THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Auditor

- ## General Auditor's Report for March 2025

Summary

This report highlights significant activities of the Office of the General Auditor for the month ended March 31, 2025.

Purpose

Informational

Attachments

Three audit reports were issued during this period:

1. Operational Audit: Employee Tuition Reimbursement Program
2. Contract Audit: Sensis, Inc., Agreement No. 185391
3. Cybersecurity Audit: Inventory & Control of IT Assets

Detailed Report

Audit & Advisory Projects

Twenty-six projects are in progress:

- Seven audit projects are in the report preparation phase.
  - One management response is outstanding:
    - Operational Audit: Fallowed Land; management response was due 3/27/2025
- Nineteen projects are in the execution phase, including nine audits and ten advisories.
  - One new advisory project was added this month per management's request:
    - Process Matters Efficiency Initiative

Work priority is being given to the seven (down two from last month) carryforward audits.

Audit Report Details

1. **Operational Audit: Employee Tuition Reimbursement Program** issued March 24, 2025.
   - Audit scope included the review of the Employee Tuition Reimbursement Program for the period January 1, 2018 through October 31, 2021.
   - Ten recommendations with the following ratings: nine **Priority 2**; one **Priority 3**.

Date of Report: April 8, 2025

2. **Contract Audit: Sensis, Inc. Agreement No. 185391** issued March 24, 2025.
   - Audit scope included evaluating selected accounting and administrative controls over the agreement with Sensis, Inc. for the mwdh2o.com redesign project from July 1, 2018 to February 28, 2022.
   - Five recommendations with the following ratings: four **Priority 1**; one **Priority 3**.

3. **Cybersecurity Audit: Inventory & Control of IT Assets** issued March 26, 2025.
   - Audit scope included Information Technology Group (ITG) inventory records and all IT assets under the control of the ITG with the potential to store or process data, including end-user devices (e.g., laptops, desktop computers), network devices (e.g., firewalls, switches), non-computer/IoT devices, and servers connected to Metropolitan's network as of March 31, 2024.
   - Two recommendations with the following ratings: one **Priority 2**; one **Priority 3**.

Follow-Up Reviews

Thirteen audits are in the follow-up phase:

- Seven follow-up reviews are in progress.

- Two follow-up reviews are in planning.

- Four follow-up review forms have been received; however, validation of management action is pending.

No follow-up audit forms are overdue; one form previously reported as overdue was received.

Other General Auditor Activities

1. **Global Internal Audit Standards**
   Evaluation and adoption of the updated standards issued by the Institute of Internal Auditors, effective January 9, 2025, is in progress. Board roles and responsibilities, per the Standards, will be presented as an information item at the September meeting of the Audit Committee.

2. **Internal Quality Assessment**
   Completed. Results of the annual Internal Quality Assessment were presented at the March meeting of the Audit Committee.

3. **Annual Risk Assessment**
   The General Auditor's risk assessment methodology is being refreshed and will be presented at the April meeting of the Audit Committee. Board input on risk areas and internal control concerns will be solicited.

4. **Annual Audit Plan**
   Planning is underway for next fiscal year's audit plan, which includes meetings with Metropolitan senior management. The FY 2025/26 audit plan will be presented to Board for approval at the June meetings of the Audit Committee and Board of Directors.

5. **Department Head Collaboration**
   The General Auditor is participating with the General Manager, General Counsel, and Ethics Officer in facilitated workshops.

6. **Senior Audit Manager Recruitment**
   An initial strategy meeting was held with a professional recruiting firm, and a tentative recruiting calendar was set.

7. **External Resources RFQ**
   Collaboration with Contracting Services to draft and issue an RFQ for specialty internal audit services is ongoing.

8. **On-Demand Advisory Services**
   Completed one advice request involving a contract extension.

9. **Training**
   Audit staff attended The Art of the Audit Interview, TeamMate+ Reporting API Basics, and the IIA Western District Conference.

Metropolitan Audit Department Staff with Anthony Pugliese, President & CEO – Institute of Internal Auditors at the IIA Western District Conference in Anaheim, CA

Anthony Pugliese, President & CEO – Institute of Internal Auditors, presenting at the IIA Western District Conference on what internal audit will look like in 2035 and what internal audit departments need to do to get there.

Office of the General Auditor __

Contract Audit: Sensis, Inc., Agreement No. 185391

Project Number: 22-3020
March 24, 2025

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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Executive Summary

BACKGROUND

One of Metropolitan's most effective ways to communicate with the public and provide access to information is via Metropolitan's enterprise website, mwdh2o.com. The website allows Metropolitan to strategically communicate water issues in its service area with member agencies, local officials, media, educators, and the public on a broad number of topics, including water policy and operational issues, Board meetings, events, programs, and projects. As the public face of the organization and with an ever-growing number of users, the site must effectively deliver information on a wide range of staff and Board activities, projects, programs, and initiatives that support Metropolitan's mission.

On April 9, 2019, the Metropolitan Board authorized a professional services agreement with Sensis, Inc., not to exceed $1,500,000, to design, develop, and deploy the new mwdh2o.com website, create a multi-site content management system (CMS), and redesign bewaterwise.com. The prior Metropolitan website required replacement to enhance the mobile experience, integrate with social media, optimize search results, improve navigation and technology, and communicate key strategic goals. The agreement was effective from May 28, 2019 through February 28, 2023. As of September 25, 2024, Metropolitan has paid $965,903 to Sensis, Inc. for the project and three other purchase orders (for hosting/support).

WHAT WE DID

Our audit scope included evaluating selected accounting and administrative controls over the agreement with Sensis, Inc. (No. 185391) for the mwdh2o.com redesign project from July 1, 2018 to February 28, 2022.

Our audit objectives were to:

(1) Determine if invoices were certified, payments were accurate and valid, and project charges were properly accounted for.
(2) Determine if the most qualified bidder was recommended for selection and if the project was properly approved.
(3) Determine if agreement monitoring for insurance and project progress was performed.

WHAT WE CONCLUDED

(1) Invoice payments were accurate and valid and project charges were properly accounted for; however, invoice certification was not performed by the vendor as required.
(2) The most qualified bidder was recommended for selection; however, there are opportunities to improve transparency in Board Letter reporting, and the contracted scope of services should better align with the request for proposal (RFP).
(3) Agreement monitoring for insurance and project progress was performed.

WHAT WE RECOMMEND

We recommend Metropolitan: (1) review significant variances between the RFP and contracted scope of services; (2) provide training to project managers; (3) update policies and procedures; (4) include additional key information in Board Letters; and (5) ensure contractor invoices comply with agreement terms and conditions.

Management agreed with our observations and recommendations.

NUMBER OF RECOMMENDATIONS

4 — **PRIORITY 1** Response time: Immediate

0 — **PRIORITY 2** Response time: Within 90 days

1 — **PRIORITY 3** Response time: Within 180 days

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: March 24, 2025

To: Audit Committee

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: Contract Audit: Sensis, Inc., Agreement No. 185391
(Project Number 22-3020)

This report presents the results of our contract audit of Sensis, Inc., Agreement No. 185391.

Results, including our observations and recommendations, follow this letter. Supplemental information, including our scope and objectives, is included in Appendix A. Appendix B includes a description of our new recommendation priority rating system. Finally, management's response to our audit is now included in Appendix C.

We appreciate the cooperation and courtesies provided by the External Affairs Group, Information Technology Group, and Finance & Administration Group.

The results in this report will be summarized for inclusion in a status report to the Board. If you have any questions regarding our audit, please do not hesitate to contact me directly at 213.217.6528 or Assistant General Auditor Kathryn Andrus at 213.217.7213.

Attachments

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
External Affairs Distribution
Finance & Administration Distribution
Information Technology Distribution
External Auditor

RESULTS

RECOGNITION

Positive aspects observed during our audit include:

- Insurance certificates for the consultant were kept current and in Oracle.

- Invoices were accurate and applied to the correct accounts.

RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
PRIORITY 1				
1	The scope of services awarded to the contractor differed significantly from the RFP and evaluation committee recommendation.	Vendor bid protest	Review the appropriateness of variances between the RFP and the contracted scope of services.	Agree
			Provide training to project managers.	Agree
			Update policies and procedures.	Agree
2	Key information was not presented in the Board Letter.	Lack of transparency on how Metropolitan funds will be spent Impede the Board's ability to evaluate proposals	Include RFP evaluation committee recommendation details. Break down the agreement amount by service and options. Disclose costs of operation covered by other procurement means.	Agree
PRIORITY 2				
	None			
PRIORITY 3				
3	Contractor invoices did not comply with the agreement's terms and conditions.	Financial loss	Contractor invoice format should comply with agreement terms and conditions.	Agree

OBSERVATIONS & RECOMMENDATIONS

1 Scope of Services

The scope of services awarded to the contractor differed significantly from the RFP and evaluation committee recommendation.

Section 2 of the request for proposal (RFP) for Metropolitan Website Redesign (RFP-PL-1186) stated that Metropolitan was seeking proposals for:

(1) redesign/replacement of mwdh2o.com;

(2) an updated and user-friendly content management system (CMS) for mwdh2o.com;

(3) content migration of mwdh2o.com to the new platform;

(4) search engine optimization of mwdh2o.com; and

(5) knowledge transfer for information technology staff and content owners.

The RFP also mentioned that Metropolitan would like a cloud-hosted site option.

On December 18, 2018, the RFP evaluation committee recommended an agreement for website redesign services not to exceed $750,000, with a follow-on agreement for annual hosting and website support not to exceed $250,000, totaling a recommended $1 million, be awarded to Sensis, Inc.

However, Board approval was sought for an agreement valued at $1.5 million, or **50% higher** than the RFP's recommendation, and included a redesign of an additional website not mentioned in the RFP and the creation of a multi-site CMS. Additionally, the recommended hosting and support were not included in the contract and were ultimately covered by separate purchase orders.

The original proposal for the website development was $604,191. This was revised to $509,347 and additional **options** were added to increase the agreement amount to $1.5 million; see Observation No. 2 below for a breakdown.

Priority 1

Significant variances between the RFP and the final agreement could result in a vendor bid protest.

Recommendation 1

We recommend management review variances between the RFP and contracted scope of services for appropriateness.

Management Response
Agree.

Current practice now requires the contract analyst to advise Agreement Administrators/Project Managers (AAs) during contract development/negotiations that the services awarded must be from/within the scope of work of the RFP. The analyst may participate or be an observer in the scope negotiations to reenforce this requirement. Contracting workflow requires that the draft agreement from the contract analyst be reviewed by a principal analyst for scope issues. Legal also participates in

the review of the contract. Contracting team manager further reviews as part of the final routing prior to contract execution.

Management's action plan was implemented in November 2021.

Recommendation 2

We recommend management provide training to project managers to ensure the contracted scope of services is reasonably derived from the RFP.

Management Response
Agree.

Current practice requires each agreement administrator/project manager to enroll in training to be certified as an agreement administrator. Recertification is required every 3 years. The recertification process has been updated to include specific training to ensure the contracted scope of services is reasonably derived from the solicitation.

Management's action plan was implemented in January 2025.

Recommendation 3

We recommend management update policies and procedures to require reviews and training related to RFP and contract scope of services variances.

Management Response
Agree.

The Contracting Procedures Manual has been updated (Chapter 17, section C)

Management's action plan was implemented in November 2021.

2 Board Letter

Key information was not presented in the Board Letter.

At the April 9, 2019 Board meeting, the subject for Item 7-2 was "Authorize a professional services agreement with Sensis, Inc. not to exceed $1,500,000 to design, develop, and deploy the new mwdh2o.com website."

The Board Letter and presentation for Item 7-2 did not include:

- **Addition of bewaterwise.com to the scope of work**. The agreement included an option for redesign services of an additional website, bewaterwise.com for $324,000.

- **RFP evaluation committee recommendation details.** In its December 18, 2018 memo, the evaluation committee recommended that Sensis, Inc. be awarded an agreement not to exceed $750,000 to provide Metropolitan Website Redesign Services and a follow-on agreement not to exceed $250,000 annually to provide hosting and support of the website.

- **Breakdown of the $1.5 million to design, develop, and deploy the new mwdh2o.com website.** Exhibit C of the agreement shows primary services to include redesigning mwdh2o.com, migrating all external facing websites to a hosting platform, Amazon Web Services, and building a bulk loader for .pdf files for $509,347. Additionally, there were two options including $580,276 for a CMS ($399,276 to create a multi-site CMS, $126,000 to migrate seven websites into the CMS, $55,000 to migrate bewaterwise.com into the CMS), $324,000 to redesign bewaterwise.com, and $86,377 (not-to-exceed hourly billing) for additional related services.

- **Discussion of costs to support/host the website (part of the RFP).** Three purchase orders were issued to Sensis, Inc. to cover hosting/support separately from the agreement reviewed in this audit in the following amounts: $216,000, $246,000, and $24,000.

Priority 1

Not disclosing RFP evaluation committee results, breaking down the scope of service cost components, or discussing RFP components not included in the award could result in a lack of transparency on how Metropolitan funds will be expended and impede the Board's ability to make informed decisions during agreement award proceedings.

Recommendation 4

We recommend management with respect to future Board Letters:

(1) Include RFP evaluation committee recommendation details, especially if it differs significantly from the agreement to be awarded.

(2) Break down the agreement amount by services and options.

(3) Disclose additional costs of operation covered by other procurement means, especially for RFP scope of work items not awarded.

Management Response
Agree.

Implement the recommended actions under this Priority for all future Board Letters. IT PMO staff will be trained regarding these recommendations.

The estimated implementation date is April 2025.

3 Agreement Terms & Conditions

Contractor invoices did not comply with the agreement's terms and conditions.

All seven contractor invoices reviewed were not certified as true and correct by the contractor, as required by the agreement terms and conditions.

Priority 3

Failure to comply with the terms and conditions of the agreement could result in a financial loss to Metropolitan due to fraudulent, erroneous, or unauthorized invoicing.

Recommendation 5

We recommend management ensure invoices comply with the terms and conditions of the agreement and are certified as correct and accurate.

Management Response
Agree.

IT PMO staff will be trained to ensure invoices are certified by the contractor as correct and accurate.

The estimated implementation date is April 2025.

EVALUATION OF MANAGEMENT'S RESPONSE

Internal Audit considers management's responses are appropriate to the recommendations, and their corrective actions should resolve the conditions identified in the report.

AUDIT TEAM

Chris Gutierrez, CPA, CIA, Audit Program Manager

APPENDIX A: SUPPLEMENTAL INFORMATION

SCOPE & OBJECTIVES

Our audit scope included evaluating selected accounting and administrative controls over the agreement with Sensis, Inc. (No. 185391) for the mwdh2o.com redesign project from July 1, 2018 to February 28, 2022.

Our audit objectives were to:

(1) Determine if invoices were certified, payments were accurate and valid, and project charges were properly accounted for.

(2) Determine if the most qualified bidder was recommended for selection and if the project was properly approved.

(3) Determine if agreement monitoring for insurance and project progress was performed.

EXCLUSIONS

Our audit scope did not include internal costs incurred in the administration of the agreement nor review of purchase orders issued to Sensis, Inc. for work separate from this audit.

PRIOR AUDIT COVERAGE

We have not completed any audit reports with a similar scope within the last five years.

AUTHORITY

We performed this audit in accordance with the FY 2021/22 Audit Plan presented to the former Audit & Ethics Committee and our FY 2023/24 Audit Plan approved by the Board.

PROFESSIONAL INTERNAL AUDIT STANDARDS

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

FOLLOW-UP REVIEWS

The Office of the General Auditor has implemented a new follow-up process to ensure management has effectively implemented corrective action related to our recommendations. Management is required to report recommendation implementation status to our office within six months following the issuance of this report and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within a year of this report and if necessary, a second follow-up review will occur approximately six months after issuance of the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Committee at its next scheduled meeting.

INTERNAL CONTROL SYSTEM

An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by the Metropolitan team and seek to provide reasonable (not absolute) assurance that the District's business objectives will be achieved. However, limitations are inherent in any internal control system no matter how well designed, implemented, or operated. Because of these limitations, errors or irregularities may occur and may not be detected. Specific examples of limitations include but are not limited to, poor judgment, carelessness, management override, or collusion. Accordingly, our audit would not necessarily identify all internal control weaknesses or resultant conditions affecting operations, reporting, or compliance. Additionally, our audit covers a point in time and may not be representative of a future period due to changes within Metropolitan and/or external changes impacting the District.

METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

It is important to note that Metropolitan management is responsible for designing, implementing, and operating a system of internal control. The objectives of internal controls are to provide reasonable assurance as to the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of established goals and objectives. In fulfilling this responsibility, management judgment is required to assess the expected benefits and related costs of internal control policy and procedures and to assess whether those policies and procedures can be expected to achieve Metropolitan's operational, reporting, and compliance objectives.

APPENDIX B: PRIORITY RATING DEFINITIONS

The Office of the General Auditor utilizes a priority rating system to provide management with a measure of urgency in addressing the identified conditions and associated risks. We assess the significance of each observation identified during the audit using professional judgment and assign priority ratings to each recommendation using the criteria listed below. Factors taken into consideration in assessing the priority include the likelihood of a negative impact if not addressed, the significance of the potential impact, and how quickly a negative impact could occur.

PRIORITY			
Definition	Observation is *serious* enough to warrant *immediate* corrective action. The condition may represent a serious financial, operational, or compliance risk. A priority 1 recommendation may result from a key control(s) being absent, not adequately designed, or not operating effectively.	Observation is of a *significant* nature and warrants *prompt* corrective action. It may represent a moderate financial, operational, or compliance risk. A priority 2 recommendation may result from a process or less critical control(s) not being adequate in design and/or not operating effectively on a consistent basis.	Observation involves an internal control issue or compliance lapse that can be corrected in the *timely* course of normal business. A priority 3 recommendation may result from a process or control that requires enhancement to better support Metropolitan's objectives and manage risk.
Response Time	Immediate	Within 90 Days of report issuance	Within 180 Days of report issuance

APPENDIX C: MANAGEMENT'S RESPONSE

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: March 18, 2025

To: Scott Suzuki, General Auditor

From: Charles Eckstrom, IT Group Manager

cc: Deven Upadhyay, General Manager
Mohsen Mortada, Chief of Staff
Shane Chapman, Assistant General Manager
Dee Zinke, Assistant General Manager
Katano Kasaine, Assistant General Manager
Sue Sims, External Affairs Group Manager
Adam Benson, Finance Group Manager

Subject: Management Response to Audit Number 22-3020

The General Manager has reviewed and concurs with the following response.

Please find attached the management response to the Contract Audit: Sensis, Inc., Agreement No. 185391. Thank you for your recommendations to improve our systems and controls and to increase our capacity and effectiveness. Your partnership will continue to be important as we implement the recommendations. Please do not hesitate to contact me if you would like to discuss the response or any other matters related to this audit.

Contract Audit: Sensis, Inc., Agreement No. 185391
Project Number 22-3020
Management Response

OBSERVATION 1	**Scope of Services**
	Section 2 of the request for proposal (RFP) for Metropolitan Website Redesign (RFP-PL-1186) stated that Metropolitan was seeking proposals for:
	(1) redesign/replacement of mwdh2o.com;
	(2) an updated and user-friendly content management system (CMS) for mwdh2o.com;
	(3) content migration of mwdh2o to the new platform;
	(4) search engine optimization of mwdh2o.com; and
	(5) knowledge transfer for information technology staff and content owners.
	The RFP also mentioned that Metropolitan would like a cloud-hosted site option.
	On December 18, 2018, the RFP evaluation committee recommended an agreement for website redesign services not to exceed $750,000, with a follow-on agreement for annual hosting and website support not to exceed $250,000, totaling a recommended $1 million, be awarded to Sensis, Inc.
	However, Board approval was sought for an agreement valued at $1.5 million, or 50% higher than the RFP's recommendation, and included a redesign of an additional website not mentioned in the RFP and the creation of a multi-site CMS. Additionally, the recommended hosting and support was not included in the contract and was ultimately covered by separate purchase orders.
	The original proposal for the website development was $604,191. This was revised to $509,347 and additional options were added to increase the agreement amount to $1.5 million; see Observation No. 2 below for a breakdown.

RECOMMENDATIONS 1-3	**Recommendation 1**
PRIORITY 1	We recommend management review variances between the RFP and contracted scope of services for appropriateness.

	MANAGEMENT ACTION PLAN	Current practice now requires the contract analyst to advise Agreement Administrators/Project Managers (AAs) during contract development/negotiations that the services awarded must be from/within the scope of work of the RFP. The analyst may participate or be an observer in the scope negotiations to reenforce this
X	**AGREE**	

FORM	MANAGEMENT RESPONSE FORM		PAGE	**1 OF 4**

NOVEMBER 2023 (Rv. N/A)

		requirement. Contracting workflow requires that the draft agreement from the contract analyst be reviewed by a principal analyst for scope issues. Legal also participates in the review of the contract. Contracting team manager further reviews as part of the final routing prior to contract execution.
	ESTIMATED IMPLEMENTATION	November 2021 (already implemented with Contracting Procedures Manual revision November 2021)
PARTIALLY AGREE DO NOT AGREE	**EXPLANATION**	

RECOMMENDATIONS 1-3 **PRIORITY 1**		**Recommendation 2** We recommend management provide training to project managers to ensure the contracted scope of services is reasonably derived from the RFP.
x **AGREE**	**MANAGEMENT ACTION PLAN**	Current practice requires each agreement administrator/project manager to enroll in training to be certified as an agreement administrator. Recertification is required every 3 years. The recertification process has been updated to include specific training to ensure the contracted scope of services is reasonably derived from the solicitation.
	ESTIMATED IMPLEMENTATION	January 2025 (already implemented, recertification module updated and in place in MyLearning)
PARTIALLY AGREE DO NOT AGREE	**EXPLANATION**	

RECOMMENDATIONS 1-3 **PRIORITY 1**		**Recommendation 3** We recommend management update policies and procedures to require reviews and training related to RFP and contract scope of services variances.
x **AGREE**	**MANAGEMENT ACTION PLAN**	The Contracting Procedures Manual has been updated (Chapter 17, section C)
	ESTIMATED IMPLEMENTATION	November 2021 (already implemented with Contracting Procedures Manual revision November 2021)
PARTIALLY AGREE DO NOT AGREE	**EXPLANATION**	

OBSERVATION 2	**Board Letter**
	At the April 9, 2019 Board meeting, the subject for Item 7-2 was "Authorize a professional services agreement with Sensis, Inc. not to exceed $1,500,000 to design, develop, and deploy the new mwdh2o.com website."

The Board Letter and presentation for Item 7-2 did not include:

- **Addition of bewaterwise.com to the scope of work.** The agreement included an option for redesign services of an additional website, bewaterwise.com for $324,000.

- **RFP evaluation committee recommendation details.** In its December 18, 2018 memo, the evaluation committee recommended that Sensis, Inc. be awarded an agreement not to exceed $750,000 to provide Metropolitan Website Redesign Services and a follow-on agreement not to exceed $250,000 annually to provide hosting and support of the website.

- **Breakdown of the $1.5M to design, develop, and deploy the new mwdh2o.com website.** Exhibit C of the agreement shows primary services to include redesigning mwdh2o.com, migrating all external facing websites to a hosting platform, Amazon Web Services, and building a bulk loader for .pdf files for $509,347. Additionally, there were two options including $580,276 for a CMS ($399,276 to create a multi-site CMS, $126,000 to migrate seven websites into the CMS, $55,000 to migrate bewaterwise.com into the CMS), $324,000 to redesign bewaterwise.com, and $86,377 (not-to-exceed hourly billing) for additional related services.

- **Discussion of costs to support/host the website (part of the RFP).** Three purchase orders were issued to Sensis, Inc. to cover hosting/support separately from the agreement reviewed in this audit in the following amounts: $216,000, $246,000, and $24,000.

