

- **Board of Directors**
Executive Committee

October 9, 2007 Board Meeting

7-1

Subject

Approve amendments to Metropolitan Water District Administrative Code regarding the Audit Department

Description

This letter transmits amendments to the Administrative Code to reflect recommendations pertaining to the Executive Committee, Management, and the Audit Department. The changes include the following:

- (1) Administrative Code Section 2413 describes the Duties and Functions of the Executive Committee, and generally contains adequate authority for the Executive Committee to effectively oversee its Audit Department responsibilities. However, the Institute of Internal Auditors (IIA) has recommended an expansion of certain responsibilities related to monitoring, overseeing, and evaluating the duties of Management, the Audit Department, and the external auditors pertaining to Metropolitan's processes for controlling operations. Further, the IIA recommended that the Executive Committee consider the effectiveness of Metropolitan's internal control system, including information technology security and control.
- (2) Administrative Code Sections 6450-6453 describes the Powers and Duties of the General Auditor. Administrative Code Section 6450(b) states that the General Auditor is responsible for recommending an Audit Department Charter to the Executive Committee. Further, this code section requires that any changes made to the Audit Department Charter shall be approved by the Executive Committee and presented to the Board of Directors for review and approval. This letter transmits proposed changes to the Audit Department responsibilities and the Audit Department Charter, which is included in its entirety in Section 6451. Leading governance practices advocate annual review and update of Audit Department Charter, as well as expanded discussion of Audit Department responsibilities, such as issuing an opinion on internal controls over financial reporting on an annual basis.
- (3) Administrative Code Section 2700(c) describes the General Manager's Annual Reports to the Executive Committee. The IIA has recommended that Management adopt a Management Control Policy in order to assign to Management at all levels specific responsibility to control operations. The Audit Department has provided Management with a copy of the IIA's policy. This board letter transmits proposed changes to the General Manager's annual reporting to the Executive Committee to include considering the effectiveness of the company's internal control system, including information technology security and control.

The proposed substantive amendments are set forth in [Attachment 1](#), with strikeouts showing deletions and underlining showing additions. [Attachment 2](#) shows the new version of the Metropolitan Water District Administrative Code, as it would read upon board approval.

Policy

Metropolitan Water District Administrative Code Section 2413: Executive Committee Duties and Functions
Metropolitan Water District Administrative Code Section 2700: General Manager's Annual Reports
Metropolitan Water District Administrative Code Section 6450: General Auditor Powers and Duties

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and approve the changes to the Administrative Code set forth in [Attachment 1](#).

Fiscal Impact: None

Option #2

Defer approval of the changes to the Administrative Code as set forth in [Attachment 1](#).

Fiscal Impact: None

Staff Recommendation

Option #1


Gerald C. Riss
General Auditor

9/18/2007

Date

[Attachment 1 – Administrative Code showing additions and deletions](#)

[Attachment 2 – Administrative Code in final form](#)

BLA #5654

Article 2**EXECUTIVE COMMITTEE****§ 2413. Duties and Functions.**

- (a) The Executive Committee shall study, advise, and make recommendations with regard to:
- (1) Public information for governmental and other entities and officials, and for the citizens of California regarding matters affecting the District's interests;
 - (2) Official dealings with the United States Government, the State of California or other states, member public agencies or their sub-agencies, foreign governments and other entities or persons in matters of public policy or other activities as deemed appropriate;
 - (3) Policies and procedures to be considered by the Board or committees thereof, except for policy matters within the jurisdiction of a specific standing committee;
 - (4) Matters relating to the Colorado River Board of California;
 - (5) Major policy issues to be considered by the Board, including proposed amendments to the Metropolitan Water District Act;
 - (6) Questions raised by the officers and staff in intervals between meetings of the Board and in unexpected situations and emergencies;
 - (7) Policies and procedures of the District's ethics program;
 - (8) All reports of the General Auditor and external auditors, including the audited financial statements of the District, and requests from other committees of the Board for audits and reviews not included in annual business plan;
 - (9) The terms and conditions of employment of all consultants and advisors not within the jurisdiction of other committees;
 - (10) Resolution of conflicting committee recommendations pursuant to Section 2314;
 - (11) The progress of, and propose modifications to, the Board's goals in light of then existing and projected future conditions; and
 - (12) Such other matters as may be required by Division II of this Code.

