



- **Board of Directors**
Legal and Claims Committee

4/8/2025 Board Meeting

7-8

Subject

Approve amendments to the Metropolitan Water District Administrative Code to conform oversight of the General Auditor and Audit Department duties and responsibilities to the current committee structure, to streamline reporting on professional services agreements, and make a minor non-substantive change; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The proposed amendments will transfer oversight of the General Auditor and Audit Department duties and responsibilities from the Executive Committee to the Audit Committee to conform to recent board-approved changes to the committee structure, including creating the Audit Committee to supersede the Audit Subcommittee of the Executive Committee. The amendments will also end dual reporting on professional services agreements to two committees by deleting reporting to the Legal and Claims Committee. Such agreements will now be reported to the Audit Committee, thereby consolidating the reporting of audit-related matters within the Audit Committee. The proposed amendments will make the foregoing changes to Chapter 7 of Division II and Chapter 4 of Division VI of the Administrative Code.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Approve amendments to the Metropolitan Water District Administrative Code to conform oversight of the General Auditor and Audit Department duties and responsibilities to the current committee structure, streamline reporting on professional services agreement, and make a minor non-substantive change.

Fiscal Impact: None

Business Analysis: This option will allow the General Auditor and Audit Department to report to the Audit Committee instead of the Executive Committee and will streamline reporting on professional services agreements.

Option #2

Do not approve amendments to the Metropolitan Water District Administrative Code to conform oversight of the General Auditor and Audit Department duties and responsibilities to the current committee structure or to streamline reporting on professional services agreement.

Fiscal Impact: None

Business Analysis: This option will not allow the General Auditor or Audit Department to report directly to the Audit Committee or to streamline reporting on professional services agreements.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 2700: Periodic Staff Reports to Board and Committees

Metropolitan Water District Administrative Code Section 6400: Officers

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Related Board Action(s)/Future Action(s)

In March 2025, the Board approved changes to its committee structure, including the creation of the Audit Committee and deletion of the Audit Subcommittee of the Executive Committee. In November 2024, the Board approved changes to the Audit Committee charter as part of its annual review of the charter.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. (Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)).

CEQA determination for Option #2:

None required

Details and Background

Background

The proposed amendments will transfer oversight of the General Auditor and Audit Department duties and responsibilities from the Executive Committee to the Audit Committee to conform to recent board-approved changes to the committee structure, including, among them, creating the Audit Committee to supersede the Audit Subcommittee of the Executive Committee. The amendments will also end dual reporting on professional services agreements to two committees by deleting reporting to the Legal and Claims Committee. Such agreements will now be reported to the Audit Committee, thereby consolidating reporting on audit-related matters within the Audit Committee.

The proposed amendments will make the foregoing changes to Articles 1 and 2 of Chapter 7 of Division II regarding the General Auditor's quarterly and annual reporting duties and to Articles 2, 3, and 4 of Chapter 4 of Division VI regarding oversight of more specific duties and functions of the General Auditor and the Audit Department, as follows:

1. Amend Sections 2703, 6416, 6436(b), 6450(b), and 6451(d)(1) so that the General Auditor will report its annual business plan to the Audit Committee and no longer to the Executive Committee.
2. Amend Section 2722 so that the General Auditor will report on the general exercise of its power quarterly to the Audit Committee and no longer to the Executive Committee.
3. Amend Section 6450(a) to establish that oversight of the work of internal and external auditors and approval of the Audit Department's charter will be conducted by the Audit Committee and no longer by the Executive Committee.
4. Amend Section 6450(d) so that the General Auditor will report on internal audit assignments and transmit reports by external auditors to the Audit Committee and no longer to the Executive Committee.
5. Amend Section 6450(f) so that the specific audit requests by other committees are submitted to the Audit Committee and fix a minor spelling error.
6. Amend Section 6451(b) to establish that the General Auditor will be accountable to the Board of Directors and the Audit Committee rather than to the Board of Directors and the Executive Committee.