RECOMMENDATION 4 **PRIORITY 1**	We recommend management with respect to future Board Letters: (1) Include RFP evaluation committee recommendation details, especially if it differs significantly from the agreement to be awarded. (2) Break down the agreement amount by services and options. (3) Disclose additional costs of operation covered by other procurement means, especially for RFP scope of work items not awarded.
MANAGEMENT ACTION PLAN	Implement the recommended actions under this Priority for all future Board Letters. IT PMO staff will be trained regarding these recommendations.
X **AGREE** **ESTIMATED IMPLEMENTATION**	April 2025
PARTIALLY AGREE **DO NOT AGREE** **EXPLANATION**	

FORM	MANAGEMENT RESPONSE FORM	PAGE	**3 OF 4**
			NOVEMBER 2023 (Rv. N/A)

OBSERVATION 3			Agreement Terms & Conditions
			All seven contractor invoices reviewed were not certified as true and correct by the contractor, as required by the agreement terms and conditions.
		RECOMMENDATION 5 PRIORITY 3	We recommend management ensure invoices comply with the terms and conditions of the agreement and are certified as correct and accurate.
x	AGREE	MANAGEMENT ACTION PLAN	IT PMO staff will be trained to ensure invoices are certified by the contractor as correct and accurate.
		ESTIMATED IMPLEMENTATION	April 2025
	PARTIALLY AGREE	EXPLANATION	
	DO NOT AGREE		

FORM	MANAGEMENT RESPONSE FORM	PAGE	4 OF 4

NOVEMBER 2023 (Rv. N/A)

Office of the General Auditor __

Operational Audit:
Employee Tuition Reimbursement Program

Project Number: 22-4060
March 24, 2025

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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Executive Summary

BACKGROUND

Metropolitan has established a Tuition Reimbursement Program (Program) aimed at facilitating educational opportunities at accredited educational institutions that benefit both the organization and its employees. The Program covers tuition expenses, course-specific registration fees, costs associated with textbooks, and essential course materials. Eligible individuals can receive financial support up to a maximum of $9,000 per calendar year for undergraduate courses and up to $11,000 per calendar year for graduate programs. There is a prescribed limit of 12 units per quarter or semester for course enrollment.

The Human Resources Group directs and administers the Program, which encompasses evaluating the accreditation status of academic and professional institutions, making definitive decisions regarding the approval or denial of reimbursement requests, and facilitating the submission of approved applications along with their requisite supporting documentation to the Controller Section for payment processing.

The Program is open to regular full-time and part-time employees who have completed a minimum of six months of service and meet specific requisites, such as selecting courses relevant to their current job responsibilities. For fiscal years 2017/18 through 2020/21, the Program had an average of 107 participants per fiscal year, with an average program cost of $545,186 per fiscal year, or $5,095 per participant.

WHAT WE DID

Our audit scope included the review of the Employee Tuition Reimbursement Program (Program) for the period January 1, 2018 through October 31, 2021.

Our audit objectives were to:

(1) Evaluate compliance with established policies, procedures, and guidelines.
(2) Evaluate the employee tuition reimbursement process for operational efficiency opportunities.

WHAT WE CONCLUDED

(1) Compliance with established policies and procedures should be improved.
(2) Operational efficiencies should be implemented in the employee tuition reimbursement process.

WHAT WE RECOMMEND

We recommend management: (1) formalize the review process for tuition requests and reimbursements; (2) form a working group or, at a minimum, ensure the review and approval process for all submissions is applied consistently and occurs at an appropriate management level; (3) establish a monitoring process to identify trends requiring further focus; (4) implement EForm approvals that incorporate proper duties segregation and align with policy; (5) implement distinct EForms for the initial application and for the reimbursement; (6) retain sequentially numbered EForms in the EForm database; (7) perform EForm testing in a test environment; (8) establish criteria for evaluating trade/correspondence schools; (9) post the approved trade and correspondence schools list; (10) update tuition reimbursement policies and procedures.

Management agreed with our observations and recommendations.

NUMBER OF RECOMMENDATIONS

0 — PRIORITY 1
Response time: Immediate

9 — PRIORITY 2
Response time: Within 90 days

1 — PRIORITY 3
Response time: Within 180 days

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: March 24, 2025

To: Audit Committee

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: Operational Audit: Employee Tuition Reimbursement Program
                 (Project Number 22-4060)

This report presents the results of our audit of the Employee Tuition Reimbursement Program.

Results, including our observations and recommendations, follow this letter. Supplemental information, including our scope and objectives, is included in Appendix A. Appendix B includes a description of our new recommendation priority rating system. Finally, management's response to our audit is now included in Appendix C.

We appreciate the cooperation and courtesies provided by the Human Resources Group.

The results in this report will be summarized for inclusion in a status report to the Board. If you have any questions regarding our audit, please do not hesitate to contact me directly at 213.217.6528 or Assistant General Auditor Kathryn Andrus at 213.217.7213.

Attachments

cc: Board of Directors
         General Manager
         General Counsel
         Ethics Officer
         Office of the General Manager Distribution
         Assistant General Managers
         Human Resources Group Distribution
         External Auditor

RESULTS

RECOGNITION

Positive aspects observed during our audit include:

♦ The Employee Tuition Reimbursement Program remained within budget for fiscal years 2018/19, 2019/20, and 2020/21.

RESULTS OVERVIEW

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
PRIORITY 1				
	None			
PRIORITY 2				
1	Review of application requirements was not sufficient.	Enrollment granted for non-qualifying individuals and/or non-qualifying classes/programs Disparity in the application of program rules	Formalize the review process for tuition requests and reimbursements. Form a working group or, at a minimum, ensure the review and approval process is applied consistently and occurs at an appropriate management level. Establish a monitoring process to identify trends requiring further focus.	Agree Agree Agree
2	Adherence to reimbursement requirements did not occur consistently.	Invalid/unauthorized claims paid		
3	Tuition Reimbursement Policy was not applied consistently.	Financial loss Claims of bias		
4	Improvements should be made to the EForm design, and retention, approval, and testing controls.	Unauthorized approvals Applicant confusion Increased administrative errors	Implement EForm approvals that incorporate proper duties segregation and align with policy.	Agree
			Implement distinct EForms for the initial application and for the reimbursement.	Agree
			Retain sequentially numbered EForms in the EForm database.	Agree
			Perform EForm testing in a test environment.	Agree

	OBSERVATION	RISK	RECOMMENDATION	MANAGEMENT AGREEMENT
5	A process for the evaluation and communication of approved trade and correspondence schools does not exist.	Applicants may enroll in non-qualifying courses	Establish criteria for evaluating trade/ correspondence schools.	Agree
			Post the approved trade and correspondence schools list.	Agree
PRIORITY 3				
6	Employee Tuition Reimbursement Program policy and procedures were not current.	Inconsistent or incorrect treatment of application/ reimbursement requests	Update tuition reimbursement policies and procedures.	Agree

OBSERVATIONS & RECOMMENDATIONS

1 Application Requirements

The review of application requirements was not sufficient.

The Employee Tuition Reimbursement Program (Program) is available to all regular full-time and part-time employees who have completed a minimum of six months of service. Temporary and contracted staff and employees with less than six months of service are not eligible to participate in the Program. The courses must relate to the employee's current job or to Metropolitan work the employee can reasonably be expected to perform in the future. Courses are to be taken on the employee's own time. (See Appendix A for the specifics on the Program requirements/guidelines regarding the application process.)

We statistically selected 56 tuition reimbursement application requests for testing.

Form Completion
- 32 of 56 (57%) had incomplete information wherein the taking of the course outside of working hours could not be substantiated.

- 30 of 56 (54%) of the EForms were incomplete, missing items such as school name, course title, or program name.

- 26 of 56 (46%) requests for first-time degree or certificate programs were missing a copy of the program plan.

As such, the applicability of the degree or program to Metropolitan-related work could not be ascertained.

Approvals
- 30 of 56 (54%) did not contain the appropriate management approvals per policy; thus, authorization by department management could not be ascertained.

- 20 of 56 (36%) did not contain the Human Resources (HR) Group Manager or designee signature; thus, an acknowledgment that the employee qualified under the program requirements could not be substantiated.

- In one instance, three employees from different departments applied for the same course. One of the submissions incorrectly indicated the class was a "one-time course," requiring no group manager approval, resulting in insufficient approval being obtained.

Submission
- 10 of 56 (18%) were submitted late, ranging from 1 to 89 days after the course start date, which could result in the enrollment in the course or class not being reimbursable.

- 3 of 56 (5%) did not include the course start date, preventing the assessment of timely submission.

Course Applicability
- 1 of 56 (2%) requested a course not applicable to Metropolitan-related work (home inspection). The request has been neither approved nor denied and remains open in the system.

Priority 2

Inadequate tuition reimbursement application oversight controls can result in enrollment being granted for non-qualifying individuals or non-qualifying classes/ programs and create disparity in the application of rules among participants.

Recommendation 1

We recommend Human Resources management formalize the review process for:

(1) Applications and reimbursements, including remediation of non-compliant submissions.

(2) Non-conforming reimbursement recovery requests.

(3) Documenting exceptions made to the published policy, including appropriate approvals.