- (b) The Executive Committee shall:
- (1) Review and approve board and committee agendas and, notwithstanding the jurisdiction of the other standing committees in the Code, have the authority to direct which committee shall consider an item;
 - (2) Review and approve the scheduling of board and committee meetings; ~~and~~
 - (3) Be responsible for the oversight and management of the organization including, but not limited to, the form of the District's organization and the flow of the authority and responsibility. This includes monitoring and overseeing the duties and responsibilities of management, the Audit Department, and the external auditors as those duties and responsibilities relate to the effectiveness of the District's internal control system; and
 - (4) Consider the effectiveness of the District's internal control system, including information technology security and control.
- (c) The Executive Committee shall retain ultimate responsibility for those duties as are specifically assigned to the subcommittees of the Executive Committee.
- (d) The Executive Committee shall be responsible for the oversight of the performances and activities of the General Manager, General Auditor, and the Ethics Officer and an annual review of the compensation of the General Manager, General Counsel, General Auditor and Ethics Officer. The Executive Committee shall evaluate the performance of the General Manager, General Auditor and Ethics Officer at least annually in advance of the July Board meetings. It shall also review and approve the General Manager's comprehensive business plans and annual goals and work objectives of the General Manager, General Auditor and Ethics Officer at the start of each fiscal year in advance of the August Board meetings.
- (e) After its review and consideration of the annual assessment of, and recommendations concerning Department Heads, including the annual assessment and recommendations of the Legal and Human Resources Committee concerning the performance of the General Counsel, the Executive Committee shall make recommendations to the Board on the salary and other compensation of Department Heads in advance of the July meetings, with any changes to be effective at the start of the payroll period nearest to July 1.
- (f) The Executive Committee shall also:
- (1) Act on behalf of the Board in unexpected situations and emergencies, subject to subsequent approval or ratification of the actions taken whenever such approval or ratification is required by law.

- (2) Provide policy guidance where appropriate to those directors and District staff members who are associated with organizations in which the District has membership.
- (3) Conduct hearings on vendors' protests:
 - (i) Hearings requested pursuant to Section 8142(d), and other hearings granted on the Executive Committee's own motion, unless delegated pursuant to Section 8148 shall be held by the committee at its next regular meeting to be held at least 72 hours after filing of the notice of protest. The hearing shall be conducted in accordance with such rules as the Chair of the committee shall announce. The committee shall make a decision on the bidder's or applicant's protest, shall set forth its reasons therefore, and shall cause the Board Executive Secretary to serve a copy of the decision on the bidder or applicant. The decision of the committee shall be final unless the committee chooses to refer the notice of protest to the Board.
 - (ii) The Chair of the Executive Committee may redelegate hearings provided for under subparagraph (i) above to a minimum of three members of the Executive Committee who shall act in place of the committee in the conduct of the hearing and who shall at the conclusion thereof make their recommendations to the full committee. Such recommendations shall be accompanied by copies of any materials submitted in evidence. Any hearing held and recommendations made pursuant to such delegated authority shall be completed in advance of the time set for the next regular meeting of the full committee following the meeting at which the matter would otherwise have been heard by the committee.
- (4) Resolve disputes over inspection dates and monitor conduct of inspection trips to assure maximum effectiveness.

Chapter 7

PERIODIC STAFF REPORTS TO BOARD AND COMMITTEES

Article	Sec.
1 Annual Reports	2700
2 Semi-annual Reports	2715
3 Quarterly Reports	2720
4 Monthly Reports	2740
5 Miscellaneous Reports	2750

Article 1

ANNUAL REPORTS

Sec.

