

MINUTES
SPECIAL MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
SEPTEMBER 3, 1997

42571 The Board of Directors of The Metropolitan Water District of Southern California met in Special Meeting on the third floor of the building located at 350 South Grand Avenue in the City of Los Angeles, State of California, on Wednesday, September 3, 1997.

The Meeting was called to order by Chairman Foley at 11:32 a.m.

42572 Secretary Murph called the roll. Those answering present were: Directors Abdo, Barbosa, Barker, Brick, Coughran, Dymally, Foley, Forbes, Frahm, Gilbert, Grandsen, Hansen, Herman, Huntley, Ibbetson, King, Krieger, Little, McCauley, McMurray, Miller, Murph, Mylne, O'Neil, Pace, Peterson, Rascon, Rez, Troxel, Webster, Witt, and Wright.

Those not answering were: Directors Alario, Bannister, Blake, Castro (entered 11:36 a.m.), Fellow, Griffen, Hill, Kosmont, Krauel, Luddy, Mason, Moret, Morris, Owen, Parker, Russell, Watton (entered 12:04 p.m.), and Wein.

The Chair declared a quorum present.

42573 Chairman Foley announced that this is a Special Meeting of the Board and discussion, comments, and actions are necessarily confined to the item listed on the Notice of Meeting; that is, the Auditor's review of the agreement with Edelman Public Relations Worldwide and all other issues related thereto.

42574 General Manager Wodraska thanked the Board for having this meeting to consider the Edelman contract and expressed his belief that the Board needs to take action on this matter now. He referred to his statement presented at the meeting of the Special Audit Committee held yesterday, and reiterated clearly that he supported the recommendations made in the Auditor's report. He reported that notice of termination was sent to Edelman Public Relations Worldwide on September 2, to be effective September 12, 1997, per the terms of the contract. Mr. Wodraska assured the Board he will continue to go forward to communicate the importance of providing reliable, good quality, and affordable supply of water to the people of Southern California, and that Metropolitan is not retreating from its position with respect to water transfers. He stated that Metropolitan will continue to clearly inform the public, and that the primary responsibility is to secure for Southern California the best quality and reliable water at the lowest price.

Director Castro took his seat at 11:36 a.m.

42575 Chairman Foley stated that requests from members of the public to address the Board will be held until after the staff's presentations.

42576 Special Audit Committee Chairman Grandsen stated that at the meeting of the Special Audit Committee yesterday, the committee approved the Auditor's recommendations, and requested that the Auditor again make his presentation of his review of the Edelman contract to the full Board.

42577 Auditor Hondorp, with the assistance of Deputy Auditor David Reukema, gave a slide-illustrated presentation summarizing the audit review of Agreement No. 12259 with Edelman Public Relations Worldwide as detailed in his written report dated August 29, 1997. A copy of the three-page Executive Summary of that report is attached to these Minutes. After presenting the overview of the review results and audit recommendations, Mr. Hondorp responded to various questions by Directors.

Director Ibbetson withdrew from the Meeting at 12:00 p.m.

Director Watton took his seat at 12:04 p.m.

Following the question-and-answer session, Director Brick moved, seconded by Director Herman, that the Board accepts the recommendations of the Auditor, as well as authorizes the General Manager to negotiate an agreement with Edelman Worldwide to pay up to \$211,000 to satisfy any and all obligations to the Edelman firm, and that the form of the agreement be approved by the General Counsel.

Director Huntley agreed that there should be some satisfaction of the Edelman unpaid claims which Metropolitan is responsible for, and that the Board should authorize the General Manager to negotiate with Edelman up to a maximum of \$211,000 to satisfy and pay the claims. He made reference to the recommendations presented both by the Auditor and the General Manager that would prevent another occurrence like this to happen. As far as the San Diego County Water Authority is concerned, Director Huntley stated it would be appropriate for them to continue to accumulate documents and provide them to Board members; and to show good faith, the documents should not be distributed widely. The Authority should also present specific conclusions and recommendations rather than to just present charges.