**Management Response
Agree.**

(1) This is addressed in the operating policy update (Tuition Reimbursement J-01), which is under final review with the Technical Writing Team and due to be distributed via email memo, published on the MWD intramet, as well as hyperlinked to the updated Tuition Reimbursement e-form.

(2) This is addressed in the updated policy (Tuition Reimbursement J-01).

(3) Approvals are to be made by Training Administrator or Specialist. Any exceptions will be documented and based on a decision made by the HR Group Manager.

The estimated implementation date is May 2025.

Recommendation 2

We recommend Human Resources management form a working group to review application, reimbursement, and non-conforming reimbursement recovery requests, or at a minimum, ensure the review and approval process is applied consistently and occurs at an appropriate management level.

**Management Response
Agree.**

The review and approval process are now supported with an updated submission process (eForm) that collects the information required to evaluate the request. Along with the updated operating policy, this allows HR staff to accurately and consistently process requests. Any exceptions will be documented and based on a decision made by the HR Group

Manager. These changes have been implemented and will continue to improve once the latest version of the eForm and operating policy are finalized.

The estimated implementation date for the EForm and operating policy is May 2025.

Recommendation 3
We recommend Human Resources management establish a monitoring process to identify trends requiring further focus.

Management Response
Agree.

This is addressed in the policy update (Tuition Reimbursement J-01) and outlines the new internal audit process that will ensure employees do not exceed annual limits.

The estimated implementation date is May 2025.

2 Reimbursement Requirements

Adherence to reimbursement requirements did not occur consistently.

Per the Tuition Reimbursement Policy (J-01), when requesting reimbursement for tuition, an employee must prepare and submit the Reimbursement EForm, provide transcripts showing a grade of "C" or better, and provide original receipts to Human Resources within 30 days after completion of the course.

We statistically selected 61 paid tuition reimbursements for testing.

- For 6 of 61 (10%) totaling $15,656, transcripts for the courses could not be provided.

- For 5 of 61 (8%) totaling $10,589, receipts for $9,580 could not be provided.

- For 1 of 61 (2%) totaling $4,257, the EForm requesting reimbursement could not be located.

- For 1 of 61 (2%) totaling $2,440, neither the grade report nor the receipt contained the name of the university or organization; thus, the reimbursement could not be substantiated.

Priority 2
Inadequate oversight controls can result in invalid/ unauthorized claims being paid.

See Recommendation Nos. 1 through 3 and associated Management Responses at Observation No. 1.

3 Reimbursement Recovery
The Tuition Reimbursement Policy was not applied consistently.

The Tuition Reimbursement Policy requires a minimum one-year work commitment after receiving tuition reimbursement.

We statistically selected 65 refund requests for testing.

- For 1 of 65 (2%), Human Resources permitted a pro-rated collection of the reimbursed amount based on the number of months an employee had worked subsequent to receiving the reimbursement.

- For 1 of 65 (2%), reimbursement of $14,592 was not sought, although the employee left before meeting the one-year work commitment.

No approved exception to the policy was documented to file by the HR Group Manager.

Priority 2
Inconsistent application of the Tuition Reimbursement Policy can result in financial loss and claims of bias.

See Recommendation Nos. 1 through 3 and associated Management Responses at Observation No. 1.

4 EForm Improvements
Improvements should be made to the EForm design, and retention, approval, and testing controls.

When an employee seeks approval for enrollment in a class or course, the employee is to submit the request using the Tuition Reimbursement EForm. Upon clicking on the EForm, a sequentially numbered EForm is generated and saved, regardless of whether the EForm is submitted or abandoned. As a result, the database contains many incomplete, non-submitted forms creating tracking and reconciliation challenges.

Further, when an employee seeks reimbursement for tuition, the employee initiates the process by modifying the same EForm used to apply for the Tuition Reimbursement program. Within this EForm, the employee provides additional details, including the exact tuition and fee amounts, a description of the expenses, and the date the tuition and fees were paid. Moreover, the employee is to change the dropdown selection in the "Reason Section" from "Enroll in a new course" to "Request for reimbursement."

Per review of the 61 tuition reimbursements selected for testing:

- 58 of 61 (95%) did not have the appropriate field selected. Specifically, the "Reason Section" of the EForm showed "Enroll in a new course" rather than "Request for Reimbursement."

- EForm signature lines do not agree to the required signatures per the Tuition Reimbursement Operating Policy (Policy). The Policy states that a request for a new degree or certificate program is to be approved by the submitter's group manager and supervisor. In contrast, the EForm states signatures from a section manager and supervisor are needed.

We also noted that the EForm date is not updated when the employee modifies the request to submit the reimbursement, making it impossible to determine if the employee submitted the request within 30 days of course completion, as required by the Policy.

Moreover, the EForm approval process allows an individual to e-sign for all four required approvals (i.e., requestor, supervisor, group manager, and Human Resources).

One such EForm was noted in our sample. The creator of the EForm indicated it was a test; however, nowhere on the EForm did it indicate it was a test document. Further, the EForm was created in the production environment, not the test environment. We did not identify any reimbursements made for EForm requests where all signatures were by the same individual.

Priority 2

Insufficient design of the EForm may lead to unauthorized approvals, applicant confusion, and increased administrative errors.

Recommendation 4

We recommend Human Resources management, in coordination with Administrative Services, implement EForm approvals that:

(1) Limit those with approval authority to authorized personnel at each approval level.

(2) Align to the Tuition Reimbursement Operating Policy.

Management Response
Agree.

(1) The EForm is being updated to streamline the approval process to require only one departmental approval by the Unit Manager (or one level up if Unit Manager is submitting) before submission to Training for final approval and initiation.

(2) The form also now only generates and registers a number when the request is submitted. If it is a new request, certain fields are now pre-populated to improve accuracy. When submitting for reimbursement, the form is adjusted to show the boxes for all appropriate information (e.g. populates itemization fields).

The estimated implementation date for (1) is April 2025. Management's action plan for (2) has been implemented.

Recommendation 5
We recommend Human Resources management, in coordination with Administrative Services, implement two distinct EForms or, at a minimum, two distinct EForm records, one for applying to the Tuition Reimbursement Program prior to course enrollment and one for requesting reimbursement after course completion.

Management Response
Agree.

HR partnered with the Administrative Services Eforms team to upgrade the form to be able to better serve both purposes (initial application and reimbursement).

Management's action plan was implemented.

Recommendation 6
We recommend Human Resources management, in coordination with Administrative Services, only retain submitted EForms in the EForm database and ensure that only submitted EForms are assigned a sequential number.

Management Response
Agree.

This has been corrected within the existing system in early 2024.

Management's action plan was implemented.

Recommendation 7
We recommend Human Resources management, in coordination with Administrative Services, perform EForm testing only in the test environment. If testing in production is necessary, clearly mark all created files as test documents.

Management Response
Agree.

All Eform changes occurred in the testing environment in early 2024 before being deployed in the production environment. This practice will continue.

Management's action plan was implemented.

5 Trade/ Correspondence Schools

A process for the evaluation and communication of approved trade and correspondence schools does not exist.

In accordance with the Tuition Reimbursement Policy, a college/university degree program must be affiliated with educational institutions officially recognized and accredited by the United States Department of Education. Additionally, courses may be pursued at academically accredited entities, including colleges, universities, university extensions, adult education schools, and approved trade or correspondence schools.

Per review of the 56 tuition reimbursement application requests selected for testing:

- 9 of 56 (16%) listed schools were not accredited, as per the United States Department of Education Database.

Furthermore, evaluation criteria used to assess a college/university degree or certificate program has not been established, nor could a list of approved trade schools eligible for tuition reimbursement be provided. Evaluation criteria would allow for consistency in assessment, and a list would serve as a valuable reference during the consideration process by employees and the authorization process.

Priority 2

Insufficient or conflicting trade/correspondence school information may result in applicants enrolling in non-qualifying courses.

Recommendation 8
We recommend Human Resources management establish specific criteria for evaluating and designating trade and/or correspondence schools approved for tuition reimbursement to ensure a standardized approach when assessing eligibility.

Management Response
Agree.

This was updated in the policy (Tuition Reimbursement J-01) and the new Eform. As an additional control, the Eform will include the link to the approved institutions.

The estimated implementation date is April 2025.

Recommendation 9
We recommend Human Resources management post the approved trade and correspondence school list on the IntraMET or another easily accessible location.

