

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

October 28, 2014

Chair Friedman called the meeting to order at 8:33 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

Members present: Chair Friedman, Directors Barbre, Dear, Dick, Hawkins, and Quiñonez.

Members absent: Directors Ballin, Hogan, and Wunderlich.

Other Board Members present: Directors Ackerman, Beard, Blois, Dake, Evans, Hawkins, Kurtz, Lefevre, Lewinger, Morris, J. Murray, Peterson, Record, Steiner, and Tu.

Staff present: Borrego, Breaux, Cable, L. Carrillo, Ghaly, C. Gutierrez, Ivey, Jankovic, Mares, N. Mehta, G. Riss, B. Robertson, Scully, Soper, Torres Jr., O. Tucker, Upadhyay, Vanderhorst, Von Haam, 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 AUDIT AND ETHICS COMMITTEE MEETING HELD SEPTEMBER 8, 2014

Motion: Carried

Moved: Director Quiñonez Seconded: Director Hawkins

Ayes: Chair Friedman, Directors Barbre, Dear, Dick, Hawkins, and Quiñonez.

Noes: None

Abstentions: None

Absent: Directors Ballin, Hogan, and Wunderlich

The motion passed by a vote of 6 ayes; 0 abstain, and 3 absent.

3. COMMITTEE ITEMS

- a. Subject: Discussion of Independent Auditor's Report from Macias Gini & O'Connell, LLP for fiscal year 2013/14

General Auditor Riss introduced Chief Financial Officer Gary M. Breaux to discuss the financial statements.

Mr. Breaux reported that discussions were held with Macias Gini & O'Connell LLP (MGO) on the treatment of the State Water Project costs, which were previously reported as Prepaid Costs in the Other Assets Section of the Balance Sheet. Mr. Breaux added that he, MGO, and Controller Hal Soper agreed to reclassify the prepaid costs, including the current portion as Participation Rights in the Capital Section of the Balance Sheet. Mr. Breaux added that this change would better reflect the nature of the asset.

General Auditor Riss then introduced MGO Client Service Partner James V. Godsey to discuss required communications.

Mr. Godsey stated that MGO had completed the examination of the financial statements for Metropolitan for the Year Ending June 30, 2014. Mr. Godsey then introduced Engagement Partner Katherine V. Lai to assess the issued Independent Auditor's Report for fiscal year 2013/14.

Ms. Lai explained the audit timing and planned issuance of reports:

- October 17, 2014 – Metropolitan's Financial Statements, Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, and the Audit of the Trustee Agency Financial Statements (Colorado River Authority and Six Agency Committee).
- November 14, 2014 – Single Audit.
- December 4, 2014 – Comprehensive Annual Financial Report and Annual Letter of Recommendation to management, if applicable.

Lastly, Ms. Lai reviewed the communications required by Statement on Auditing Standard 114 (SAS 114):

- Responsibilities under Generally Accepted Auditing Standards.
- Significant Audit Findings:

- Qualitative Aspects of Significant Accounting Practices:
 - Accounting Policies.
 - Accounting Estimates.
 - Financial Statement Disclosures.
 - Difficulties Encountered in Performing the Audit.
 - Corrected and Uncorrected Misstatements.
 - Disagreements with Management.
 - Management Representations.
 - Management Consultations with Other Independent Accountants.
 - Major Issues Discussed Prior to our Retention.
- b. Subject: General Auditor's summary of activities for the Audit Department

Presented by: General Auditor Gerald C. Riss

General Auditor Riss reported that from July 2014 through September 2014, the Audit Department issued eight audit reports, one follow-up review, and one comfort letter. He added that seven audit reports were issued with generally satisfactory opinions, one audit report was issued with a satisfactory opinion, and concerns noted were addressed by management.

- c. Subject: Update on Ethics Office training and education development strategies

Presented by: Ethics Offices Deena R. Ghaly

Ethics Officer Deena Ghaly reported that the AB 1234 training will be held on November 18, 2014 after the scheduled board meeting. There will be four presenters. Gary Schons of Best Best & Krieger who is the head of the Ethics and Compliance Practice Group; Robert Stern, former Fair Political Practices Commission's General Counsel, media contributor and policy specialist; Javan Rad, Chief Assistant City Attorney for the city of Pasadena; and Max Huntsman, Inspector General for the Los Angeles County Sheriff's Department.

Ms. Ghaly further presented that the sexual harassment prevention training which is currently on the director's website will be updated to include new 2015 requirements and the Ethics Office will work with the Legal Department to accomplish this.

Ms. Ghaly also requested that directors who have complete sexual harassment training within their own employer or member agency send the Ethics Office a copy of their certificate.

d. Subject: Report on Ethics Officer's internal investigation procedures

Presented by: Ethics Officer Deena R. Ghaly

Ethics Officer Deena Ghaly presented a time line to illustrate the various stages of the investigation process regarding the investigation of a former Metropolitan director. Thereafter, there was a discussion regarding the process. Chair Friedman requested the General Counsel to provide a presentation at a Legal and Claim committee meeting regarding what is included within the course and scope of directors' duties at Metropolitan and when they may expect to have the advice and assistance of counsel if they are investigated internally or by another agency for violations related to their service at Metropolitan.

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

Presented by: Ethics Officer Deena R. Ghaly

Ethics Officer Deena Ghaly reported that the Ethics Office is considering transferring to electronic filing for Statements of Economic Interests. The Ethics Office is meeting with software providers to evaluate their products.

f. Discussion of General Auditor's performance goals and objectives. [**To be heard in closed session pursuant to Gov. Code Section 54957(b)**]

g. Discussion of Ethics Officer's performance goals and objectives. [**To be heard in closed session pursuant to Gov. Code Section 54957(b)**]

4. FUTURE AGENDA ITEMS

None

Meeting adjourned at 10:43 a.m.

Laura Friedman
Chair