Director Watton commented on the Integrated Resources Plan, which information the San Diego County Water Authority believes was outdated before it was published, and which has been so stated repeatedly by the Authority. As far as the Edelman contract is concerned, Director Watton stated that the audit was well done from a financial standpoint. However, he questioned the performance of the Edelman contract and the staff's evaluation of the work product, and stated that the current problems between Metropolitan and San Diego will not disappear due to the approval of the excess payment of the Edelman contract.

Director Castro commented on the honoring of a contract when one is made regardless of the consequences; and requested, pursuant to San Diego's offer, that Metropolitan be allowed to

review the work documents of their public relations agency and the other parties involved.

Director McCauley then offered a substitute motion, seconded by Director Watton, to cancel the contract with Edelman Public Relations Worldwide and to pay the amount which would not exceed the District's legal liability under the terms of the contract.

The Chair called for a vote on the substitute motion, which did not carry.

Directors Frahm, McCauley, and Watton requested to be recorded as voting yes on the substitute motion.

The Chair then called for a vote on the original motion, which carried.

Directors Frahm, McCauley, and Watton requested to be recorded as voting no.

42578 Director Brick commented on the past Communications Committee which was in existence and that maybe if such a committee were in place, dialog and public relations matters between the agencies could take place at this committee level. He then recommended that the Chair consider whether the Communications Committee should be reestablished or that function be assigned to some other committee.

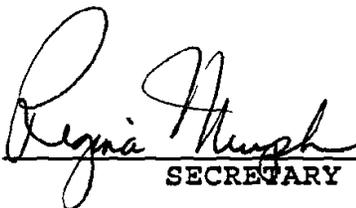
42579 Chairman Foley invited members of the public to address the Board.

Wayne Clark, president of Municipal Water District of Orange County, and chairman of the Partnership for Regional Water Reliability, stated the Partnership consists of nine member agencies of the Metropolitan Water District. Since the Partnership's name was mentioned in an adverse way during the Edelman contract discussion of today, he informed the Board that the Partnership has had no connection with the Edelman firm and members of Metropolitan staff have been excluded from the Partnership meetings.

Paul Cunningham, Manager, External Affairs of Imperial Irrigation District, expressed the concern of his board that their reputation has been adversely affected by some of the activities suggested by the Edelman group. He stated that IID is committed to the process that Director David Kennedy is leading to develop a California Plan, and hoped that Metropolitan's action at today's Meeting would bring back into focus the water issues that face all of us in Southern California.

42580 Director Huntley requested a follow-up report be made to the Special Audit Committee on the General Manager's review of the circumstances surrounding this matter, and that if San Diego County Water Authority requests any further discussion regarding the Edelman contract, they should include specific items.

42581 There being no objection, Chairman Foley adjourned the Meeting at 1:01 p.m.


REGINA HUMPH
SECRETARY


CHAIRMAN

Metropolitan Water District of Southern California

AUDIT DEPARTMENT

Report on Review of Agreement No. 12259 with
Edelman Public Relations Worldwide

EXECUTIVE SUMMARY

The Audit Department has completed a review of consulting services Agreement No. 12259 (the agreement) between the District and Edelman Public Relations Worldwide (Edelman). The services to be performed by Edelman and its subconsultants (the Edelman team) under the agreement pertained to the areas of: Strategic Planning; Issue Management; Media Relations; Coalition Building; Community Outreach/Education; and Government Relations. The agreement is a typical District "time and material" consulting contract with standard provisions pertaining to, among other things: hourly rates, billings and payments, subconsultant expenses, insurance and indemnity, and nondiscrimination practices. The agreement specifies a maximum amount payable, including expenses, of \$225,000. There have been no amendments to the agreement since its inception (aside from the designation of a new agreement administrator on July 31).

