



Internal Audit Report for January 2019

Summary

Two reports were issued during the month:

- 1. Bay-Delta Initiatives Consulting Agreements**
- 2. Internal Controls Over Financial Reporting**

Discussion Section

This report highlights the significant activities of the Internal Audit Department during January 2019. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Bay-Delta Initiatives Consulting Agreements

The Audit Department has completed a review of the accounting and administrative controls over Bay Delta Initiatives consulting agreements as of September 30, 2018.

Scope

Our review consisted of evaluating the requisition process, consultant evaluation and selection, and program reporting. We also verified the validity and propriety of payments to consultants for compliance with contractual terms and conditions and for assurance that the amounts billed were properly calculated and adequately supported.

Background

The Sacramento-San Joaquin Delta (Delta) is an important ecosystem and water source located east of the San Francisco Bay and south of Sacramento. Freshwater originating in the Sierra Nevada flows through the Delta, providing water supplies for 25 million Californians and the economies in the San Francisco Bay Area, the Central Valley, and Southern California. The Delta is a critical link in California's water supply system and is crucial to the health of the state's natural environment, its residents, and the economy.

Bay Delta Initiatives spearhead efforts to advance the State's Proposed Delta Improvements, including the California WaterFix and EcoRestore (formerly known as the Bay Delta Conservation Plan). Their core business is to develop and pursue near and long-term solutions that will ensure improved water quality and supply reliability. These efforts include providing leadership for proposed Delta improvements, participating in on-going federal and state Bay Delta regulatory processes, effectively managing studies and research activities that promote

collaborative science, identifying opportunities for Delta Islands land management, and monitoring performance of Delta levees to ensure their long-term integrity.

To assist in these efforts, Metropolitan engaged consultants with expertise in the areas of biology, regulatory and permitting matters, hydrologic/ hydrodynamic modeling, emergency preparedness, ecological dynamics, nutrient and food-chain modeling, and ecosystem restoration planning and implementation. The consultants provided technical writing support for scientific journal articles, briefing materials and presentations, and analyses related to water supply, water quality, ecology and fisheries. Between January 1, 2016 and September 30, 2018, Metropolitan paid \$7,803,505 to 35 consultants for work on Bay Delta Initiatives. Our examination consisted of a review of 20 invoices from 15 consultants totaling \$1,065,239.

Opinion

In our opinion, the accounting and administrative procedures over Bay Delta Initiatives consulting agreements include those practices usually necessary to provide for a satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control for the period January 1, 2016 through September 30, 2018.

Comments and Recommendations

None

Internal Controls Over Financial Reporting

We have completed a limited review of the internal controls over financial reporting for the fiscal year ended June 30, 2018. Specifically, we performed procedures to provide assurance to the board and management that controls related to the reliability and integrity of financial reporting are effective.

Scope

The review procedures were based on the internal control integrated framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Utilizing this framework, we first analyzed the results of the fiscal year 2017/18 Audit Plan, which included the completion of 21 audits and monitoring four projects/activities. As part of our review of audit results, we also evaluated management's responses to ensure that they were timely and that management had effectively addressed our concerns.

Our review also considered the control environment over financial reporting. We evaluated the qualifications of key personnel within the Office of the Controller by reviewing job descriptions and minimum competences required for these positions against incumbents. We also examined process descriptions and flowcharts of financial controls prepared by management for the

accounts payable, accounts receivable, payroll, sales, and financial statement preparation functions. In addition, we reviewed application controls over the financial systems to ensure that access was restricted in accordance with authorization policies and that duties among staff were adequately segregated. Finally, we assessed the risk appetite of key personnel within the office and discussed management's efforts to periodically review financial reporting controls.

Background

This review is required by Metropolitan's Administrative Code Section 6451(d) (3) "Audit Department Charter," which directs the audit department to issue an annual opinion over such controls. Moreover, the Institute of Internal Auditing (IIA) professional auditing standards require that auditors evaluate the risk exposure, adequacy, and effectiveness of controls relating to the reliability of financial information.

Opinion

Our review was conducted in accordance with the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing applicable to review engagements. The scope of a review engagement is limited in nature and thus provides less assurance than an audit conducted in accordance with Generally Accepted Auditing Standards. As such, review procedures performed would not necessarily disclose all material weaknesses in the internal control structure over financial reporting. Based on the results of our review, there is reasonable assurance that internal controls at June 30, 2018 were adequate to achieve reliable financial reporting.

Comments and Recommendations

EXCEPTION REPORTS

Exception Reports identify transactions or balances that deviate from expected parameters for further review and scrutiny. These reports are used to identify potential errors for timely correction and they may serve as management's evidence of the review of the effectiveness of the internal control structure. Within the Controller's Section, exception reports help inform management of the completeness and accuracy of data input and of the propriety of financial reporting information. These reports consist of computer generated reports prepared on a monthly, quarterly, and annual basis.

During our limited review, we noted that exception reports for the Oracle system in FY 2017/18 were not prepared.

Failure to generate periodic exception reports could result in errors going undetected and could result in non-compliance with financial reporting standards.

We recommend the Controller's Section establish procedures to ensure that exception reports are prepared on a periodic basis and conduct reviews to ensure compliance.

ACCESS CONTROLS

Access controls should be established to protect against the unauthorized destruction, disclosure, or modification of computer stored data. This control is achieved by limiting access based on an analysis of staff duties and responsibilities. In this regard, management should differentiate between the functions allowed, ranging from an inquiry capability for most persons to an override and correction capability for a few supervisory personnel. Normally, these restrictions are controlled by Logon ID's and passwords. Periodic review and updating of access authorities should be completed to account for staff transfers, new hires and terminations.

Our limited review revealed access controls for Oracle GL, Accounts Payable, Accounts Receivable, PAGM, and Purchasing were not reviewed during FY 2017/18. It should be noted that management performed a review of access controls during the course of our review.

Failure to periodically review access controls could result in unauthorized destruction, disclosure, or modification of financial data.

We recommend that management perform periodic reviews and update system access rules.