professional education
- Professional certification

Training

Ongoing Reviews

- Supervision
- Bi-weekly status
- Work paper review/approval
- Performance measures
- Audit report approval
- Quarterly risk assessment

External Assessment

Periodic Reviews

- Independent assessment every 5 years
- Board/Management surveys
- External auditor reliance on work papers

- Audit staff surveys
- Client surveys
- *Standards* compliance
- Annual risk assessment
- Board/Committee reporting
- Budgeting and analysis
- Board/Management input

Questions



[illegible]