

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

MINUTES

AUDIT AND ETHICS COMMITTEE

July 26, 2016

Chair Friedman called the meeting to order at 12:33 p.m. in Committee Room 2-145 at Metropolitan's Headquarters.

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

Members absent: Directors Ballin, Dick, and Galleano.

Other Board Members present: Board Chairman Record, Directors Ackerman, Blois, Dake, Lewinger, Morris, Peterson, Steiner, and Touhey.

Staff present: Borrego, Berbeo, Breaux, Ghaly, Green, C. Gutierrez, Jankovic, T. Lee, Mares, Randolph, Riss, Scully, Shope, Soper, Tonsick, Von Haam, 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 MEETINGS HELD FEBRUARY 23, 2016 AND JUNE 28, 2016

Motion: Carried

Moved: Director Barbre Seconded: Director Quiñonez

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

Noes: None

Abstentions: Director Kurtz

Absent: Directors Ballin, Dick, and Galleano

The motion passed by a vote of 6 ayes, 1 abstain, and 3 absent.

3. COMMITTEE ITEMS

a. Subject: General Auditor's Business Plan for fiscal year 2016/17

Presented by: General Auditor Gerald C. Riss

General Auditor Riss introduced the fiscal year 2016/17 Business Plan by explaining that the Audit Department (Audit) is an independent, objective assurance, and consulting function within Metropolitan. 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 Audit's organizational structure noting that it is comprised of 12 positions, and cited objectives for fiscal year 2016/17. 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 2016/17 objectives include timely and effective risk-focused audit reports, and budget management.

Mr. Riss then continued his discussion of Audit's 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 2016/17 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 2016/17 Audit Plan. He noted that Audit would prepare quarterly updates to inform the Board of the Audit Plan's progress, as part of the Audit Quality Program.

b. Subject: General Auditor's report of monthly activities

Presented by: General Auditor Gerald C. Riss

General Auditor Riss reported that for June 2016, the Audit Department issued one audit report, one comfort letter, one special report, and three reviews. Management has addressed all concerns noted in the audit reports.

c. Subject: Ethic's Officer report of fiscal year 2015/16 year-end review and plans for fiscal year 2016/17

Presented by: Ethics Officer Deena R. Ghaly

Ethics Officer Ghaly provided a review of FY 2015/2016 activities concerning the strategic initiatives made: (1) Professional capacity and resourcing of the department; (2) Technology improvements in electronic matter management and reporting; and (3) Core operational responsibilities such as advice/counseling, increased pending investigations, Fair Political Practices Commission (FPPC) compliance and conflicts of interest, and live training sessions.

Priorities for FY 2016/2017 Ethics Office include: (1) Review of the Code of Conduct for relevancy with today's corruption hazards; Review a limitation period for violation reporting; Access to records from service and goods providers; Access to internal records and IT security protocols; Consider revisions to investigation guidelines; Access protocols for public information; (2) Improve document review technology; Cultivate resources; (3) Revise education and journals including website.

The presentation was followed by comments and questions from directors.

4. FUTURE AGENDA ITEMS

None

Meeting adjourned at 1:38 p.m.

Laura Friedman
Chair