2700. General Manager's Annual Reports

2701. Treasurer's Annual Reports

§ 2700. General Manager's Annual Reports.

The General Manager shall annually make the following reports:

- (a) To the Board:
 - (1) On financial matters generally;
 - (2) After consulting with the General Counsel, on the results of his or her review made pursuant to Section 5204 of District compliance with minimum fund requirements outlined in Sections 5201-5204 and with the articles and covenants contained in resolutions of issuance;
 - (3) On all leases made during the preceding year under the authority of Section 8222, 8223; 8230 and 8232; and
 - (4) On the status of appropriations pursuant to Section 5108(c).
- (b) To the Engineering and Capital Programs Committee on all consulting agreements in effect during the preceding year and the exercise of authority under Section 8122(h). Each such report shall indicate when a consultant is a former employee of the District.
- (c) To the Executive Committee on the General Manager's Business Plan and goals and objectives as required by Section 6416. This report shall convey the effectiveness of the District's internal control system, including information technology security and control.

§ 2701. Treasurer's Annual Reports.

The Treasurer shall annually make the following reports:

- (a) To the Board, on the investment policy of the District.
- (b) To the Business and Finance Committee:
 - (1) All payments after loss of a bond interest coupon made pursuant to Section 5104; and
 - (2) All issuances of duplicate bonds made pursuant to Section 5105.

Article 4

GENERAL AUDITOR

Sec.

6450. Powers and Duties

~~6451.~~ Audit Department Charter

~~64512.~~ Assistant General Auditor

~~64523.~~ Authority to Obtain Professional Services

~~64534.~~ Use of District Automobile

§ 6450. Powers and Duties.

- (a) The District's independent internal auditing function is governed by provisions of the California Government Code and by policies established by the Board of Directors. ~~The scope of internal auditing activities is subject to Board review and approval, but shall not otherwise be restricted.~~ The ~~Audit Subcommittee~~ Executive Committee is responsible for the oversight of the internal auditing function, approving the Audit Department charter (subject to review and approval of the Board of Directors), selecting and overseeing the work of external auditors, and ~~for~~ reviewing reports issued by both the internal and external auditors. ~~Internal auditors, with stringent regard for safekeeping and confidentiality, shall have access to all District activities, records, property, and employees as may be necessary to carry out their assigned responsibilities.~~
- (b) The General Auditor manages the District's Audit Department and is responsible for ~~recommending an audit Department charter, any changes to which shall be approved by the Audit Subcommittee (subject to review and approval of the Board of Directors), and is responsible for~~ formulating departmental policies and procedures; directing and evaluating the performance of work done by employees within the department, administering the internal records of the department; and administering the District's contract for external audit services. The General Auditor shall annually in advance of the July Board meetings, submit to the ~~Audit Subcommittee a~~ Executive Committee a

comprehensive Audit business plan for review and approval. The business plan shall be submitted in conjunction with similar reports by the General Manager and General Counsel to the Executive Committee and the Legal and Human Resources Committee.

