



Committee

M. Ramos, Chair
T. McCoy, Vice Chair
L. Ackerman
S. Blois
B. Dennstedt
P. Hawkins
F. Jung
C. Kurtz
R. Record
T. Smith

Audit and Ethics Committee

Meeting with Board of Directors *

February 22, 2022

9:30 a.m.

**Tuesday, February 22, 2022
Meeting Schedule**

**09:30 am - A&E
10:30 am - Exec
11:30 am - Break
12:00 pm - Sp.F&I**

Teleconference meetings will continue until further notice. Live streaming is available for all board and committee meetings on mwdh2o.com ([Click Here](#))

A listen only phone line is also available at 1-800-603-9516; enter code: 2176868#. Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference only. To participate call (404) 400-0335 and enter Code: 9601962.

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. Opportunity for members of the public to address the committee on matters within the committee's jurisdiction (As required by Gov. Code Section 54954.3(a))

**** CONSENT CALENDAR ITEMS -- ACTION ****

2. CONSENT CALENDAR OTHER ITEMS - ACTION

- A. Approval of the Minutes of the Meeting of the Audit and Ethics Committee held November 23, 2021 [**21-913**](#)

Attachments: [02222022 AE 2A minutes.pdf](#)

NONE

3. CONSENT CALENDAR ITEMS - ACTION

NONE

**** END OF CONSENT CALENDAR ITEMS ****

4. OTHER BOARD ITEMS - ACTION

NONE

5. BOARD INFORMATION ITEMS

NONE

6. COMMITTEE ITEMS

- a. Discussion of Audit Planning and field work process [21-892](#)

Attachments: [02222002 AE 6a Presentation.pdf](#)

- b. Ethics Office Staffing Needs [21-950](#)

Attachments: [02222022 AE 6b Presentation.pdf](#)

7. MANAGEMENT REPORTS

- a. General Auditor's Report [21-914](#)

- b. Ethics Officer's Report [21-915](#)

8. FOLLOW-UP ITEMS

NONE

9. FUTURE AGENDA ITEMS

10. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <http://www.mwdh2o.com>.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
MINUTES

AUDIT AND ETHICS COMMITTEE

November 23, 2021

Vice Chair McCoy called the teleconference meeting to order at 9:04 a.m.

Members present: Vice Chair McCoy, Blois, Dennstedt, Hawkins, Jung, Record and Smith.

Members absent: Chair Ramos, Directors Ackerman and Kurtz.

Other Board Members present: Directors Abdo, Atwater, De Jesus, Erdman, Faessel, Fong-Sakai, Goldberg, Gray, Luna, Miller, Morris, Peterson, and Tamaribuchi.

Committee Staff present: Beatty, Hagekhalil, Salinas, Scully, Shope, Riss, Rodriguez and Von Haam.

1. OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS WITHIN THE COMMITTEE’S JURISDICTION

None

CONSENT CALENDAR OTHER ITEMS — ACTION
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2. CONSENT CALENDAR OTHER ITEMS – ACTION

- A. Approval of the Minutes of the meeting of the Audit and Ethics Committee held October 26, 2021

Director Jung made a motion, seconded by Director McCoy to approve the consent calendar consisting of item 2A:

Ayes: Directors Blois, Dennstedt, Hawkins, Jung, McCoy and Smith

Noes: None

Abstentions: Director Record

Absent: Chair Ramos, Directors Ackerman and Kurtz

The motion for item 2A passed by a vote of 6 ayes, 0 noes, 1 abstain, and 3 absent.

3. CONSENT CALENDAR ITEMS – ACTION

None

END OF CONSENT CALENDAR ITEMS

4. OTHER BOARD ITEMS – ACTION

None

5. BOARD INFORMATION ITEMS

None

6. COMMITTEE ITEMS

- a. Subject: Discussion of Department Head Performance and Goal Setting
[Public employees' performance evaluations – General Auditor; to
be heard in closed session pursuant to Gov. Code Section 54957]

No action was taken.

- b. Subject: Discussion of Department Head Performance and Goal Setting
[Public employees' performance evaluations – Ethics Officer; to be
heard in closed session pursuant to Gov. Code Section 54957]

No action was taken.

7. MANAGEMENT REPORTS

- a. Subject: General Auditor's report

Presented by: Gerald Riss, General Auditor

Mr. Riss had nothing to add to his monthly report.

- b. Subject: Ethics Officer's report

Presented by: Abel Salinas, Ethics Officer

Mr. Salinas reported that since his last update to the committee in October 2021, the Ethics Office has initiated one new investigation. The Ethics Office has a total of three pending investigations. The new investigation opened in November involves a supervisor who allegedly misused their authority to favor certain employees. The investigation is expected to be completed in the next six to eight weeks. The second investigation involves an allegation that an employee conducted outside employment activities during hours they were being compensated by Metropolitan, in violation of the Ethics operating policy. This investigation was opened in June, the fact-finding portion of the investigation is complete, and the preliminary findings will be issued within the next two weeks. The third investigation involves a manager who allegedly misused their authority to advantage one employee during a recruitment process. This investigation was opened in June and is expected to be completed in the next four weeks.

8. FOLLOW-UP ITEMS

None

9. FUTURE AGENDA ITEMS

None

10. ADJOURNMENT

Next meeting will be held on January 25, 2022.

Meeting adjourned at 9:52 am

Tana McCoy
Vice Chair



Office of the General Auditor

AUDIT PLAN DEVELOPMENT and EXECUTION

Audit and Ethics Committee
Item #6a
February 22, 2022

What is Internal Auditing?

