

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

**MINUTES**

**AUDIT AND ETHICS COMMITTEE**

**June 23, 2015**

Chair Friedman called the meeting to order at 10:00 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

Members present: Chair Friedman, Vice Chair Dear, Directors Barbre, Dick, Hogan, and Wunderlich.

Members absent: Directors Ballin, Galleano, and Quiñonez.

Other Board Members present: Directors Ackerman, Atwater, Beard, Blois, Kurtz, Lefevre, Lewinger, McKenney, Murray, Peterson, Ramos, Record, Steiner, Touhey, Vasquez, and Tu.

Staff present: Beatty, Borrego, Breaux, Ghaly, C. Gutierrez, Hasencamp, Horton, Jankovic, G. Johnson, Man, Quilizapa, G. Riss, Scully, Sims, Soper, Torres Jr., Vanderhorst, Von Haam, E. Wong, 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 APRIL 28, 2015 AND MAY 26, 2015**

Motion Carried

Moved: Director Barbre      Seconded: Director Wunderlich

Ayes: Vice Chair Dear, Directors Barbre, Dick, Hogan, and Wunderlich

Noes: None

Abstentions: Chair Friedman

Absent: Directors Ballin, Galleano, and Quiñonez

Director Lewinger requested that the minutes of May 26, 2015 reflect that he was present.

The motion passed by a vote of 5 ayes, 0 no, 1 abstain, and 3 absent.

### 3. COMMITTEE ITEMS

- a. Subject: General Auditor's report of monthly activities

Presented by: General Auditor Gerald Riss

General Auditor Riss reported that from April 2015 through May 2015, the Audit Department (Audit) issued three audit reports, two monitoring reviews, one special review, and one follow-up report. Mr. Riss stated that two audit reports were issued with generally satisfactory opinions, and one audit report was issued with a satisfactory opinion. He added that management has addressed the concerns noted in these audit reports.

- b. General Auditor's Business Plan for FY 2015/16

Presented by: General Auditor Gerald Riss

General Auditor Riss introduced the fiscal year 2015/16 Business Plan by explaining that Audit is an independent and objective assurance function within Metropolitan, and its mission is promulgated by The Institute of Internal Auditors. He further explained that Audit utilizes a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Next, Mr. Riss briefly reviewed the Audit's organizational structure noting that it is comprised of 12 positions. He then introduced the strategic, personnel, and operational objectives for fiscal year 2015/16. Consistent with prior years, Audit's 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 added that Audit's 2015/16 objectives include issuing timely and effective risk-focused audit reports with audit opinions, and managing the budget effectively.

Mr. Riss then continued his discussion of Audit objectives by stating that Audit will continue to focus on staff training, development activities, and encourage staff to attain their professional certifications. He then discussed the remaining objectives including strongly supporting diversity within the group and continuing to uphold Audit's mission, roles, and responsibilities.

Next, he provided an overview of the process utilized to develop the fiscal year 2015/16 Audit Plan. He added that Audit 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.

Mr. Riss added that each Audit Universe item is assigned a numeric inherent risk rating of one (lowest) through five (highest) for financial, political, legal/ regulatory, operational,

and auditor judgment factors. The sum of five risk factors produces a composite risk score. By sorting the Audit Universe from greatest to lowest inherent risk, the Audit Plan is developed to include the areas of highest risk.

Finally, Mr. Riss highlighted selected audits from the proposed fiscal year 2015/16 Audit Plan and noted that an evaluation would be performed and reported to the Board on a quarterly basis, as part of the Audit Quality Program.

- c. Subject: Ethics Officer's report of monthly activities

Presented by: Ethics Officer Deena Ghaly

Ethics Officer Deena Ghaly reported on several ethics-related issues:

(1) In response to requests from committee members, a summary of the new director orientation content and list of written materials was included in this month's monthly report; the training addresses the Ethics Office's mandate, procedures, recent developments and review of various ethics-related rules and standards;

(2) The Ethics Office prepared a letter to the Fair Political Practices Commission (FPPC) reporting directors' frustration with the newly instituted electronic filing system's failure to allow a single submission to satisfy the reporting requirements of multi-jurisdictional filers. Committee Chair Friedman stated that she had received a response from the FPPC acknowledging the system's limitations for multi-jurisdictional filers and that it intended to work on a fix with some recently received grant money;

(3) With the assistance of External Affairs, a brochure for the Ethics Office has been developed and has been circulated for the committee's review and any comments;

(4) The Ethics Office received a response to its letter to the FPPC requesting advice about whether payments related to inspection trips are treated as gifts and therefore are subject to reporting requirements and gift limitations under the Political Reform Act (PRA) and, with the General Counsel, would be circulating a memorandum regarding its advice along with a copy of the letter. A discussion ensued regarding the advice and whether to include additional information about it on inspection trip invitations.

- d. Ethics Officer's Business Plan for FY 2015/16

Presented by: Ethics Officer Deena Ghaly

Ethics Officer Deena Ghaly presented that the Ethics Office's work plan is structured and informed by the statute that created the office. Subject matter (conflict of interest, campaign contributions, procurement integrity) and standards (independence, due process, source protection, public finding), along with some administrative responsibilities and the Ethics Office's role as the Statement of Economic Interest Filing Officer for Metropolitan,

are the parameters of what the Ethics Office does.

The Ethics Office will continue to create rules, submit them to the Audit and Ethics Committee for review and move on with education and advice, and investigation and compliance.

The Ethics Office will also continue with communication and outreach.

The Ethics Office will provide a sexual harassment prevention training in fiscal year 2015/16.

Lastly, the Ethics Office is considering the addition of software to digitalize the office so information is more readily available to assist in monitoring trends and patterns in the types of matters that the Ethics Office is addressing.

Meeting adjourned at 11:38 a.m.

Laura Friedman  
Chair