- (c) The General Auditor shall report the findings, opinions, and recommendations which result from the performance of the duties outlined in paragraph 6450(b) to the General Manager, ~~and General Counsel, and Ethics Officer~~ for their information and appropriate actions. ~~The form and content of such reports shall be determined by the General Auditor.~~ Whenever an audit report contains recommendations for corrective actions or changes in current practices, the General Manager, ~~the General Counsel,~~ Counsel, Ethics Officer or their designees shall respond to the General Auditor in an appropriate manner and within a reasonable time, indicating their views on the recommendations and proposed actions to be taken, if any. ~~The General Auditor shall then submit a report on major assignments conducted, or significant issues noted, to the Audit Subcommittee.~~
- (d) The General Auditor's reports on internal audit assignments shall be addressed to the ~~Audit Subcommittee~~ Executive Committee. The General Auditor shall have the discretion to determine the form and content of such audit reports, subject to guidance by the ~~Audit Subcommittee~~ Executive Committee. With the exception of those reports which the General Auditor deems to be urgent or confidential in nature, copies of all audit reports addressed to the ~~Audit Subcommittee~~ Executive Committee shall be submitted to the General Manager ~~and General Counsel, and Ethics Officer~~ for review and comment simultaneously to their submittal to the Executive Committee ~~Audit Subcommittee~~.
- (e) The General Auditor shall transmit all reports issued by the District's external auditors to the ~~Audit Subcommittee~~ Executive Committee and any other committees of the Board as may be applicable. Such transmittal letters should include any comments on the external auditor's reports that the General Auditor deems necessary.
- (f) The General Auditor may receive requests from time to time from the other executive officers or committees of the Board to perform audit assignments which are not included in the approved annual Audit Business Plan. Similarly, the General Auditor may identify a need to include new assignments in the Audit Business Plan during the year. The General Auditor shall have sufficient latitude and discretion to include those new assignments in the annual Audit Business Plan as he deems necessary. ~~All revisions to the Audit Business Plan will be communicated periodically to the Audit Subcommittee for its information and concurrence.~~ The reporting process for assignments requested by either executive management or by committees of the Board shall generally follow the process outlined in paragraphs 6450(c) or (d) previously. However, any reports on audits requested by a committee of the Board shall be jointly addressed to such committee and the ~~Audit Subcommittee~~ Executive Committee. Copies of these reports will first be provided to management for review and comment consistent with the provisions of paragraph 6450(d).

- (g) The General Auditor shall manage the work of the Audit Department in accordance with the Audit Department Charter. The General Auditor shall assess annually whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Audit Department to accomplish its objectives.

§ 6451. **Audit Department Charter**

(a) Mission and Scope of Work

The mission of the Audit Department is to provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations. It helps the organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control and governance processes. The scope of work of the Audit Department is to determine whether the organization's network of risk management, internal control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

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

Opportunities for improving management internal control, efficiency and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

(b) Accountability

The General Auditor shall be accountable to the Board of Directors and the Executive Committee to:

- (1) Advise on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks.
- (2) Report significant issues related to the processes for controlling the activities of the organization, including potential improvements to those processes, and provide information concerning such issues through to resolution.
- (3) Coordinate with other Metropolitan control and monitoring functions (risk management, legal, finance, ethics, security and environmental).

(c) Responsibilities

The Audit Department shall carry out the following responsibilities:

- (1) Develop and present a flexible annual audit plan to the Executive Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by Management or the Board of Directors.
- (2) Report periodically to the Executive Committee and Management the status of the current year's audit plan and the sufficiency of department resources.
- (3) Issue an opinion on internal controls over financial reporting on an annual basis.
- (4) Submit audit reports to the Executive Committee and Management communicating the auditor's opinion regarding the internal control structure, identifying significant control issues and providing related recommendations.
- (5) Evaluate the adequacy and timeliness of Management's responses to, and the corrective action taken on, all significant control issues noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Executive Committee the status of Management's progress.
- (6) Ensure the selection, development and supervision of competent and professional audit staff.
- (7) Meet or exceed the *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics set forth by The Institute of Internal Auditors (IIA). Comply with Metropolitan's policies and procedures; the California Government Code; and Government Auditing Standards (GAGAS).
- (8) Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain external quality assurance reviews as required by GAGAS and the *Standards*.

- (9) Perform consulting services to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- (10) Evaluate additions or changes in internal control processes coincident with their development and implementation.
- (11) Keep the Executive Committee informed of significant emerging trends and best practices in internal auditing and governance.
- (12) Assist in the investigation of significant suspected fraudulent activities within the organization. Assure reporting to the Executive Committee on the results, as appropriate.
- (13) Coordinate with external auditors to minimize duplication of effort and to ensure that issues raised, as a result of their review, are appropriately addressed.

