THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Internal Audit Report for January 2021

Summary

Discussion Section

This report highlights the significant activities of the Internal Audit Department during January 2021.

Travel Expense Reports and the iExpense Module Audit Project

Metropolitan uses the Oracle Financial Application (Oracle) to support its core business functions. The Oracle Financial Application includes the General Ledger as well as modules for Accounts Receivable, Projects and Grants, Fixed Assets, Procurement, and Inventory, Accounts Payable, and iExpense. The iExpense module was deployed with the Oracle Financial Application R12.2 upgrade in 2016. The system is installed on HP-UX, a UNIX Operating System, and maintained by the Information Technology Group. Directors and employees, who incur travel or operating expenses on behalf of Metropolitan, prepare travel expense reports through the online application.

We completed fieldwork for our audit of Employee and Director Expense Reports and the iExpense Module. We began this review in January 2020, but due to restrictions resulting from the pandemic, fieldwork was suspended and renewed in the fall. Our audit consisted of evaluating Travel Expense Reports for compliance with Metropolitan policy, including the propriety of expenditures, appropriate review and approval, and reporting timeliness. We also assessed user security access controls and disaster recovery preparedness.

Between April 1, 2019, and June 30, 2020, Metropolitan processed and paid 5,331 expense reports totaling $3.3 million. From that population, Internal Audit tested a statistical sample of 67 expense reports, totaling $53,025.

We have begun discussing our findings with management, and upon completion, we will publish our report. We anticipate this will occur no later than March 2021.

Audit Quality Assurance – Self Assessment Project

Beginning in 2007, the Internal Audit Department (Department) implemented a Quality Assurance and Improvement Program (QA&IP). The purpose of the QA&IP is to help ensure the Department continues its contribution to the Metropolitan Water District (the District) risk management, control, and governance efforts. The principles behind the QA&IP are outlined in The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of

Internal Auditing (the Standards). Compliance with the *Standards*, which include the Definition of Internal Auditing and the IIA Code of Ethics, helps ensure the Department provides independent, objective, professional services to support the District in achieving its objectives.

An external assessment performed by an independent third party is required every five years, with an annual internal assessment conducted during the interim. The last external assessment was performed in 2017, which judged the Department to be in "General Compliance" with the Standards, the highest possible rating. Accordingly, the next QA&IP external assessment is not due until 2022.

The start of the 2019/20FY internal assessment was delayed due to the demands on internal audit management as a result of the COVID pandemic. To begin, our focus changed from completing the audit assessment to consultation with district management on operational changes/concerns, especially those resulting from the stay-at-home orders. Secondly, the supervisory needs of the audit staff escalated in light of the necessity to perform virtual auditing.

As a result, this assessment was delayed until January 2021, when audit management efforts were dedicated to this project. This comprehensive self-assessment evaluates the Department's governance, audit staff, management, and audit processes. Individual elements of the QA&IP include policies and procedures, staff qualifications, audit identification, execution and communication, and training and improvement activities.

The results of this review will be published in February 2021.

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Audit Planning Enhancement – Recurring Projects

The audit centric dynamic changed in March 2020 when the COVID-19 pandemic struck. In response, we suspended audit fieldwork so that our inquiries did not burden critical and essential functions. As part of our shift in direction, in addition to talent development, we directed efforts on the development of the planning of recurring assignments, such as the Purchasing Card audit. These planning efforts helps ensure that audits are conducted systematically and uniformly, which drive efficiency and effectiveness. Furthermore, this approach supports continuous learning and a more adaptive workforce.

After identifying recurring projects, we conducted extensive virtual meetings to document process flows, identify inherent risks and related controls, and make audit procedure enhancements. This work is captured in our audit documentation application, TeamMate, which allows ease of access and utilization for audit staff.