

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

October 27, 2015

Chair Friedman called the meeting to order at 10:30 a.m. in Committee Room 2-145 at Metropolitan's Headquarters.

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

Members absent: Directors Galleano and Quiñonez.

Other Board Members present: Directors Ackerman, Atwater, Beard, Blois, Dake, Kurtz, Lewinger, McKinney, Morris, J. Murray, Peterson, Ramos, Record, and Steiner.

Staff present: Beatty, Borrego, Breaux, Ghaly, Jankovic, Kightliger, Mares, D. Phan, G. Riss, Scully, Soper, Torres Jr., Upadhyay, 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 JUNE 23, 2015

Motion: Carried

Moved: Director Ballin Seconded: Director Wunderlich

Ayes: Chair Friedman, Directors Ballin, Barbre, Dear, Dick, Hogan, and Wunderlich.

Noes: None

Abstentions: None

Absent: Directors Galleano and Quiñonez

The motion passed by a vote of 7 ayes; 0 abstain, and 2 absent.

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 from June 2015 through September 2015, the Audit Department issued seven audit reports, three reviews, and one comfort letter. Mr. Riss stated that six audit reports were issued with generally satisfactory opinions, and one audit report was issued with a satisfactory opinion. He added that management has addressed all concerns noted in the audit reports.

- b. Subject: Discussion of Independent Auditor's Report from MGO LLP for fiscal year 2014/15

Presented by: General Auditor Gerald C. Riss

Chair Friedman noted that a letter dated October 26, 2015 and attachments from the San Diego County Water Authority regarding Audit and Ethics Committee Agenda Item 3.b. Discussion of Independent Auditor's Report from MGO LLP for fiscal year 2014/15, was received and that letter will be posted in the Public Records (116 pages).

General Auditor Riss introduced MGO Client Service Partner Katherine V. Lai who stated that MGO had completed the examination of the financial statements for Metropolitan for the Year Ending June 30, 2015. Ms. Lai then explained the deliverables and timing of issuance:

- October 19, 2015 – Metropolitan's Financial Statements and the Audit of the Trustee Agency Financial Statements (Colorado River Authority and Six Agency Committee).
- January 28, 2016 – Single Audit.
- January 28, 2016 – 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 Representation.
- Management Consultations with Other Independent Accountants.
- Major Issues Discussed Prior to our Retention.

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

Presented by: Ethics Officer Deena R. Ghaly

Committee Chair Friedman announced that items 3.c. and 3.d. would be presented together.

Ethics Officer Deena Ghaly began by stating that this presentation represents her analysis and conclusions regarding the Ethics Office's needs in the next budget cycle, the current demands of the Ethics Office, and identification of resource needs. To start the presentation, Peter von Haam of the Ethics Office staff provided an overview of the Office's activities, duties, and responsibilities divided into six general categories: Policy, Compliance, Advice, Education and Outreach, and Administration. While discrete projects in some areas have remained relatively flat, they have increased in complexity and depth.

The Ethics Officer delivered the remainder of the presentation. She described the conditions that led to her conclusion about resource requirements that need to be addressed. Main points included needing adequate staff to maintain visibility throughout the district, including outlying facilities, some personnel with institutional knowledge about the district and its operations, ethics professionals dedicated to discrete portions of the program, the capacity to independently undertake all of its statutorily required responsibilities, the capacity to meet its administrative duties, a place of privacy and sense of safety for those stakeholders seeking its services, and the clear authority to question potential witnesses and obtain documents for its inquiries.

Committee members and other directors offered comments and questions, including:

Director Ballin: These are reasonable requests to make the Ethics Office function. Outsourcing of investigations is inefficient. The Ethics Office should be treated with the same respect as the other three departments. Other departments have been hiring retired annuitants to meet high workloads. The Ethics Department should be treated with same courtesy.

Director Steiner: Confirmed that the Ethics Office has three full-time employee positions on the books (besides the Ethics Officer), and that one of the three regular employees has been on leave since March 2015. Concurred that outsourcing investigative responsibilities and educating outsourced investigators on MWD operations, policies, and procedures is not effective or efficient. The Ethics Office functions are required by law. The board should ensure that it can do the job the Legislature ordered it to do.

Director Dake: The Ethics Office is a very small department and should always be at programmatically necessary staffing levels. It is the Department Head's responsibility to determine those requirements. Awareness among employees and contractors about ethics issues has increased. Monthly conflicts bulletins have been very helpful to directors. There has been a great deal of progress.

Director Dick: Asked how staff functions would be modified under the Ethics Officer's proposal.

Chairman Record: Expressed concerns whether having a dedicated investigator is justified.

Vice Committee Chair Dear: Requested information about how department staffing levels are established. General Manager Kightlinger responded that changes are evaluated through the biennial budgetary process, where Department Heads submit proposals for Board approval.

Director Hogan: Asked about the process for approving new job classifications. General Manager Kightlinger responded that those decisions must go through processes under the labor agreements and other authorities.

Director Peterson: Asked about the number of pending investigations; expressed concerns whether having a full-time investigator was justified.

Committee Chair Friedman: Regardless whether it is required by law, the Ethics Office is important for protecting Metropolitan. The district does not always look transparent from the outside. Metropolitan is complex, with more projects and employees than most local agencies. Every month

the board approves millions of dollars of contracts, and the district receives many complaints about those processes. It is difficult for outsiders to understand what Metropolitan does. Efficiently performing internal investigations on ethics matters requires specialized expertise in FPPC laws, internal rules, and district operations. If the Ethics Officer says that she is having difficulties obtaining necessary resources, I take that very seriously, as should the entire board. The Ethics Office needs the resources that it needs to get its job done, and to ensure Metropolitan has the transparency expected by people observing it from the outside. Our only goal should be getting the Ethics Office the resources it needs to do its job, because the Legislature put that responsibility on Metropolitan. The Ethics Officer is not asking for a lot. I find it troubling that one quarter (1/4) of the Ethics Office staff has been unavailable since March of 2015. These are specialized jobs that cannot be backfilled by generalists within the district.

Director Ramos: From experience in local government, investigation processes and transparency are important. It would help to more fully understand questions such as: How many witnesses are typically involved in a case? What proportion of cases relate to selection of contractors? What types of third parties are typically involved in a case?

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

Presented by: Ethics Officer Deena R. Ghaly

Presented with Item 3.c.

4. FUTURE AGENDA ITEMS

None

Meeting adjourned at 10:30 a.m.

Laura Friedman
Chair