When the Audit Department commenced its review of the agreement in late July, the District had been invoiced a total of \$479,155.81 from Edelman for the services rendered by the Edelman team, plus expenses, during the period from November 1996 through July 1997. Four of the invoices were later found to contain improper charges which effectively reduces this total billing level to \$385,586.56. Invoices totaling \$200,898.25 have been paid to date by the District. The balance of Edelman's unpaid invoices are on hold until Board approval is obtained for an increase in maximum dollar amount of the agreement.

The primary purpose of our review of Agreement No. 12259 was to audit the costs billed to the District by Edelman for services rendered, as well as to review compliance with various contractual provisions and to evaluate the District's administrative procedures and controls pertaining to the agreement.

The testing we performed included a review of the billings submitted by Edelman for services rendered and expenses incurred by the firm and its subconsultants during the period from November 1996 through July 1997. Visits were made to the offices of Edelman and most of its subconsultants to examine available supporting documentation and to interview personnel. Discussions were also held with various District management and staff who were involved in the direction of Edelman's resources or in the administration of the agreement.

A summary of the findings and recommendations resulting from our review of Agreement No. 12259, by review area category, follows:

Metropolitan Water District of Southern California

AUDIT DEPARTMENT

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Services Charges and Billings

Findings:

1. Edelman's billings to date significantly exceed the maximum dollar amount of the agreement (\$225,000) and the General Manager's contracting authority (\$250,000). (page 6)
2. Edelman's billings have not been prepared in accordance with the terms of the agreement. (page 7)
3. Several of Edelman's billings contained improper charges, but Edelman subsequently notified the District of the problem. (page 7)
4. Edelman's charges are reasonably supported in most instances. (page 8)
5. Edelman's total retainer-based fees to date are significantly less than charges permissible under the terms of the agreement based on actual time worked. (page 8)

Recommendations:

1. Amend Agreement No. 12259 as soon as possible from a time and material fee basis to a flat monthly retainer basis of \$38,500, plus expenses.
2. Prepare a Board letter seeking sufficient authority to pay, at a minimum, all unpaid Edelman billings (as adjusted and reflecting a \$31,747.50 credit due the District); determine if any other fees for services or other charges after July 25, 1997, should also be funded.

Contract Compliance and Performance

Findings:

1. The broad scope of services outlined in the agreement encompassed the types of services that the Edelman team performed. (page 9)
2. With few exceptions, Edelman complied with the terms of the agreement and the team's performance met or exceeded management's expectations. (page 10)

Metropolitan Water District of Southern California

AUDIT DEPARTMENT

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Edelman Public Relations Worldwide

Recommendations:

1. Consider entering into a separate consulting services agreement with Judy Ganulin for Arvin-Edison related activities.
2. Evaluate the impacts, if any, of Edelman's failure to meet the written notice requirement once the firm had billed \$180,000 in combined fees and expenses.

Agreement Administration

Findings:

1. The District's contract administration procedures, and the agreement administrator, failed to adequately process, monitor, and manage the agreement. (page 12)
2. Executive management oversight of the Edelman agreement was inadequate. (page 14)

Recommendations:

1. Evaluate current agreement administration practices pertaining to "urgent" or "special" agreements prepared on behalf of executive or other management; strengthen such practices where appropriate.
2. Limit the ongoing management of the Edelman agreement, and similar agreements, if any, to primary contract administrators who are proactively responsible for contract management and monitoring; consider using written directives or task orders to better manage consultant efforts and performance.
3. Minimize delegations of billing approval authority by the primary agreement administrators.

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The results of our review of Agreement No. 12259 will be presented to the Special Audit Committee at a meeting on September 2, 1997. It is our understanding that management will be responding directly to the Board concerning the issues and concerns identified in this report which resulted from the Audit Department's review of Agreement No. 12259.

No other matters were identified during this review which we believe are worthy of the Board's attention at this time.