Management Response
Agree.

This has been included in the updated policy (Tuition Reimbursement J-01), which is in final review stages with the Administrative Services Technical Writing Team. Once finalized, the policy will be updated on the IntraMET.

The estimated implementation date is April 2025.

6 Policy & Procedures

Employee Tuition Reimbursement Program policy and procedures were not current.

Human Resources staff refer to the HR Training Administrators Handbook for Tuition Reimbursement Administration and Metropolitan's Operating Policy J-01: Tuition Reimbursement for administering the Program. These documents establish the policy applicable to employees not covered by a Memorandum of Understanding (MOU) that includes a negotiated tuition reimbursement provision.

The latest revision of Operating Policy J-01 (Policy) was in 2009 and does not incorporate the modifications implemented in the MOUs since 2009 or the current Administrative Code (Section 6524). For instance, the Policy specifies a reimbursement rate of 85% for tuition costs up to $9,000 annually. However, per Administrative Code Section 6524 and the current MOUs with all four employee organizations, the reimbursement rate stands at 100% of tuition expenses, capped at a maximum of $9,000 per year for undergraduate degrees. In addition, the Policy does not address current Human Resources practices such as approving "grandfathered in" non-accredited trade school classes for reimbursement such as American Water Works Association (AWWA), California Water Board, and American Water College, and does not agree to the HR Training Administrators Handbook for Tuition Reimbursement Administration.

Priority 3

Outdated policies and procedures can result in inconsistent or incorrect treatment of application/ reimbursement requests.

Recommendation 10

We recommend Human Resources management revise both Operating Policy J-01: Tuition Reimbursement and HR Training Administrators Handbook for Tuition Reimbursement Administration to ensure:

(1) Alignment with the Administrative Code and the current Memorandums of Understanding.

(2) Address the inclusion/exclusion of trade schools.

Management Response
Agree.

(1) Reimbursement standards have been updated in the new policy to align to MOU's and Administrative Code.

(2) AWWA and American Water College were added to the policy.

The estimated implementation date is April 2025.

EVALUATION OF MANAGEMENT'S RESPONSE

Internal Audit considers management's response appropriate to the recommendations, and management's corrective actions should resolve the conditions identified in the report.

AUDIT TEAM

Kathryn Andrus, CPA, Assistant General Auditor
Chris Gutierrez, CPA, CIA, Audit Program Manager
Bonita Leung, Senior Deputy Auditor, CPA, CIA, CRMA, CGMA
Neena Mehta, Senior Deputy Auditor
Faviola Sanchez, Deputy Auditor III

APPENDIX A: SUPPLEMENTAL INFORMATION

ADDITIONAL INFORMATION

Application Policy Details

The program requirements/guidelines in place for application requests, including required documentation, are summarized below.

Application Information

Submitted applications are to contain the following data:

(1) Requestor details

(2) School name

(3) Type of degree program (graduate or undergraduate)

(4) Course title, course number, credit hours

(5) Start and end dates of the course

(6) Course tuition, associated fees

(7) Rationale for enrolling in the class/program

(8) Endorsements

(9) Copy of the program plan if a first-time degree or certification program

Documentation Requirements/Approvals

For a new degree or certification program, applications must:

(1) Meet the defined criteria for reimbursement, including:

    (a) A regular employee with at least six months at the District

    (b) A completed reimbursement EForm 63

    (c) Approval prior to the start of the course

    (d) A program or schedule of courses for first-time degrees or certificates

(2) Receive the group manager's and supervisor's approvals

For continuing degree or certificate courses, one-time professional examination preparation courses, and one-time professional courses at accredited institutions, applications must be:

(1) Approved by the employee's supervisor

(2) Submitted to the Human Resources Group Manager or designee

Any exceptions to the policy require approval of the Human Resources Group Manager or designee. All approvals are to be obtained prior to the start of a class/course and are to be documented on the EForm.

SCOPE & OBJECTIVES

Our audit scope included the review of the Employee Tuition Reimbursement Program (Program) for the period January 1, 2018 through October 31, 2021.

Our audit objectives were to:

(1) Evaluate compliance with established policies, procedures, and guidelines.

(2) Evaluate the employee tuition reimbursement process for operational efficiency opportunities.

EXCLUSIONS

Our audit scope did not include (1) the effectiveness of the Program and (2) the cost-benefit analysis of the Program.

PRIOR AUDIT COVERAGE

We have not completed any audit reports with a similar scope within the last five years.

AUTHORITY

We performed this audit in accordance with the FY 2021/22 Audit Plan presented to the former Audit & Ethics Committee and our FY 2023/24 Audit Plan approved by the Board.

PROFESSIONAL INTERNAL AUDIT STANDARDS

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

FOLLOW-UP REVIEWS

The Office of the General Auditor has implemented a new follow-up process to ensure management has effectively implemented corrective action related to our recommendations. Management is required to report recommendation implementation status to our office within six months following the issuance of this report and a first follow-up review will occur shortly thereafter. All audit recommendations are expected to be implemented within a year of this report and if necessary, a second follow-up review will occur approximately six months after issuance of the first follow-up review report. Any audit recommendations not implemented after the second follow-up review will be shared with the Board/Audit Committee at its next scheduled meeting.

INTERNAL CONTROL SYSTEM

An internal control system is a continuously operating and integrated component of Metropolitan's operations. Internal controls are implemented by the Metropolitan team and seek to provide reasonable (not absolute) assurance that the District's business objectives will be achieved. However, limitations are inherent in any internal control system no matter how well designed, implemented, or operated. Because of these limitations, errors or irregularities may occur and may not be detected. Specific examples of limitations include but are not limited to, poor judgment, carelessness, management override, or collusion. Accordingly, our audit would not necessarily identify all internal control weaknesses or resultant conditions affecting operations, reporting, or compliance. Additionally, our audit covers a point in time and may not be representative of a future period due to changes within Metropolitan and/or external changes impacting the District.

METROPOLITAN'S RESPONSIBILITY FOR INTERNAL CONTROL

It is important to note that Metropolitan management is responsible for designing, implementing, and operating a system of internal control. The objectives of internal controls are to provide reasonable assurance as to the reliability and integrity of information; compliance with policies, plans, procedures, laws, and regulations; the safeguarding of assets; the economic and efficient use of resources; and the accomplishment of established goals and objectives. In fulfilling this responsibility, management judgment is required to assess the expected benefits and related costs of internal control policy and procedures and to assess whether those policies and procedures can be expected to achieve Metropolitan's operational, reporting, and compliance objectives.

APPENDIX B: PRIORITY RATING DEFINITIONS

The Office of the General Auditor utilizes a priority rating system to provide management with a measure of urgency in addressing the identified conditions and associated risks. We assess the significance of each observation identified during the audit using professional judgment and assign priority ratings to each recommendation using the criteria listed below. Factors taken into consideration in assessing the priority include the likelihood of a negative impact if not addressed, the significance of the potential impact, and how quickly a negative impact could occur.

PRIORITY		
Definition	Observation is *serious* enough to warrant *immediate* corrective action. The condition may represent a serious financial, operational, or compliance risk. A priority 1 recommendation may result from a key control(s) being absent, not adequately designed, or not operating effectively.	Observation is of a *significant* nature and warrants *prompt* corrective action. It may represent a moderate financial, operational, or compliance risk. A priority 2 recommendation may result from a process or less critical control(s) not being adequate in design and/or not operating effectively on a consistent basis.	Observation involves an internal control issue or compliance lapse that can be corrected in the *timely* course of normal business. A priority 3 recommendation may result from a process or control that requires enhancement to better support Metropolitan's objectives and manage risk.
Response Time	Immediate	Within 90 Days of report issuance	Within 180 Days of report issuance

APPENDIX C: MANAGEMENT'S RESPONSE

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: March 2, 2025

To: Scott Suzuki, General Auditor

From: Mark Brower, Human Resources Group Manager

cc: Deven Upadhyay, General Manager
Katano Kasaine, Assistant General Manager / Chief Financial Officer

Subject: Management Response to Audit Number (22-4060)

The General Manager has reviewed and concurs with the following response.

Included is the management response to the Employee Tuition Reimbursement Program Audit (22-4060) covering Fiscal Years 2017/18 – 2020/21. Since the audit was conducted, the Human Resources team had already made significant changes to the administration of tuition reimbursement. The team also made changes as a direct result of feedback received through this audit process. We appreciate the time the Audit team took to evaluate this work and for your insight into opportunities to improve.