- 7. Amend Section 6451(d)(1), (2), (3), (4), (9) and (10) to establish that the Audit Department will provide an annual audit plan and various reports (i.e., status reports, audit reports, progress reports, and fraud investigation reports) and will convey emerging audit trends and best practices to the Audit Committee (no longer to the Executive Committee) and to District management, where specified in this section.
- 8. Amend Section 6451(e)(2) to establish that the General Auditor and Audit Department staff members have full and free access to the Audit Committee and no longer to the Executive Committee.
- 9. Amend the postamble to Section 6452 to establish that the Audit Charter will be reviewed at least annually by the Audit Committee and no longer by the Executive Committee.
- 10. Amend Section 6453 to establish that the General Auditor will inform the Audit Committee whenever they obtain the professional services of independent auditors or technical consultants, and will no longer report quarterly to the Legal and Claims Committee concerning said agreements entered into pursuant to this section.

The complete list of proposed amendments is set forth in **Attachment 1**, with overstrikes reflecting deletions and underlining reflecting additions. **Attachment 2** sets forth the sections as they will appear in the Administrative Code if the changes are approved.

All amendments are effective upon board approval unless specified otherwise.

Project Milestone(s)

Not applicable


 _____ 3/28/2025
 Scott M. Suzuki Date
 General Auditor


 _____ 3/28/2025
 Deven Upadhyay Date
 General Manager

Attachment 1 – Proposed Administrative Code Amendments (with changes marked)

Attachment 2 – Proposed Administrative Code Amendments (clean)

Division II

**PROCEDURES PERTAINING TO BOARD, COMMITTEES
AND DIRECTORS**

Chapter 7

PERIODIC STAFF REPORTS TO BOARD AND COMMITTEES

Article 1

ANNUAL REPORTS

§ 2703. General Auditor's Report

The General Auditor shall annually report to the **Executive Audit** Committee a business plan containing the General Auditor's key priorities for the coming year for the Audit Department as required by Sections 2416 and 6451.

Article 2

QUARTERLY REPORTS

§ 2722. General Auditor's Quarterly Reports.

The General Auditor shall report to the **Executive Audit** Committee the exercise of any power delegated to the General Auditor by Section 6453.

Division VI

PERSONNEL MATTERS

Chapter 4

OFFICERS

Article 2

GENERAL MANAGER

§ 6416. Annual Report to Executive Committee

The General Manager shall annually submit to the Executive Committee a business plan containing the General Manager's key priorities for the coming year. The business plan shall be submitted in conjunction with similar plans by the General Auditor to the **Executive**

Audit Committee and the Ethics Officer to the Community and Workplace Culture Committee and the General Counsel to the Legal and Claims Committee.

Article 3

GENERAL COUNSEL

§ 6436. Annual and Quarterly Reports to Legal and Claims Committee.

(a) The General Manager and General Counsel shall report quarterly to the Legal and Claims Committee the exercise of any power delegated to them by Sections 6433 and 6434. The General Counsel shall report quarterly to the Legal and Claims Committee the exercise of any power delegated to them by Section 6431.

(b) The General Counsel shall annually, in advance of the July Board meetings, submit to the Legal and Claims Committee a business plan containing the Legal Department's key priorities for the coming year for review and approval. The business plan shall be submitted in conjunction with similar plans by the General Manager to the Executive Committee and the General Auditor to the Executive-Audit Committee, and the Ethics Officer to the Community and Workplace Culture Committee.

Article 4

GENERAL AUDITOR

§ 6450. Powers and Duties.

(a) The District's independent internal auditing function is governed by provisions of the California Government Code and by policies established by the Board of Directors. The Executive-Audit Committee is responsible for the oversight of the internal auditing function, approving the Audit Department charter (subject to review and approval of the Board of Directors), selecting and overseeing the work of external auditors, and reviewing reports issued by both the internal and external auditors.

(b) The General Auditor manages the District's Audit Department and is responsible for formulating departmental policies and procedures; directing and evaluating the performance of work done by employees within the department, administering the internal records of the department; and administering the District's contract for external audit services. The General Auditor shall, annually in advance of the July Board meetings, submit to the Audit Executive Committee an Audit business plan containing key priorities for the coming year for review and approval. The business plan shall be submitted in conjunction with similar plans by the General Manager to the Executive Committee, the General Counsel to the Legal and Claims Committee and Ethics Officer to the Community and Workplace Culture Committee.