(d) Authority

The General Auditor and Audit Department staff members are authorized to:

- (1) Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality and applicable process.
- (2) Have full and free access to the Executive Committee, subject to applicable law.
- (3) Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- (4) Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The General Auditor and Audit Department staff members are not authorized to:

- (1) Perform any operational duties for the organization.
- (2) Initiate or approve accounting transactions external to the internal auditing department.
- (3) Direct the activities of any organization employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

This Charter shall be reviewed at least annually by the Executive Committee and Board of Directors.

§ 645~~2~~. Assistant General Auditor.

- (a) The General Auditor may designate an Assistant General Auditor who shall perform such duties and render such services to the District as may be prescribed and assigned to him by the General Auditor, with like effect as though such duties or services were performed or rendered in person by the General Auditor.
- (b) During the absence of the General Auditor, or his inability for any reason to act in person, or in case of his death, resignation or removal, until the appointment and qualification of his successor, the Assistant General Auditor shall perform all of the duties and exercise all of the powers of the General Auditor.
- (c) The Assistant General Auditor shall act in the name of the General Auditor, except when directed by the latter to act in his own name, and his acts shall be equally effective whether done in the name of the General Auditor or in his own name. In case of the death, resignation or removal of the General Auditor, the Assistant General Auditor shall act in his own name.

§ 645~~2~~³. Authority to Obtain Professional Services.

The General Auditor is authorized to employ the services of independent auditors or other professional or technical consultants to advise or assist him in performing his assigned duties as may be required or as he deems necessary provided that the amount to be expended in fees, costs, and expenses under any one contract in any one year shall not exceed \$40,000. External auditors, while employed as external auditors for Metropolitan, are prohibited from performing any other consulting work for Metropolitan or performing any work for other clients that conflicts, or may conflict, with their responsibilities as Metropolitan's external auditors. These prohibitions shall be included in Metropolitan's agreements with external auditors. The General Auditor shall inform the ~~Audit Subcommittee~~Executive Committee whenever he exercises the authority granted under this section and he shall further report quarterly to the Legal and Human Resources Committee concerning any agreements entered into under this section.

§ 645~~3~~⁴. Use of District Automobiles.

The General Auditor is authorized to use the General Auditor's District automobile for such purposes other than District business as may be necessary.

Article 2**EXECUTIVE COMMITTEE****§ 2413. Duties and Functions.**

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 - (2) Official dealings with the United States Government, the State of California or other states, member public agencies or their sub-agencies, foreign governments and other entities or persons in matters of public policy or other activities as deemed appropriate;
 - (3) Policies and procedures to be considered by the Board or committees thereof, except for policy matters within the jurisdiction of a specific standing committee;
 - (4) Matters relating to the Colorado River Board of California;
 - (5) Major policy issues to be considered by the Board, including proposed amendments to the Metropolitan Water District Act;
 - (6) Questions raised by the officers and staff in intervals between meetings of the Board and in unexpected situations and emergencies;
 - (7) Policies and procedures of the District's ethics program;
 - (8) All reports of the General Auditor and external auditors, including the audited financial statements of the District, and requests from other committees of the Board for audits and reviews not included in annual business plan;
 - (9) The terms and conditions of employment of all consultants and advisors not within the jurisdiction of other committees;
 - (10) Resolution of conflicting committee recommendations pursuant to Section 2314;
 - (11) The progress of, and propose modifications to, the Board's goals in light of then existing and projected future conditions; and
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- (b) The Executive Committee shall:
- (1) Review and approve board and committee agendas and, notwithstanding the jurisdiction of the other standing committees in the Code, have the authority to direct which committee shall consider an item;
 - (2) Review and approve the scheduling of board and committee meetings;
 - (3) Be responsible for the oversight and management of the organization including, but not limited to, the form of the District's organization and the flow of the authority and responsibility. This includes monitoring and overseeing the duties and responsibilities of management, the Audit Department, and the external auditors as those duties and responsibilities relate to the effectiveness of the District's internal control system; and
 - (4) Consider the effectiveness of the District's internal control system, including information technology security and control.
- (c) The Executive Committee shall retain ultimate responsibility for those duties as are specifically assigned to the subcommittees of the Executive Committee.
- (d) The Executive Committee shall be responsible for the oversight of the performances and activities of the General Manager, General Auditor, and the Ethics Officer and an annual review of the compensation of the General Manager, General Counsel, General Auditor and Ethics Officer. The Executive Committee shall evaluate the performance of the General Manager, General Auditor and Ethics Officer at least annually in advance of the July Board meetings. It shall also review and approve the General Manager's comprehensive business plans and annual goals and work objectives of the General Manager, General Auditor and Ethics Officer at the start of each fiscal year in advance of the August Board meetings.
- (e) After its review and consideration of the annual assessment of, and recommendations concerning Department Heads, including the annual assessment and recommendations of the Legal and Human Resources Committee concerning the performance of the General Counsel, the Executive Committee shall make recommendations to the Board on the salary and other compensation of Department Heads in advance of the July meetings, with any changes to be effective at the start of the payroll period nearest to July 1.
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- (1) Act on behalf of the Board in unexpected situations and emergencies, subject to subsequent approval or ratification of the actions taken whenever such approval or ratification is required by law.

