

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**MINUTES**

**AUDIT AND ETHICS COMMITTEE**

**September 25, 2012**

Chair Friedman called the meeting to order at 9:02 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

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

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

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

Staff present: H. Beatty, Borrego, Breaux, Cable, L. Carrillo, DeBacker, C. Gutierrez, Ivey, G. Johnson, Kightlinger, D. Phan, Riss, Soper, Scully, Sotoodeh, H. Torres, Waade, E. Yamasaki, and Zinke.

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

No members responded.

**2. APPROVAL OF THE MINUTES OF THE MEETINGS OF THE AUDIT AND ETHICS COMMITTEE HELD MAY 22 AND JULY 24, 2012**

Motion Carried      Moved: Director Ballin      Seconded: Director Wright

Votes: Unanimous

### 3. CONSENT CALENDAR ITEMS – ACTION

7-1 Subject: Approve amendments to the Metropolitan Water District Administrative Code regarding the Audit Department Charter

Presented by: General Auditor Gerald C. Riss

Motion: Adopt the CEQA determination and approve the amendments to the Administrative Code as set forth in Attachment 1 to the board letter.

Motion Carried Moved: Director Wunderlich Seconded: Director Ballin

Votes: Unanimous

General Auditor Riss discussed the proposed amendments to the Audit Department Charter. He noted that the Audit Department conforms to professional auditing standards set forth by The Institute of Internal Auditors (IIA), a professional association and internal audit profession leader in certification, research, and technical guidance. Mr. Riss then added that the Audit Department has independently been determined by the IIA to be in full conformance with these standards. Next, he explained that a recently revised IIA standard pertaining to Audit Department Charters outlines specific wording on the mandatory nature of compliance to professional standards. Board Letter 7-1 proposes changes to the Administrative Code (Section 6451: Audit Charter), inserting this wording in the Audit Department Charter.

### 4. COMMITTEE ITEMS

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

Presented by: Interim Ethics Officer Jeffrey L. Cable

Interim Ethics Officer Jeff Cable reported that in addition to the monthly report, all but seven directors are in compliance with the AB 1234 Ethics Training.

- b.           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 issued eight audit reports, four comfort letters, and two special reviews during the four-month period of May 2012 through August 2012. He stated that six audit reports were issued with “Generally Satisfactory” opinions and two reports were issued with “Satisfactory” opinions. Mr. Riss then briefly discussed the annual internal Audit Department Quality Assessment, which evaluated whether department activities conform to professional standards established by IIA. Finally, he noted that an analytical review was performed on the Quarterly Consulting Contracts Report.

Mr. Riss then discussed a recently performed Audit Department analysis of audit comment trends. This analysis evaluated the type of audit comment issues noted in audit reports during 2004 versus 2011. Mr. Riss explained that the analysis indicated a significant reduction in audit comments related to work starting prior to agreement commence date, supporting documentation concerns, inaccurate payments, and incorrect account charging. He then added that the reduction in these types of concerns indicates that management is responding to audit comments by implementing corrective actions and strengthening controls.

- c.           Subject:           Summary of Responsibilities and Best Practices for Audit Committees
- Presented by:    General Auditor Gerald C. Riss

Following up on a board member request, General Auditor Riss introduced KPMG LLP (KPMG) Partners Chris Ray and Tim McCann to discuss corporate governance and the roles, responsibilities, and best practices of Audit Committees.

Mr. McCann first provided an overview of Metropolitan’s governance structure, including requirements of the California Government Code, the Water District Act, and the Administrative Code sections pertaining to director responsibilities. He then explained specific responsibilities of a committee, including such items as oversight responsibility for coordinating the roles of the Audit Department and the external auditor. He added that a committee may also have a role in budgetary and finance activities, including the quality and timeliness of financial and compliance reporting.

Next, Mr. McCann provided several committee best practices, such as including committee members with financial backgrounds, meeting as a committee at least four times a year, and meeting with the external auditors. He then briefly discussed the committee's role in reviewing an Audit Department's annual business plan, as well as overseeing the appointment of the external auditors. Mr. McCann then described current areas of committee focus, including initiatives related to risk management and continuous monitoring. Finally, Mr. McCann briefly discussed best practice sharing by KPMG's Audit Committee Institute.

Chair Friedman conducted a discussion with the directors regarding committee communications with management at public agencies versus public companies and the governance role of other standing committees of the Board.

## **5. FUTURE AGENDA ITEMS**

None

Next meeting will be held on October 23, 2012.

Meeting adjourned at 9:35 a.m.

Laura Friedman  
Chair