



The Audit Department successfully completed 34 audits during 2007/08, among other accomplishments.

Internal Audit

The Office of the General Auditor provides independent assurance and consulting services designed to add value and improve Metropolitan's operations. The General Auditor's reporting structure to the Audit and Ethics Committee establishes this independence. Audit responsibilities are carried out by a highly trained staff of audit professionals with an understanding of Metropolitan's business culture, systems and processes. The Internal Audit Department helps the organization achieve its goals by proactively and systematically evaluating and improving the effectiveness of internal controls. The department also determines whether the organization's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks relating to governance, operations and information systems are appropriately identified, managed and monitored.
- Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and adequately protected. Significant financial, managerial and operating information is accurate, reliable and timely.
- Programs, plans and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Major Accomplishments

The 2007/08 Audit Plan was the result of a thorough assessment of risks coupled with input from key stakeholders, including board members, management and staff. During FY 2007/08, the Audit Department performed the following major activities:

- Successfully executed the 2007/08 Audit Plan and completed 34 audits and six audit follow-ups; remained flexible to board and management requests by performing four special requests; monitoring four higher risk areas and participating in nine Information Technology implementation projects. Results are summarized below:

List of Completed Reviews	Number of Reports
Financial/Contractual Audits:	32
Brutoco Contracts (3)	
Local Resources Program – Groundwater Recovery Projects	
Lower Colorado River Multi-Species Conservation Program	
Employee and Director Expense Reports	
Property and Plant	
Griffith Company Contract	
J.R. Filanc Construction Contract	
Carollo Engineers P.C. Contract	
Towill, Inc., Coast Surveying, Inc., and Rick Engineering Company Agreements	
MWH Americas, Inc., Black & Veatch Corporation, and CH2M Hill, Inc. Agreements	
Interest Rate Swap Program	
Camp Dresser & McKee, Inc., MWH Americas, Inc., and Lee & Ro, Inc. Agreements	
Water Rate Stabilization and Revenue Remainder Funds	
Richard Brady and RBF Consulting Agreements	
Fluoridation Program - California Dental Association Foundation Funding Agreement	
Tectonics & Tetra Design, Incorporated Agreement	
High-Efficiency Clothes Washers	
Deferred Water Rights	
Inland Feeder Project	
MWH Americas and Richard Brady & Associates	
CALFED Category III	
Water Quality Section	
J.U. Enterprise Consulting Agreement	

List of Completed Reviews	Number of Reports
WA. Rasic Construction Company	
Helix Environmental Planning, Jones & Stokes Associates, Jacobs Associates, Martinez Architects, and United Inspection & Testing	
Residential Toilet Programs	
Assist External Auditing firm	
Revenue Bonds (3)	
Information Technology Reviews:	2
Courion Identity Management System	
Bond Management	
Total Audits	34
Audit Follow-Ups:	6
Security Practices at Union Station and Other Metropolitan Facilities	
Fuel Supply	
Hazardous Waste Management Program	
Health, Safety and Environment	
Network Security	
Property Lease Operations	
Special Requests:	4
Metropolitan Water District and the Western Electricity Coordinating Council Certification	
Enterprise Risk Management	
Parsons Integrated Engineering Management	
Maintenance Support Services – Department of Water Resources	
Monitoring:	13
Inland Feeder Project	
Perris Valley Pipeline	
Diamond Valley Lake Recreation	
Quarterly Consulting Contracts	
Systems Development Life Cycles (SDLC) (9)	

- Devoted substantial efforts to communicating issues and developing recommendations related to three “Less Than Satisfactory” audit opinions (J.U. Enterprise; Fluoridation Program; and Tectonics and Tetra Design, Incorporated).
- Reassessed the Audit Plan on a quarterly basis to evaluate whether (1) the plan met the needs and requests of the board and management, (2) the plan was directed at areas of most concern, and (3) adequate progress was being made against the plan. Adjusted resources accordingly.

Quality Assurance Activities

The Office of the General Auditor adheres to the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*. The standards require that internal auditors commit to improving their internal processes and methods and maintain a quality program. In this regard, the Audit Department maintains a documented Quality Assurance & Improvement Program (QA&IP) which encompasses ongoing and periodic internal quality assessments, external quality assessments (every five years), and internal monitoring. Related activities during the fiscal year 2007/08 include:

- Implemented best-practice recommendations identified by the IIA external quality validation assessment in FY 2006/07. Implementation resulted in amendments to the Administrative Code to enhance Metropolitan board's role with respect to governance; strengthen management's responsibility for internal controls; and enhance the Audit Department Charter.
- Completed an internal quality self-assessment of conformance with industry standards related to governance and auditing. As part of the self-assessment, evaluated governance practices (such as the Audit Department's reporting relationship to the board); reviewed a sample of audit work papers; assessed planning, field work, and reporting routines; evaluated staff training and development activities; and anonymously surveyed the entire Audit Department staff.
- Requested client feedback surveys for each completed audit to ensure that the department met expectations. These surveys unanimously "Strongly Agreed" with the statement that the auditor demonstrated courtesy, professionalism, a constructive and positive approach, and provided a value-added service.
- Teamed with the Controller's Section to initiate a project to document, test, and evaluate financial reporting controls. This cooperative effort was staffed by Controller's Sections staff along with Audit Department personnel.