(c) The General Auditor shall report the findings, opinions, and recommendations which result from the performance of the duties outlined in paragraph 6450(b) to the General Manager,

General Counsel and Ethics Officer for their information and appropriate actions. Whenever an audit report contains recommendations for corrective actions or changes in current practices, the General Manager, General Counsel, Ethics Officer or their designees shall respond to the General Auditor in an appropriate manner and within a reasonable time, indicating their views on the recommendations and proposed actions to be taken, if any.

(d) The General Auditor's reports on internal audit assignments shall be addressed to the ~~Executive-Audit~~ Committee. The General Auditor shall have the discretion to determine the form and content of such audit reports, subject to guidance by the ~~Executive-Audit~~ Committee. With the exception of those reports which the General Auditor deems to be urgent or confidential in nature, copies of all audit reports addressed to the ~~Executive-Audit~~ Committee shall be submitted to the General Manager and General Counsel for review and comment simultaneously to their submittal to the ~~Executive-Audit~~ Committee.

(e) The General Auditor shall transmit all reports issued by the District's external auditors to the ~~Executive-Audit~~ Committee and any other committees of the Board as may be applicable. Such transmittal letters should include any comments on the external auditor's reports that the General Auditor deems necessary.

(f) The General Auditor may receive requests from time to time from the other executive officers or committees of the Board to perform audit assignments which are not included in the approved annual Audit Business Plan. Similarly, the General Auditor may identify a need to include new assignments in the Audit Business Plan during the year. The General Auditor shall have sufficient latitude and discretion to include those new assignments in the annual Audit Business Plan as the General Auditor deems necessary based upon their professional judgement and available resources. Requests from other committees of the Board and individual Board members desiring specific audit assignments shall be submitted to the Audit Committee for study, advice, and recommendation, ~~or if such subcommittee is not currently in place, the Executive Committee~~. Once the audit assignment is approved by the Board, the General Auditor reserves the right to determine how to best fit the directed audit assignment into the Audit Business Plan. The reporting process for assignments requested by either executive management, by committees of the Board, or by individual Board members shall generally follow the process outlined in paragraphs 6450(c) or (d) previously.

(g) The General Auditor shall manage the work of the Audit Department in accordance with the Audit Department Charter. The General Auditor shall assess annually whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Audit Department to accomplish its objectives.

§ 6451. Audit Department Charter.

(a) Mission and Scope of Work - The mission of the Audit Department is to provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations. It helps the District accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of governance, risk management, and internal control. The scope of work of the Audit Department is to determine

whether the District's network of governance, risk management, and internal control, as designed and represented by District management, is adequate and functioning in a manner to ensure:

- (1) Risks are appropriately identified, managed and monitored;
- (2) Significant financial, managerial and operating information is accurate, reliable and timely;
- (3) Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- (4) Resources are acquired economically, used efficiently, and adequately protected;
- (5) Programs, plans, and objectives are achieved;
- (6) Quality and continuous improvement are fostered in the District's control process;
- (7) Significant legislative or regulatory issues impacting the District are recognized and addressed appropriately; and
- (8) Information technology is governed and systems and applications are securely deployed and monitored.

Opportunities for improving management internal control, efficiency and the District's image may be identified during audits. They will be communicated to the appropriate level of District management.

(b) Accountability - The General Auditor shall be accountable to the Board of Directors and the Executive Audit Committee to:

- (1) Advise on the adequacy and effectiveness of the District's processes for controlling its activities and managing its risks;
- (2) Report significant issues related to the processes for controlling the activities of the District, including potential improvements to those processes, and provide information concerning such issues through to resolution; and
- (3) Coordinate with other District control and monitoring functions (e.g., risk management, legal, finance, ethics, security, environmental).

(c) Professional Standards – The Audit Department shall govern itself by adherence to The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of*

Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department's performance. These documents constitute the operating procedures for the department and constitute an addendum to the charter. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers shall also be adhered to as applicable. In addition, Audit Department staff shall adhere to Metropolitan's policies and procedures, the California Government Code; and the Audit Department's Policies and Procedures Manual.

