



- Board of Directors  
*Audit and Ethics Committee*

10/9/2012 Board Meeting

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**7-1**

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## **Subject**

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

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## **Executive Summary**

Proposed amendments to the Administrative Code would update the Administrative Code so that it conforms to current practices, laws, and regulations.

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## **Details**

This letter transmits changes to the Administrative Code to reflect changes to Division VI, Article 4, General Auditor, of the Administrative Code in connection with the General Auditor's review and evaluation of the Audit Department. The amendments to the Administrative Code address: (a) Audit Department Charter.

The proposed amendments are set forth in [Attachment 1](#), with strikeouts reflecting deletions and underlining reflecting additions. [Attachment 2](#) shows the Metropolitan Water District Audit Department Charter, as approved by the Audit and Ethics Committee on September 25, 2012.

The Administrative Code is proposed to be amended as follows:

1. Section 6451(c) is amended to add "Professional Standards" set forth by The Institute of Internal Auditors, and renumbered.
2. Section 6451(e)(7) is deleted, and renumbered.

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## **Policy**

Metropolitan Water District Administrative Code Section 6451: Audit Department Charter

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## **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

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### Option #1

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

**Fiscal Impact:** None

**Business Analysis:** To conform to current law and procedure

### Option #2

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

**Fiscal Impact:** None

**Business Analysis:** To conform to current law and procedure

## Staff Recommendation

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Option #1

  
Gerald C. Riss

General Auditor

9/18/2012

Date

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

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

Ref# a12620150

**Article 4****GENERAL AUDITOR**

Sec.

6451. Audit Department Charter

**§ 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 process;
- (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 Audit and Ethics Special 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) Professional Standards – The Audit Department shall govern itself by adherence to The Institute of Internal Auditors’ mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department’s performance. These documents constitute the operating procedures for the department and constitute an addendum to the charter.

The Institute of Internal Auditors’ Practice Advisories, Practice Guides, and Position Papers shall also be adhered to as applicable. In addition, Audit Department staff shall adhere to Metropolitan’s policies and procedures, the California Government Code; Government Auditing Standards (GAGAS); and the Audit Department’s Policies and Procedures Manual.

(ed) Responsibilities - The Audit Department shall carry out the following responsibilities:

(1) Develop and present a flexible annual audit plan to the Audit and Ethics Special Committee for review and approval. This plan should be developed utilizing a riskbased methodology and should include risks or internal control concerns identified by Management or the Board of Directors;

(2) Report periodically to the Audit and Ethics Special 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 Audit and Ethics Special 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 Audit and Ethics Special 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);~~

(87) Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain external quality assurance review as required by GAGAS and the *Standards*;

(98) Perform consulting services to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services;

(109) Evaluate additions or changes in internal control processes coincident with

their development and implementation;

(1~~4~~0) Keep the Audit and Ethics Special Committee informed of significant emerging trends and best practices in internal auditing and governance;

(1~~2~~1) Assist in the investigation of significant suspected fraudulent activities within

the organization. Assure reporting to the Audit and Ethics Special Committee on the results, as appropriate;

(1~~3~~2) Coordinate with external auditors to minimize duplication of effort and to ensure that issues raised, as a result of their review, are appropriately addressed.

(e~~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 Audit and Ethics Special Committee, subject to applicable law,

(3) Allocate resources, set frequencies, and select subject, 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 audit, 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 Audit and Ethics Special Committee and Board of Directors.

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