Thank you for your continued partnership and please do not hesitate to contact me if you would like to discuss the response or any other matters related to this audit.

Mark Brower
_____

Mark Brower, Group Manager – Human Resources

Katano Kasaine
_____

Katano Kasaine, Assistant General Manager / Chief Financial Officer

Deven Upadhyay (Mar 5, 2025 06:25 PST)
_____

Deven Upadhyay, General Manager

Operational Audit – Employee Tuition Reimbursement
Project Number 22-4060
Management Response

OBSERVATION 1	**Application Requirements**
	The Employee Tuition Reimbursement Program (Program) is available to all regular full-time and part-time employees who have completed a minimum of six months of service. Temporary and contracted staff and employees with less than six months of service are not eligible to participate in the Program. The courses must relate to the employee's current job or to Metropolitan work the employee can reasonably be expected to perform in the future. Courses are to be taken on the employee's own time. (See Appendix A for the specifics on the Program requirements/guidelines regarding the application process.)

We statistically selected 56 tuition reimbursement application requests for testing.

Form Completion
- 32 of 56 (57%) had incomplete information wherein the taking of the course outside of working hours could not be substantiated.
- 30 of 56 (54%) of the EForms were incomplete, missing items such as school name, course title, or program name.
- 26 of 56 (46%) requests for first-time degree or certificate programs were missing a copy of the program plan.

As such, the applicability of the degree or program to Metropolitan-related work could not be ascertained.

Approvals
- 30 of 56 (54%) did not contain the appropriate management approvals per policy; thus, authorization by department management could not be ascertained.
- 20 of 56 (36%) did not contain the Human Resources (HR) Group Manager or designee signature; thus, an acknowledgment that the employee qualified under the program requirements could not be substantiated.
- In one instance, three employees from different departments applied for the same course. One of the submissions incorrectly indicated the class was a "one-time course," requiring no group manager approval, resulting in insufficient approval being obtained.

FORM	MANAGEMENT RESPONSE FORM		PAGE	**1 OF 10**
				NOVEMBER 2023 (Rv. N/A)

	Submission
	- 10 of 56 (18%) were submitted late, ranging from 1 to 89 days after the course start date, which could result in the enrollment in the course or class not being reimbursable.
	- 3 of 56 (5%) did not include the course start date, preventing the assessment of timely submission.
	Course Applicability
	1 of 56 (2%) requested a course not applicable to Metropolitan-related work (home inspection). The request has been neither approved nor denied and remains open in the system.
OBSERVATION 2	**Reimbursement Requirements**
	Per the Tuition Reimbursement Policy (J-01), when requesting reimbursement for tuition, an employee must prepare and submit the Reimbursement EForm, provide transcripts showing a grade of "C" or better, and provide original receipts to Human Resources within 30 days after completion of the course.
	We statistically selected 61 paid tuition reimbursements for testing.
	- For 6 of 61 (10%) totaling $15,656, transcripts for the courses could not be provided.
	- For 5 of 61 (8%) totaling $10,589, receipts for $9,580 could not be provided.
	- For 1 of 61 (2%) totaling $4,257, the EForm requesting reimbursement could not be located.
	For 1 of 61 (2%) totaling $2,440, neither the grade report nor the receipt contained the name of the university or organization; thus, the reimbursement could not be substantiated.
OBSERVATION 3	**Reimbursement Recovery**
	The Tuition Reimbursement Policy requires a minimum one-year work commitment after receiving tuition reimbursement.
	We statistically selected 65 refund requests for testing.
	- For 1 of 65 (2%), Human Resources permitted a pro-rated collection of the reimbursed amount based on the number of months an employee had worked subsequent to receiving the reimbursement.
	- For 1 of 65 (2%), reimbursement of $14,592 was not sought, although the employee left before meeting the one-year work commitment.

FORM	MANAGEMENT RESPONSE FORM	PAGE	2 OF 10
			NOVEMBER 2023 (Rv. N/A)

			No approved exception to the policy was documented to file by the HR Group Manager.
	RECOMMENDATIONS 1 - 3 **PRIORITY 2**		**Recommendation 1** We recommend Human Resources management formalize the review process for: (1) Applications and reimbursements, including remediation of non-compliant submissions. (2) Non-conforming reimbursement recovery requests. (3) Documenting exceptions made to the published policy, including appropriate approvals.
X	AGREE	**MANAGEMENT ACTION PLAN**	(1) This is addressed in the operating policy update (Tuition Reimbursement J-01), which is under final review with the Technical Writing Team and due to be distributed via email memo, published on the MWD intramet, as well as hyperlinked to the updated Tuition Reimbursement e-form. (2) This is addressed in the updated policy (Tuition Reimbursement J-01). 3) Approvals are to be made by Training Administrator or Specialist. Any exceptions will be documented and based on a decision made by the HR Group Manager.
		ESTIMATED IMPLEMENTATION	May 2025
	PARTIALLY AGREE DO NOT AGREE	EXPLANATION	
	RECOMMENDATIONS 1 - 3 **PRIORITY 2**		**Recommendation 2** We recommend Human Resources management form a working group to review application, reimbursement, and non-conforming reimbursement recovery requests, or at a minimum, ensure the review and approval process is applied consistently and occurs at an appropriate management level.
x	AGREE	**MANAGEMENT ACTION PLAN**	The review and approval process are now supported with an updated submission process (eForm) that collects the information required to evaluate the request. Along with the updated operating policy, this allows HR staff to accurately and consistently process requests. Any exceptions will be documented and based on a decision made by the HR Group Manager. These changes have been implemented and will continue to improve once the latest version of the eForm and operating policy are finalized.
		ESTIMATED IMPLEMENTATION	May 2025
	PARTIALLY AGREE DO NOT AGREE	EXPLANATION	

RECOMMENDATIONS 1 - 3 PRIORITY 2			Recommendation 3 We recommend Human Resources management establish a monitoring process to identify trends requiring further focus.
X	AGREE	MANAGEMENT ACTION PLAN	This is addressed in the policy update (Tuition Reimbursement J-01) and outlines the new internal audit process that will ensure employees do not exceed annual limits.
		ESTIMATED IMPLEMENTATION	May 2025
	PARTIALLY AGREE	EXPLANATION	
	DO NOT AGREE		

OBSERVATION 4	**EForm Improvements**
	When an employee seeks approval for enrollment in a class or course, the employee is to submit the request using the Tuition Reimbursement EForm. Upon clicking on the EForm, a sequentially numbered EForm is generated and saved, regardless of whether the EForm is submitted or abandoned. As a result, the database contains many incomplete, non-submitted forms creating tracking and reconciliation challenges.
	Further, when an employee seeks reimbursement for tuition, the employee initiates the process by modifying the same EForm used to apply for the Tuition Reimbursement program. Within this EForm, the employee provides additional details, including the exact tuition and fee amounts, a description of the expenses, and the date the tuition and fees were paid. Moreover, the employee is to change the dropdown selection in the "Reason Section" from "Enroll in a new course" to "Request for reimbursement."
	Per review of the 61 tuition reimbursements selected for testing:
	• 58 of 61 (95%) did not have the appropriate field selected. Specifically, the "Reason Section" of the EForm showed "Enroll in a new course" rather than "Request for Reimbursement".
	• EForm signature lines do not agree to the required signatures per the Tuition Reimbursement Operating Policy (Policy). The Policy states that a request for a new degree or certificate program is to be approved by the submitter's group manager and supervisor. In contrast, the EForm states signatures from a section manager and supervisor are needed.
	We also noted that the EForm date is not updated when the employee modifies the request to submit the reimbursement, making it impossible to determine if the employee submitted the request within 30 days of course completion, as required by the Policy.
	Moreover, the EForm approval process allows an individual to e-sign for all four required approvals (i.e., requestor, supervisor, group manager, and Human Resources).
	One such EForm was noted in our sample. The creator of the EForm indicated it was a test; however, nowhere on the EForm did it indicate it was a test document. Further, the EForm was created in the production environment, not the test environment. We did not identify any reimbursements