(d) Responsibilities -- The Audit Department shall carry out the following responsibilities:

(1) Develop and present a flexible annual audit plan to the Executive Audit Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by Management or the Board of Directors;

(2) Report periodically to the Executive Audit Committee and District management the status of the current year's audit plan and the sufficiency of department resources;

(3) Submit audit reports to the Executive Audit Committee and District management communicating the General Auditor's opinion regarding the internal control structure, identifying significant control issues, and providing related recommendations;

(4) Evaluate the adequacy and timeliness of District management's responses to, and the corrective action taken on, all recommendations noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Executive Audit Committee the status of District management's progress;

(5) Ensure the selection, development and supervision of competent and professional audit staff;

(6) Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain an external quality assurance review as required by the *Standards*;

(7) Perform advisory services to assist District management in meeting its objectives. Examples may include facilitation, process design, training, and assessment services;

(8) Evaluate additions or changes in internal control processes coincident with their development and implementation;

(9) Keep the Executive Audit Committee informed of significant emerging trends and best practices in internal auditing and governance;

(10) Assist in the investigation of significant suspected fraudulent activities within the District. Assure reporting to the Executive Audit Committee on the results, as appropriate; and

(11) Coordinate with external auditors to minimize duplication of effort and to ensure that issues raised as a result of their review, are appropriately addressed.

(e) Authority - The General Auditor and Audit Department staff members are authorized to:

(1) Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality, and applicable process;

(2) Have full and free access to the Executive Audit Committee, subject to applicable law;

(3) Allocate resources, set frequencies, select the subject, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

(4) Obtain the necessary assistance of personnel within units of the District where they perform audits, as well as other specialized services from within or outside the District.

The General Auditor and Audit Department staff are not authorized to:

(1) Perform any operational duties for the District;

(2) Initiate or approve accounting transactions external to the Audit Department; or

(3) Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

This Charter shall be reviewed at least annually by the Executive Audit Committee and Board of Directors.

§ 6453. Authority to Obtain Professional Services.

The General Auditor is authorized to employ the services of independent auditors or other professional or technical consultants to advise or assist them in performing their assigned duties as may be required or as they deem necessary provided that the amount to be expended in fees, costs, and expenses under any one contract in any one year shall not exceed \$100,000. External auditors, while employed as external auditors for Metropolitan, are prohibited from performing any other consulting work for Metropolitan or performing any work for other clients that conflicts, or may conflict, with their responsibilities as Metropolitan's external auditors. These prohibitions shall be included in Metropolitan's agreements with external auditors. ~~The~~

Whenever the General Auditor enters into services agreements under the authority granted by this section, he or she shall inform the Executive Audit Committee whenever they exercise the authority granted under this section and thereafter shall report periodically on such agreements to the committee. and they shall further report quarterly to the Legal and Claims Committee concerning any agreements entered into under this section.

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fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department's performance. These documents constitute the operating procedures for the department and constitute an addendum to the charter. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers shall also be adhered to as applicable. In addition, Audit Department staff shall adhere to Metropolitan's policies and procedures, the California Government Code; and the Audit Department's Policies and Procedures Manual.

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(4) Evaluate the adequacy and timeliness of District management's responses to, and the corrective action taken on, all recommendations noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Audit Committee the status of District management's progress;

(5) Ensure the selection, development and supervision of competent and professional audit staff;

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(2) Have full and free access to the Audit Committee, subject to applicable law;

(3) Allocate resources, set frequencies, select the subject, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

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(1) Perform any operational duties for the District;

(2) Initiate or approve accounting transactions external to the Audit Department; or

(3) Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

This Charter shall be reviewed at least annually by the Audit Committee and Board of Directors.

§ 6453. Authority to Obtain Professional Services.

The General Auditor is authorized to employ the services of independent auditors or other professional or technical consultants to advise or assist them in performing their assigned duties as may be required or as they deem necessary provided that the amount to be expended in fees, costs, and expenses under any one contract in any one year shall not exceed \$100,000. External auditors, while employed as external auditors for Metropolitan, are prohibited from performing any other consulting work for Metropolitan or performing any work for other clients that conflicts, or may conflict, with their responsibilities as Metropolitan's external auditors. These prohibitions shall be included in Metropolitan's agreements with external auditors. Whenever the General Auditor enters into services agreements under the authority granted by

this section, he or she shall inform the Audit Committee and thereafter shall report periodically on such agreements to the committee.