- (2) Provide policy guidance where appropriate to those directors and District staff members who are associated with organizations in which the District has membership.
- (3) Conduct hearings on vendors' protests:
 - (i) Hearings requested pursuant to Section 8142(d), and other hearings granted on the Executive Committee's own motion, unless delegated pursuant to Section 8148 shall be held by the committee at its next regular meeting to be held at least 72 hours after filing of the notice of protest. The hearing shall be conducted in accordance with such rules as the Chair of the committee shall announce. The committee shall make a decision on the bidder's or applicant's protest, shall set forth its reasons therefore, and shall cause the Board Executive Secretary to serve a copy of the decision on the bidder or applicant. The decision of the committee shall be final unless the committee chooses to refer the notice of protest to the Board.
 - (ii) The Chair of the Executive Committee may redelegate hearings provided for under subparagraph (i) above to a minimum of three members of the Executive Committee who shall act in place of the committee in the conduct of the hearing and who shall at the conclusion thereof make their recommendations to the full committee. Such recommendations shall be accompanied by copies of any materials submitted in evidence. Any hearing held and recommendations made pursuant to such delegated authority shall be completed in advance of the time set for the next regular meeting of the full committee following the meeting at which the matter would otherwise have been heard by the committee.
- (4) Resolve disputes over inspection dates and monitor conduct of inspection trips to assure maximum effectiveness.

Chapter 7

PERIODIC STAFF REPORTS TO BOARD AND COMMITTEES

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Article 1

ANNUAL REPORTS

Sec.

2700. General Manager's Annual Reports

2701. Treasurer's Annual Reports

§ 2700. General Manager's Annual Reports.

The General Manager shall annually make the following reports:

- (a) To the Board:
 - (1) On financial matters generally;
 - (2) After consulting with the General Counsel, on the results of his or her review made pursuant to Section 5204 of District compliance with minimum fund requirements outlined in Sections 5201-5204 and with the articles and covenants contained in resolutions of issuance;
 - (3) On all leases made during the preceding year under the authority of Section 8222, 8223; 8230 and 8232; and
 - (4) On the status of appropriations pursuant to Section 5108(c).
- (b) To the Engineering and Capital Programs Committee on all consulting agreements in effect during the preceding year and the exercise of authority under Section 8122(h). Each such report shall indicate when a consultant is a former employee of the District.
- (c) To the Executive Committee on the General Manager's Business Plan and goals and objectives as required by Section 6416. This report shall convey the effectiveness of the District's internal control system, including information technology security and control.

§ 2701. Treasurer's Annual Reports.

