

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

June 28, 2011

Chair Friedman called the meeting to order at 9:05 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

Members present: Chair Friedman, Directors Ballin, Barbre, Dick, Edwards, Wright, and Wunderlich.

Members absent: Vice Chair Quinonez, Directors Blake and Grandsen.

Other Board Members present: Directors Ackerman, Bowersox, Brown, Evans, Heidel, Lewinger, Little, Morris, Record, and Steiner.

Staff present: Bennion, Borrego, Cable, L. Carrillo, DeBacker, D. Edwards, D. Elliott, G. Johnson, Kokuga, Man, Neal, Pellegrini, Riss, Soper, Scully, H. Torres, Waade, Upadhyay, and E. Yamasaki.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

No members of the public responded.

2. APPROVAL OF THE MINUTES OF THE MEETING OF THE AUDIT AND ETHICS COMMITTEE HELD FEBRUARY 22, 2011

Approved

Motion: Director Edwards

Seconded: Director Wunderlich

3. COMMITTEE CHAIR'S REPORT

There was no report by the Chair.

4. COMMITTEE ITEMS

- a Subject: General Auditor's summary of activities for the Audit Department

Presented by: General Auditor Gerald C. Riss

General Auditor Riss reported that 15 audit reports were issued during the four-month period from February through May 2011. He stated that one audit report received a "less than satisfactory" rating and noted that management has implemented new procedures that effectively and efficiently address the concerns. Further, Mr. Riss noted that audit reports are posted on the Directors website, and summarized in the monthly General Auditor Report to the Board of Directors.

- b. Subject: Approve General Auditor's Business Plan for fiscal year 2011/12

Presented by: General Auditor Gerald C. Riss

General Auditor Riss stated that the Audit Department (Audit) is an independent and objective assurance function within Metropolitan and its mission is promulgated by The Institute of Internal Auditors (IIA). He further explained that Audit utilizes a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Next, Mr. Riss discussed Audit's key objectives for fiscal year 2011/12. He stated that one of the objectives is to ensure that its activities and reports are risk-focused. He commented that auditors are considered to be risk experts and to that end, audit staff not only identify, assess, and prioritize risks but also evaluate the cost-effectiveness of risk mitigation when advising management regarding audit issues. He also stated that for the current year, Audit will promote professional auditing certifications, encourage completion of continuing professional education, and enhance core competencies of staff. He then added that Audit will also uphold its mission, complete projects on a timely basis, and manage its budget effectively.

Mr. Riss then provided an overview of the Annual Audit Plan process. He stated that Audit communicates with the Board, management, and internal and external auditors, and reviews prior audit results to derive a list of potential audits within Metropolitan. He added that for each potential review, Audit then assigns an inherent risk rating of one to five for the following risk factors: financial, political, legal/regulatory, operational, and auditor judgment. He also stated that based on this approach, Audit assesses which projects have the highest to lowest inherent risk ratings and assigns staff to audits starting with the highest risk. Mr. Riss further explained that for medium risk areas, Audit may perform monitoring activities while lower risk areas may principally warrant inquiry or

observation procedures. He then gave examples of the projects that are ranked higher inherent risk and included in the fiscal year 2011/12 Audit Plan.

Next, Mr. Riss provided an overview of audit resource levels, noting that with 11 audit staff there are 11,300 hours available to assign to audits in the Audit Plan. He further stated that these hours are allocated to Finance/Operational/Compliance audits (62 percent of total); Information Technology (9 percent); Board/Committee meetings and support (8 percent); contractual assistance to the external auditors (7 percent); board and management initiatives (4 percent); with the remaining hours assigned to Comfort Letters on bond issuances, follow-up reviews to prior audits, and special reviews. Finally, Mr. Riss stated that both audit work papers and time charging are tracked electronically.

Mr. Riss then discussed Audit's governance activities. He noted that the IIA advocates the development and maintenance of a quality program, which encompasses all aspects of internal audit activities and promotes compliance to the professional standards. He further explained that this Audit Department Quality Assurance and Improvement Program is comprised of training activities, ongoing reviews such as work paper review and approval, periodic reviews including client surveys and annual self-assessments, and external independent assessments (performed every five years) of conformance with industry standards.

Chairman Friedman then conducted a discussion on topics related to department staffing and available audit hours, as well as Audit's role in promoting cost-controls and prudent spending.

Approved

Motion: Director Dick

Seconded: Director Wright

- c. Subject: Ethic Officer's summary of activities for the Ethics Department
- d. Subject: Approve Ethics Officer's Business Plan for fiscal year 2011/12

Presented by: Ethics Officer Deni Elliott

Ethics Officer Deni Elliott reported that the Ethics Office is supportive to Metropolitan and its mission. Enforcement, education and enhancement are the three major goals of the Ethics Office. Enforcement includes mandated training as well as addressing matters. All of the matters that come into the Ethics Office are logged and tracked. This fiscal year 75 matters were successfully resolved without the expense of formal review and external investigators. Some were resolved quickly. Others took several hours of interviews, discussions, and sensitive negotiations.

As a Director had questioned how many ethics issues were ultimately handled by the Legal Department, the Ethics Officer explained that this year, she had discussed seven of the 75 matters with the Legal Department. Two were referred directly to the Legal Department as legal issues were involved. The Ethics Officer consulted with the Legal Department regarding three of them to be certain there were no legal issues involved. Two other issues suggested a pattern that the Ethics Officer thought might have legal implications for Metropolitan and was brought to the attention of the General Counsel.

Dr. Elliott further reported that SB 60 requires Metropolitan to have a professionally staffed, independent Ethics Office that provides education and enforcement of ethics rules for Directors and staff. There is no sunset on that mandate.

Dr. Elliott compared Metropolitan's Ethics Office with peer agencies and found that Metropolitan compares favorably both in terms of the number of staff members and our budget.

Peer Agency Comparison – Matters per year per employee

Los Angeles World Airports	43
MWD	25
Metropolitan Transportation Authority	21
Los Angeles City Ethics Commission	20

Peer Agency Budget Comparison

Los Angeles City Ethics Commission	\$2.3 million	19 employees
Metropolitan Transportation Authority	\$800,000	7 employees
Loa Angeles World Airports	\$580,000	3 employees
MWD	\$570,000	3 employees

On line modules will be created this year to reflect the pattern of questions and concerns coming into the Ethics Office as well as creating an AB 1234 training that is specific for Metropolitan. This training will be available on multiple platforms, including the iPad. The Ethics Office will continue to be available to the Board of Directors and provide leadership in ethics in support of the General Manager's Office, the Legal Department, and the Audit Department.

Approved

Motion: Director Edwards

Seconded: Director Wunderlich

5. FUTURE AGENDA ITEMS

None.

6. ADJOURNMENT

Meeting adjourned at 2:39 p.m.

Laura Friedman
Chair