FORM	MANAGEMENT RESPONSE FORM	PAGE	**5 OF 10**
			NOVEMBER 2023 (Rv. N/A)

			made for EForm requests where all signatures were by the same individual.
	RECOMMENDATIONS 4-7 **PRIORITY 2**		**Recommendation 4** We recommend Human Resources management, in coordination with Administrative Services, implement EForm approvals that: (1) Limit those with approval authority to authorized personnel at each approval level. (2) Align to the Tuition Reimbursement Operating Policy.
X	**AGREE**	**MANAGEMENT ACTION PLAN**	(1) The EForm is being updated to streamline the approval process to require only one departmental approval by the Unit Manager (or one level up if Unit Manager is submitting) before submission to Training for final approval and initiation. (2) The form also now only generates and registers a number when the request is submitted. If it is a new request, certain fields are now pre-populated to improve accuracy. When submitting for reimbursement, the form is adjusted to show the boxes for all appropriate information (e.g. populates itemization fields).
		ESTIMATED IMPLEMENTATION	Recommended changes were made to the form with one remaining pending change (approval routing process) projected to be implemented April 2025.
	PARTIALLY AGREE **DO NOT AGREE**	**EXPLANATION**	
	RECOMMENDATIONS 4-7 **PRIORITY 2**		**Recommendation 5** We recommend Human Resources management, in coordination with Administrative Services, implement two distinct EForms or, at a minimum, two distinct EForm records, one for applying to the Tuition Reimbursement Program prior to course enrollment and one for requesting reimbursement after course completion.
X	**AGREE**	**MANAGEMENT ACTION PLAN**	HR partnered with the Administrative Services Eforms team to upgrade the form to be able to better serve both purposes (initial application and reimbursement).
		ESTIMATED IMPLEMENTATION	Completed
	PARTIALLY AGREE **DO NOT AGREE**	**EXPLANATION**	
	RECOMMENDATIONS 4-7 **PRIORITY 2**		**Recommendation 6** We recommend Human Resources management, in coordination with Administrative Services, only retain submitted EForms in the EForm database and ensure that only submitted EForms are assigned a sequential number.

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X	**AGREE**	**MANAGEMENT ACTION PLAN**	This has been corrected within the existing system in early 2024.
		ESTIMATED IMPLEMENTATION	Completed
	PARTIALLY AGREE	**EXPLANATION**	
	DO NOT AGREE		

	RECOMMENDATIONS 4-7	**Recommendation 7**
	PRIORITY 2	We recommend Human Resources management, in coordination with Administrative Services, perform EForm testing only in the test environment. If testing in production is necessary, clearly mark all created files as test documents.

X	**AGREE**	**MANAGEMENT ACTION PLAN**	All Eform changes occurred in the testing environment in early 2024 before being deployed in the production environment. This practice will continue.
		ESTIMATED IMPLEMENTATION	Completed
	PARTIALLY AGREE	**EXPLANATION**	
	DO NOT AGREE		

OBSERVATION 5	Trade/Correspondence Schools
	In accordance with the Tuition Reimbursement Policy, a college/university degree program must be affiliated with educational institutions officially recognized and accredited by the United States Department of Education. Additionally, courses may be pursued at academically accredited entities, including colleges, universities, university extensions, adult education schools, and approved trade or correspondence schools.
	Per review of the 56 tuition reimbursement application requests selected for testing:
	• 9 of 56 (16%) listed schools were not accredited, as per the United States Department of Education Database.
	Furthermore, evaluation criteria used to assess a college/university degree or certificate program has not been established, nor could a list of approved trade schools eligible for tuition reimbursement be provided. Evaluation criteria would allow for consistency in assessment, and a list would serve as a valuable reference during the consideration process by employees and the authorization process.

RECOMMENDATIONS 8-9	Recommendation 8
PRIORITY 2	We recommend Human Resources management establish specific criteria for evaluating and designating trade and/or correspondence schools approved for tuition reimbursement to ensure a standardized approach when assessing eligibility.

		MANAGEMENT ACTION PLAN	This was updated in the policy (Tuition Reimbursement J-01) and the new Eform. As an additional control, the Eform will include the link to the approved institutions.
X	AGREE	ESTIMATED IMPLEMENTATION	Hyperlink will be added to the Eform by April 2025. The updated policy (Tuition Reimbursement J-01) will also include the link to the approved institutions.
	PARTIALLY AGREE	EXPLANATION	
	DO NOT AGREE		

RECOMMENDATIONS 8-9	Recommendation 9
PRIORITY 2	We recommend Human Resources management post the approved trade and correspondence school list on the IntraMET or another easily accessible location.

		MANAGEMENT ACTION PLAN	This has been included in the updated policy (Tuition Reimbursement J-01), which is in final review stages with the Administrative Services Technical Writing Team. Once finalized, the policy will be updated on the IntraMET.
X	AGREE		

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	ESTIMATED IMPLEMENTATION	April 2025
PARTIALLY AGREE	EXPLANATION	
DO NOT AGREE		

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OBSERVATION 6	Policy & Procedures
	Human Resources staff refer to the HR Training Administrators Handbook for Tuition Reimbursement Administration and Metropolitan's Operating Policy J-01: Tuition Reimbursement for administering the Program. These documents establish the policy applicable to employees not covered by a Memorandum of Understanding (MOU) that includes a negotiated tuition reimbursement provision.
	The latest revision of Operating Policy J-01 (Policy) was in 2009 and does not incorporate the modifications implemented in the MOUs since 2009 or the current Administrative Code (Section 6524). For instance, the Policy specifies a reimbursement rate of 85% for tuition costs up to $9,000 annually. However, per Administrative Code Section 6524 and the current MOUs with all four employee organizations, the reimbursement rate stands at 100% of tuition expenses, capped at a maximum of $9,000 per year for undergraduate degrees. In addition, the Policy does not address current Human Resources practices such as approving "grandfathered in" non-accredited trade school classes for reimbursement such as American Water Works Association (AWWA), California Water Board, and American Water College, and does not agree to the HR Training Administrators Handbook for Tuition Reimbursement Administration.

RECOMMENDATION 10 PRIORITY 3	Recommendation 10
	We recommend Human Resources management revise both Operating Policy J-01: Tuition Reimbursement and HR Training Administrators Handbook for Tuition Reimbursement Administration to ensure:
	(1) Alignment with the Administrative Code and the current Memorandums of Understanding (MOUs).
	(2) Address the inclusion/exclusion of trade schools.

		MANAGEMENT ACTION PLAN	(1) Reimbursement standards have been updated in the new policy to align to MOU's and Administrative Code. (2) AWWA and American Water College were added to the policy.
X	**AGREE**	**ESTIMATED IMPLEMENTATION**	April 2025
	PARTIALLY AGREE	**EXPLANATION**	
	DO NOT AGREE		

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THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: March 26, 2025

To: Audit Committee

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: Cybersecurity Audit: Inventory & Control of IT Assets
                      (Project Number 23-31)

We have completed a cybersecurity audit of inventory and control of IT assets for the Information Technology Group (ITG).

Due to the sensitive nature of the critical infrastructure information, details of our observations and recommendations were shared with select members of the Board and management in a separate confidential report not subject to public release.

Our audit objectives were to: (1) determine if an accurate, detailed, and up-to-date inventory of IT assets on the network has been established and is maintained and (2) determine if there is a process to address unauthorized assets. Our audit scope included ITG inventory records and all IT assets under the control of ITG with the potential to store or process data, including end-user devices (e.g., laptops, desktop computers), network devices (e.g., firewalls, switches), non-computer/IoT devices, and servers connected to Metropolitan's network as of March 31, 2024.

Our audit scope did not include: (1) software assets, (2) data, (3) hardware assets outside of Metropolitan's network, (4) hardware assets maintained by Integrated Operations, Planning, and Support Services, (5) cloud-based servers, nor (6) servers on virtual machines.

We have not completed any audit reports with a similar scope within the last five years.

Using our priority rating system, we reported two observations (one Priority 2 and one Priority 3) and two associated recommendations. Management agreed with our observations and recommendations. We consider management's response appropriate to the recommendations and their corrective actions should resolve the conditions identified.

We appreciate the cooperation and courtesies provided by the Information Technology Group.

The results from this audit will be summarized for inclusion in a status report to the Board. If you have any questions regarding our audit, please do not hesitate to contact me directly at 213.217.6528 or Assistant General Auditor Kathryn Andrus at 213.217.7213.

PUBLIC INFORMATION

cc: Board of Directors
General Manager
General Counsel
Ethics Officer
Office of the General Manager Distribution
Assistant General Managers
Information Technology Group Distribution
External Auditor