The Treasurer shall annually make the following reports:

- (a) To the Board, on the investment policy of the District.
- (b) To the Business and Finance Committee:
 - (1) All payments after loss of a bond interest coupon made pursuant to Section 5104; and
 - (2) All issuances of duplicate bonds made pursuant to Section 5105.

Article 4**GENERAL AUDITOR**

Sec.

6450. Powers and Duties

6451. Audit Department Charter

6452. Assistant General Auditor

6453. Authority to Obtain Professional Services

6454. Use of District Automobile

§ 6450. Powers and Duties.

- (a) The District's independent internal auditing function is governed by provisions of the California Government Code and by policies established by the Board of Directors. The Executive Committee is responsible for the oversight of the internal auditing function, approving the Audit Department charter (subject to review and approval of the Board of Directors), selecting and overseeing the work of external auditors, and reviewing reports issued by both the internal and external auditors.
- (b) The General Auditor manages the District's Audit Department and is responsible for formulating departmental policies and procedures; directing and evaluating the performance of work done by employees within the department, administering the internal records of the department; and administering the District's contract for external audit services. The General Auditor shall annually in advance of the July Board meetings, submit to the Executive Committee a comprehensive Audit business plan for review and approval. The business plan shall be submitted in conjunction with similar reports by the General Manager and General Counsel to the Executive Committee and the Legal and Human Resources Committee.
- (c) The General Auditor shall report the findings, opinions, and recommendations which result from the performance of the duties outlined in paragraph 6450(b) to the General Manager, General Counsel, and Ethics Officer for their information and appropriate

actions. Whenever an audit report contains recommendations for corrective actions or changes in current practices, the General Manager, General Counsel, Ethics Officer or their designees shall respond to the General Auditor in an appropriate manner and within a reasonable time, indicating their views on the recommendations and proposed actions to be taken, if any.

- (d) The General Auditor's reports on internal audit assignments shall be addressed to the Executive Committee. The General Auditor shall have the discretion to determine the form and content of such audit reports, subject to guidance by the Executive Committee. With the exception of those reports which the General Auditor deems to be urgent or confidential in nature, copies of all audit reports addressed to the Executive Committee shall be submitted to the General Manager, General Counsel, and Ethics Officer for review and comment simultaneously to their submittal to the Executive Committee.
- (e) The General Auditor shall transmit all reports issued by the District's external auditors to the Executive Committee and any other committees of the Board as may be applicable. Such transmittal letters should include any comments on the external auditor's reports that the General Auditor deems necessary.
- (f) The General Auditor may receive requests from time to time from the other executive officers or committees of the Board to perform audit assignments which are not included in the approved annual Audit Business Plan. Similarly, the General Auditor may identify a need to include new assignments in the Audit Business Plan during the year. The General Auditor shall have sufficient latitude and discretion to include those new assignments in the annual Audit Business Plan as he deems necessary. The reporting process for assignments requested by either executive management or by committees of the Board shall generally follow the process outlined in paragraphs 6450(c) or (d) previously. However, any reports on audits requested by a committee of the Board shall be jointly addressed to such committee and the Executive Committee. Copies of these reports will first be provided to management for review and comment consistent with the provisions of paragraph 6450(d).
- (g) The General Auditor shall manage the work of the Audit Department in accordance with the Audit Department Charter. The General Auditor shall assess annually whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Audit Department to accomplish its objectives.

§ 6451. Audit Department Charter

- (a) Mission and Scope of Work

The mission of the Audit Department is to provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations. It helps the organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management,

control and governance processes. The scope of work of the Audit Department is to determine whether the organization's network of risk management, internal control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- (1) Risks are appropriately identified, managed and monitored.
- (2) Significant financial, managerial and operating information is accurate, reliable and timely.
- (3) Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations.
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- (5) Programs, plans, and objectives are achieved.
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Opportunities for improving management internal control, efficiency and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

(b) Accountability

The General Auditor shall be accountable to the Board of Directors and the Executive Committee to:

- (1) Advise on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks.
- (2) Report significant issues related to the processes for controlling the activities of the organization, including potential improvements to those processes, and provide information concerning such issues through to resolution.
- (3) Coordinate with other Metropolitan control and monitoring functions (risk management, legal, finance, ethics, security and environmental).

