

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

February 28, 2012

Vice Chair Quiñonez called the meeting to order at 11:40 a.m. in Committee Room 2-456 at Metropolitan's Headquarters.

Members present: Vice Chair Quinonez, Directors Blake, Dick, Edwards, Grandsen, and Wright.

Members absent: Chair Friedman, Directors Ballin, Barbre, and Wunderlich.

Other Board Members present: Board Chairman Foley, Directors Brown, De Jesus, Griset, Grunfeld, Hawkins, Millard, Morris, Murray, Steiner, and Wilson

Staff present: Bennion, Breaux, Cable, L. Carrillo, DeBacker, D. Elliott (via videoconference), C. Gutierrez, Ivey, Kightlinger, T. Lee, Mares, Pellegrini, D. Phan, Riss, Soper, Scully, Waade, Wolfe, 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 OCTOBER 25, 2011

Approved

Motion: Director Blake

Seconded: Director Edwards

3. COMMITTEE ITEMS

b. Subject: Ethics Officer's summary of activities for the Ethics Department

Presented by: Ethics Officer Deni Elliott and Ethics Educator Jeff Cable

Ethics Officer Deni Elliott informed the committee that her resignation is official as of Friday, March 2, 2012. She thanked Board Chairman Foley, past Board Chairman Brick, current Audit and Ethics Committee Chair Friedman, past Audit and Ethics Chairs Wunderlich and Edwards. She further thanked General Manager Jeffrey Kightlinger, Interim General Counsel Marcia Scully, and General Auditor Gerald Riss and Assistant General Manager Gilbert Ivey and the rest of the Executive Team and managers throughout Metropolitan for a wonderful eight years of learning and service at Metropolitan. The development and growth of the Ethics Office was possible because Directors understand the importance that ethics plays in an organization with such a vital social mission. Management understands that ethical culture needs to be promoted throughout the organization with every department having a hand. Lastly, Dr. Elliott thanked Jeff Cable and Edie Yamasaki of the Ethics Office for the shared understanding of the role that the Ethics Office should play to fulfill our mission of enforcement, education, and enhancement and for the success of the Ethics Office.

Deni Elliott then reported that the Metropolitan-specific AB 1234 online training is complete. It will be available to Directors and Officers of Metropolitan after final vetting by External Affairs and the Legal Department. Dr. Elliott further reported that there was a savings of approximately \$75,000 because this course was developed on-site instead of by an outside vendor. Ethics Educator Jeff Cable provided excellent leadership for the development of AB 1234 online training. Dr. Elliott asked the Ethics Educator to provide a brief description of the course.

Ethics Educator Jeff Cable provided accolades to several members of External Affairs, the Business Technology group, and the Legal Department for their work to develop the Metropolitan-specific AB 1234 online training. Jeff Cable reported that the online training will be available on laptops, personal computers, and iPADS. He further reported that the most recent changes for gifts and guidelines for Directors from the Fair Political Practices Commission which were made in December 2011 are incorporated into this training.

Lastly, Jeff Cable thanked Deni Elliott who maintained the utmost integrity throughout her tenure at Metropolitan.

d. Subject: Biennial 2012/13 and 2013/14 Ethics Office Budget

Presented by: Ethics Officer Deni Elliott

Ethics Officer Deni Elliott presented the biennial 2012/13 and 2013/14 Ethics Office budget. Dr. Elliott presented that the Ethics Office mission and core priorities include developing and revising ethics policies to be consistent with all legal changes, enforce related state-mandates and internal rules and regulations and provide advice and guidance to the Board, employees, contractors, and the community on matters of ethics as ethics relates to Metropolitan, and to ensure compliance with provisions of SB 60.

Dr. Elliott further presented that the Ethics Office is currently in flux right now as the Ethics Officer's resignation is effective as of March 2, 2012. The Board has deliberated on a number of matters relating to the position of the Ethics Officer; and upon Board determination of a new Ethics Officer, the labor amount may need to be modified accordingly.

The proposed biennial budget request is \$570,800 for fiscal year 2012/13 and \$592,400 for fiscal year 2013/14. Operating expenses remain flat for fiscal years 2012/13 and 2013/14.

Vice Chair Quiñonez thanked Ethics Officer Deni Elliott for this presentation and for her service at Metropolitan.

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

Presented by: General Auditor Gerald C. Riss

General Auditor Riss briefly discussed the assistance provided to KPMG on the Single Audit.

c. Subject: Biennial 2012/13 and 2013/14 Ethics Office Budget

Presented by: General Auditor Gerald C. Riss

General Auditor Riss stated that the Audit Department's (Audit) mission is to provide independent, objective assurance, and consulting services to the Board and management. He added that Audit adheres to the Institute of Internal Auditors' International Standards and Code of Ethics when carrying out its roles and responsibilities. He also explained that Audit follows a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance practices.

Next, Mr. Riss reported on his new organizational structure. Mr. Riss stated that his four direct reports include an executive assistant, an audit administrator, and two audit unit managers. Mr. Riss added that each audit unit manager has three staff reporting to them.

Next, Mr. Riss discussed Audit's budget. Mr. Riss stated that Audit's budget fluctuates mainly due to labor costs. Next, Mr. Riss discussed staffing levels and noted that the authorized headcount for Audit is 12 full-time staff. He added that Audit maintained a staffing of 10 in FY 2010/11 and 11 in FY 2011/12, and was actively recruiting the open positions. Mr. Riss noted that while the headcount will remain at 11 for FY 2012/13, labor costs will increase due to higher benefit costs and eligible merits associated with the new Memoranda of Understanding. Mr. Riss then stated that this increase is offset by a reduction in certain professional services expenditures. Finally, he explained that professional service expenditures include external audit fees associated with KPMG external audit and include estimated fees needed to an external consultant's follow-up review of the Human Resources unit.

Vice Chair Quiñonez then conducted a discussion on topics related to KPMG external audit fees, Audit staff size, employee and director expense reports review, and other audit related matters. Finally, the committee requested that Audit provide hard copies of its reports at future committee meetings.

Meeting adjourned at 12:18 p.m.

Jesus E. Quiñonez
Vice Chair