

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

June 10, 2013

Chair Edwards called the meeting to order at 1:30 p.m. in Committee Room 2-456 at Metropolitan's Headquarters.

Members present: Chair Edwards, Vice Chair Friedman, Directors Ballin, Barbre, Dick, Pringle, Quiñonez, and Wunderlich.

Member absent: Director Wright.

Other Board Members present: Directors Babcock, Griset, Lewinger, Mudd, Murray, Peterson, Record, and Steiner.

Staff present: H. Beatty, Bennion, Borrego, Breaux, Cable, Clairday, Ghaly, J. Green, C. Gutierrez, Jankovic, Kightlinger, T. Lee, Man, Pellegrini, Pitman, Riss, Scully, Soper, 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 MEETING OF THE AUDIT AND ETHICS COMMITTEE HELD MAY 28, 2013

Motion Carried Moved: Director Ballin Seconded: Director Dick

Votes: Unanimous

3. 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 during the four-month period of February 2013 through May 2013, the Audit Department issued nine audit reports, three

bond “comfort” letters, and four special reviews including assistance for KPMG’s Single Audit Report. He stated that four audit reports were issued with “Satisfactory” opinions and five reports were issued with “Generally Satisfactory” opinions. Mr. Riss added that several of these reports included multiple audit comments to which management has responded in an acceptable and thorough manner.

b. Subject: General Auditor’s Business Plan

Presented by: General Auditor Gerald C. Riss

General Auditor Riss introduced the FY 2013/14 Business Plan by explaining that the mission of the Audit Department (Department) is in accordance with the objectives set by The Institute of Internal Auditors. He stated that internal audit is an independent and objective assurance and consulting function that adds value by helping an organization improve the effectiveness of risk management, control, and governance processes.

Next, Mr. Riss briefly reviewed the Department’s organizational structure noting that it is comprised of 12 positions, and then introduced the Department’s objectives for FY 2013/14. Consistent with prior years, Department objectives include a focus on providing a risk perspective and auditing counsel to the Board and management. Mr. Riss explained that auditors are trained to evaluate whether management has established an internal control structure that mitigates risk to an acceptable level. He then added that the Department’s 2013/14 objectives include issuing timely and effective risk-focused audit reports, and managing the budget effectively.

Mr. Riss then continued his discussion of Department objectives by stating that the Department will continue to focus on staff training and development activities. As an example, he explained that staff recently completed a four-part training course on effective audit report writing to enhance written communications. Further, Mr. Riss stated that he encourages staff to attain professional certifications, including Certified Public Accountant or Certified Internal Auditor. He then discussed remaining objectives including strongly supporting diversity within the group and continuing to uphold the mission, roles, and responsibilities of the Department.

Next, Mr. Riss provided an overview of the process utilized to develop the FY 2013/14 Audit Plan. First, Mr. Riss explained that the Department obtains input from the Board, management, external auditors, and audit staff to develop the Audit Universe, which is a listing of more than 100 areas that could potentially be audited.

Further, Mr. Riss stated that for each item in the Audit Universe, the Department assigns a numeric inherent risk rating of one (lowest) through five (highest) for financial, political, legal/regulatory, operational, and auditor judgment risk factors. The sum of the five risk factors produces a composite risk score. By sorting the Audit Universe from greatest to lowest inherent risk, the Audit Plan is then developed to include the areas of highest risk.

Finally, Mr. Riss highlighted selected audits from the proposed FY 2013/14 Audit Plan and noted that an evaluation (considering risks, requests, resources and progress against the Audit Plan) will be performed and reported to the Board on a quarterly basis, as part of the Department's Quality Program.

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

Presented by: Ethics Officer Deena Ghaly

Ethics Officer Deena Ghaly reported that the Ethics Office continued to place effort and resources into outreach. Education has also been central and an active part of the program and the Ethics Office has continued to give advice and address complaints.

- d. Subject: Ethics Officer's Business Plan

Presented by: Ethics Officer Deena Ghaly

Ethics Officer Deena Ghaly presented her business plan to the committee. Ms. Ghaly presented that the key recommendation is that the near- and long-term outlook for the Ethics Department is to proceed in a manner that promotes an integrated and comprehensive effect approach to evolving and administering the program.

Ms. Ghaly presented that there are three phases to achieve her recommended goals. The first phase is assessment of the Ethics Office which is now completed. The second phase consists of her recommendations. All future phases are dependent on and emanate from phase two. Phase three is implementation. Phase four can only happen after the new system is in place for a period of time so there can be a basis to track its records and evaluate it.

Ms. Ghaly presented that the Ethics Office business plan consists of three initiatives and are the main areas on which she recommends focusing our resources and efforts for fiscal year 2013/2014. The first is a policy review. The second is investigation and the third is to review the monitoring and compliance work of the Ethics Office.

Ms. Ghaly further noted that the Legal Department has generously provided and is paying for one of their attorneys to work with the Ethics Officer and she would like to have the funds to have the Ethics Office pay for this attorney.

Next, a discussion ensued.

Subjects of discussion included the issues of resources and additional staffing of the Ethics Office. Ms. Ghaly explained the need for the additional staffing of the attorney. She advised the committee that she is looking for an independent legal voice and an effective investigatory function.

4. FUTURE AGENDA ITEMS

None

Meeting adjourned at 2:22 p.m.

James T. Edwards
Chair