(c) Responsibilities

The Audit Department shall carry out the following responsibilities:

- (1) Develop and present a flexible annual audit plan to the Executive Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by Management or the Board of Directors.
- (2) Report periodically to the Executive Committee and Management the status of the current year's audit plan and the sufficiency of department resources.
- (3) Issue an opinion on internal controls over financial reporting on an annual basis.
- (4) Submit audit reports to the Executive Committee and Management communicating the auditor's opinion regarding the internal control structure, identifying significant control issues and providing related recommendations.
- (5) Evaluate the adequacy and timeliness of Management's responses to, and the corrective action taken on, all significant control issues noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Executive Committee the status of Management's progress.
- (6) Ensure the selection, development and supervision of competent and professional audit staff.
- (7) Meet or exceed the *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics set forth by The Institute of Internal Auditors (IIA). Comply with Metropolitan's policies and procedures; the California Government Code; and Government Auditing Standards (GAGAS).
- (8) Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain external quality assurance reviews as required by GAGAS and the *Standards*.
- (9) Perform consulting services to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- (10) Evaluate additions or changes in internal control processes coincident with their development and implementation.
- (11) Keep the Executive Committee informed of significant emerging trends and best practices in internal auditing and governance.
- (12) Assist in the investigation of significant suspected fraudulent activities within the organization. Assure reporting to the Executive Committee on the results, as appropriate.

- (13) Coordinate with external auditors to minimize duplication of effort and to ensure that issues raised, as a result of their review, are appropriately addressed.

(d) Authority

The General Auditor and Audit Department staff members are authorized to:

- (1) Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality and applicable process.
- (2) Have full and free access to the Executive Committee, subject to applicable law.
- (3) Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- (4) Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The General Auditor and Audit Department staff members are not authorized to:

- (1) Perform any operational duties for the organization.
- (2) Initiate or approve accounting transactions external to the internal auditing department.
- (3) Direct the activities of any organization employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

This Charter shall be reviewed at least annually by the Executive Committee and Board of Directors.

§ 6452. Assistant General Auditor.

- (a) The General Auditor may designate an Assistant General Auditor who shall perform such duties and render such services to the District as may be prescribed and assigned to him by the General Auditor, with like effect as though such duties or services were performed or rendered in person by the General Auditor.
- (b) During the absence of the General Auditor, or his inability for any reason to act in person, or in case of his death, resignation or removal, until the appointment and qualification of his successor, the Assistant General Auditor shall perform all of the duties and exercise all of the powers of the General Auditor.

- (c) The Assistant General Auditor shall act in the name of the General Auditor, except when directed by the latter to act in his own name, and his acts shall be equally effective whether done in the name of the General Auditor or in his own name. In case of the death, resignation or removal of the General Auditor, the Assistant General Auditor shall act in his own name.

§ 6453. Authority to Obtain Professional Services.

The General Auditor is authorized to employ the services of independent auditors or other professional or technical consultants to advise or assist him in performing his assigned duties as may be required or as he deems necessary provided that the amount to be expended in fees, costs, and expenses under any one contract in any one year shall not exceed \$40,000. External auditors, while employed as external auditors for Metropolitan, are prohibited from performing any other consulting work for Metropolitan or performing any work for other clients that conflicts, or may conflict, with their responsibilities as Metropolitan's external auditors. These prohibitions shall be included in Metropolitan's agreements with external auditors. The General Auditor shall inform the Executive Committee whenever he exercises the authority granted under this section and he shall further report quarterly to the Legal and Human Resources Committee concerning any agreements entered into under this section.

§ 6454. Use of District Automobiles.

The General Auditor is authorized to use the General Auditor's District automobile for such purposes other than District business as may be necessary.