

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

May 22, 2012

Chair Friedman called the meeting to order at 8:34 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

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

Members absent: Vice Chair Quiñonez, Directors Edwards and Grandsen.

Other Board Members present: Directors Brown, Heidel, Little, Millard, Morris, Peterson, Record, Steiner, and Wilson.

Staff present: Bennion, Borrego, Breaux, Cable, DeBacker, J. Green, C. Gutierrez, G. Johnson, Kightlinger, Man, Mares, Pellegrini, D. Phan, Riss, Soper, Scully, Sotoodeh, Upadhyay, E. Yamasaki, and Zinke.

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 28, 2012

Approved

Motion Carried Moved: Director Ballin Seconded: Director Blake

Votes: Unanimous

3. COMMITTEE ITEMS

- a. Subject: Interim Ethics Officer's summary of activities for the Ethics Department
- Presented by: Interim Ethics Officer Jeff Cable
- b. Subject: Approve Interim Ethics Officer's Business Plan for FY 2012/13
- Presented by: Interim Ethics Officer Jeff Cable

Interim Ethics Officer Jeff Cable presented a PowerPoint presentation regarding the evolution of the Ethics Office. He reported that SB 60 mandated the Ethics Office into existence in 1999. Mr. Cable identified the difference between a compliance office and Metropolitan's Ethics Office and stated that a compliance office is interested primarily in posting rules and regulations and discipline. Metropolitan's Ethics Office talks about the spirit of the rules and regulations and how the rules support Metropolitan. Mr. Cable further stated that the Ethics Office educates the workforce so that employees contact our office and ask questions before they become an issue.

Next, Mr. Cable stated that at Metropolitan, both employees and directors may come to the Ethics Office with an issue and issues regarding directors are handled by a special committee of directors set up so that the Board can address those issues with the Ethics Officer's assistance.

Interim Ethics Officer Jeff Cable highlighted some of the goals in the business plan including:

- State Mandates and Agency Expectations. Establish standards for ethics best practices. Define what our standards should be, what we should be shooting at and whether or not it relates to our national industry standards.
- Ethics Office Visibility. Review and assess new methods of communicating with employees.
- Member Agencies. Gather information regarding how different municipalities run their ethics office.
- Ethics Office development. Design and implement employee cross training program.
- Program review. Hire an outside agency to audit the Ethics Office. Evaluate current and future staffing needs. Use developed performance measures to provide annual program review of Ethics Office.

Approved

Motion Carried Moved: Director Ballin Seconded: Director Blake

Votes: Unanimous

c. Subject: Approve General Auditor's Business Plan for FY 2012/13

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. Next, he discussed Audit's goals. Mr. Riss commented that auditors are trained to evaluate the effectiveness of risk management, control, and governance practices. He stated that Audit strives to continually improve its project completion time and feedback to management. He added that Audit also works with management to ensure that its action plans are implemented satisfactorily. Mr. Riss then stated that Audit also continues to focus on staff training and development, knowledge sharing, and team processes. Moreover, Mr. Riss reported that Audit continues to manage its budget effectively and to uphold its mission, roles, and responsibilities.

Next, Mr. Riss discussed Audit's Annual Plan. Mr. Riss stated that Audit collaborates with the Board, management, KPMG external auditors, and Metropolitan Audit staff to develop its Audit Universe. Mr. Riss also stated that Audit then assigns a numeric risk ranking to financial, political, legal/regulatory, operational, and auditor judgment risk factors. Further, he stated that the Audit Universe is then sorted from greatest to lowest risk, and the Annual Audit Plan is comprised mainly of high risk areas and is based on Audit's cumulative available hours. Finally, Mr. Riss highlighted some projects from the proposed FY 2012/13 Annual Audit Plan.

Chair Friedman then conducted a discussion on the Annual Audit Plan and collaboration with various stakeholders.

Approved

Motion Carried Moved: Director Ballin Seconded: Director Dick

Votes: Unanimous

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

Presented by: General Auditor Gerald C. Riss

General Auditor Riss reported that the Audit Department (Audit) issued 12 audit reports between February and April. Mr. Riss added that one of these audits received a less than satisfactory audit opinion and introduced Audit Unit Manager Dannelle-Mimi Phan, who gave a presentation on the audit of the Capital Program for Projects Costing Less Than \$250,000 (Minor Capital Program).

Ms. Phan provided a background of Metropolitan's Minor Capital Program and outlined the issues that contributed to the "Less Than Satisfactory" opinion and the corresponding recommendations to these issues. She also stated that when "Less Than Satisfactory" or "Unsatisfactory" opinion reports are issued, Audit works with management to monitor the progress of corrective actions and reports the results of these actions to the Audit and Ethics Committee. Ms. Phan then requested Gordon Johnson, Group Manager of Engineering Services Group (ESG), to provide management response to the audit recommendations.

Mr. Johnson stated that management concurs with audit recommendations and has taken remedial actions to address the issues identified in the audit report. He also stated that ESG is developing guidelines to streamline project management related processes and to improve status reporting on the Minor Capital Program projects. Further, he stated that ESG also assigns a new program manager to proactively track and monitor the program.

Meeting adjourned at 9:50 a.m.

Laura Friedman
Chair