

Absent: Director Quiñonez,

The motion passed by a vote of 8 ayes, 0 abstain, and 1 absent.

3. MANAGEMENT REPORTS

a. Ethics Officer's report

Presented by: Deena Ghaly

Ethics Officer Ghaly reviewed the recent developments on the investigation front since the prior committee meeting. With the committee's concurrence, she provided the presentation on investigation processes as part of this report.

Overview of Ethics Office Investigation Process: Deputy Ethics Officer Dominic Berbeo introduced himself, described his professional background, and gave a presentation about the Ethics Office's investigation process. It covered the following issues:

Overview of Investigation Guidelines

For each of the three main stages of the investigation process (initial review, preliminary review, and full investigation), the criteria for determining whether any particular matter proceeds to the next stage

The process for preparing and reviewing investigation reports

Following the presentation, Ethics Officer Ghaly responded to several questions and comments from directors. Topics included:

Corroboration of the evidence

Protecting the rights of subjects

Whether employees are entitled to obtain independent counsel or union representation

Questions about the outside review process

Whether the General Counsel's representation of the Ethics Office in sensitive investigations presents a conflict regarding concurrent representation of clients with adverse interests

Access to correspondence related to subcommittee study

Transparency of the review

Whether the district covers legal representation costs for subjects

Whether the State Auditor should conduct an independent review

Deputy Ethics Officer Kelli Shope introduced herself, described her professional background, and gave a presentation about best practices for review and refinement of investigation procedures.

Following the presentation, there were questions and responses about whether it creates a conflict if the same counsel advises the Ethics Office while concurrently representing the district as a whole and/or other officers affected by an investigation.

b. General Auditor's report

Presented by: General Auditor Gerald C. Riss

General Auditor Riss reported that from April 2017 through June 2017, the Audit Department issued nine reports, which consisted of five Audit Reports with opinions and four special reports. He then discussed the fact that the Quality Assurance Self-Assessment report was issued in May and the IIA Independent Validation Statement for Audit Quality Assurance was issued in June. He stated that these reports were issued with a Generally Conforms opinion which is the highest rating possible. Mr. Riss then briefly discussed these reports, the findings noted, and the response issued by the Audit Department.

4. COMMITTEE ITEMS

a. Discussion of MGO External Auditor Fiscal Year Audit Plan

General Auditor Riss introduced Macias Gini O'Connell, LLP (MGO) Engagement Partner Peter George.

Mr. George provided an overview of MGO's audit of financial statements and MGO's responsibilities under U.S. Generally Accepted Auditing Standards, Government Auditing Standards, and the Uniform Guidance. Next, he discussed the planned scope and areas of audit emphasis. Subjects discussed included:

Cash & Investments
Derivatives – interest rate swaps
Participation rights
Capital Assets - Participation Rights in the State Water Project
Capital Assets – Construction in Progress
Long Term Obligations
Postemployment benefits other than pensions & pension plans (GASB 68)
Water sales
Power and Water Costs
Operations and Maintenance Costs
Uniform Guidance (if single audit is applicable in 2017)
Review of MWD's cybersecurity risk assessment

Finally, he discussed the fieldwork timeline, deliverables, and the timing of issuance of reports. Mr. George then responded to comments and questions from directors.

b. Ethics Officer's Business Plan for Fiscal Year 2017/18

Discussed under 3a

c. General Auditor's Business Plan for Fiscal Year 2017/18

Presented by General Auditor Gerry Riss

General Auditor Riss introduced the fiscal year 2017/18 Business Plan by explaining that the Audit Department (Audit) is an independent, objective assurance, and consulting function within Metropolitan. He further explained that the Department utilizes a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Next, Mr. Riss briefly reviewed the organizational structure noting that it is comprised of 12 positions, and cited objectives for fiscal year 2017/18. Consistent with prior years, 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 the 2017/18 objectives include timely and effective risk-focused audit reports, and budget management.

Mr. Riss then stated that the Department will continue to focus on staff training and developmental activities. He then discussed the remaining objectives including strongly supporting diversity within the District and continuing to uphold Audit's mission, roles, and responsibilities.

Next, he provided an overview of the process utilized to develop the fiscal year 2017/18 Audit Plan. He added that input is received 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 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 2017/18 Audit Plan. He noted that quarterly updates would be made to inform the Board of the Audit Plan's progress.

d. Overview of Ethics Office Investigation Process

5. CONSENT CALENDAR ITEMS – ACTION

None

6. OTHER BOARD ITEMS – ACTION

None

7. BOARD INFORMATION ITEMS

None

8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEMS

None

Meeting adjourned at 12:01 p.m.

Donald Dear
Chair