“Internal Auditing is an **independent, objective assurance and consulting activity** designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a **systematic, disciplined approach** to evaluate and improve the effectiveness of **risk management, control, and governance processes.**”

The Institute of Internal Auditors (IIA)
International Standards for the Professional Practice of Internal Auditing
and the profession's Code of Ethics



Mission

Internal Audits' Roles

- Explorer
- Analyst
- Problem-solver
- Collaborator
- Communicator
- Innovator
- Trusted Advisor



Internal Audits' Roles

- **Risk Management, Control & Governance**
 - Evaluate Risks
 - Apprise Financial Accuracy
 - Identify and Communicate Red Flags
 - Monitor Compliance with Rules and Regulations
 - Recommend Control Improvements
 - Promote Ethical based Decisions and Actions

The Audit Planning Process

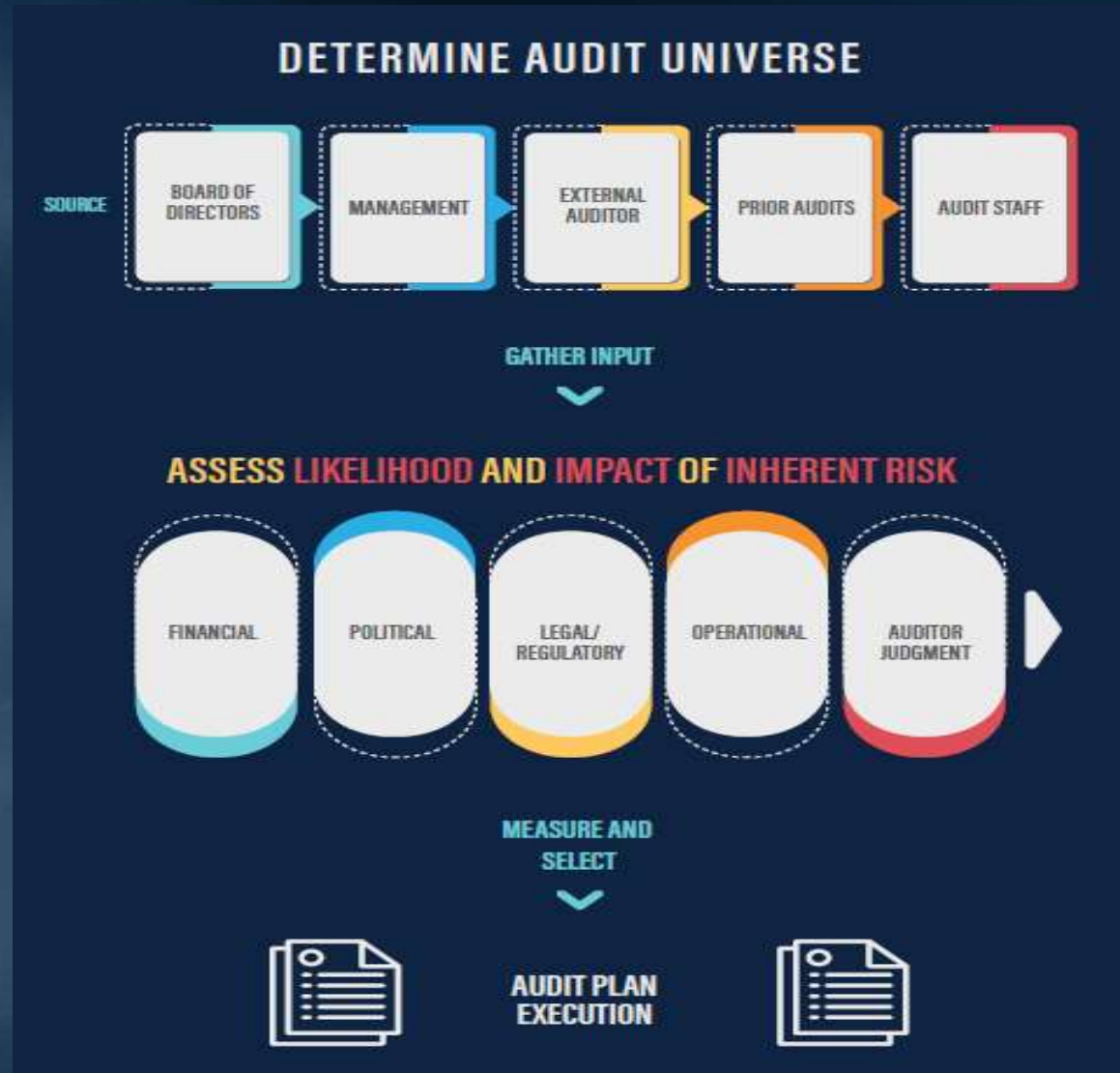


Navigating the Road Ahead

Audit Plan Development

- **Identify auditable activities and relevant risk factors, and assess their significance**
 - Attend Board and Committee Meetings
 - Hold discussions with management, board members, and external auditors
 - Consider prior audits
 - Stay abreast of business trends
 - Identify potential problem areas
 - Anticipate emerging issues and risks

Audit Plan Development



Audit Plan Development

06/30/21

FY2021/22 Audit Universe

No.4	Team Mate #	Audit Projects	Audit Project Description	Hours			Cum. IT Hours	Cum. Fin. Hours	Org.	Risk Levels: 1 = Low; 5 = High					Total Risk points	Recent Audits	Recent Audits
				IT	Finance	Total				Domestic	Political	Legal/Reg	Operative	Security			
1	Various	Carryover audits from 2020/21 Audit Plan	Complete audits in process as of June 30, 2020.	180	1,340	1,520	180	1,340	Various	5	5	5	5	5	25	Recurring	
2	5000	Assist External Auditors	Assist external auditors with quarterly audits of financial statements and year-end audit of financial statements. Assist with the Single Audit if required. Anticipate changes due to teleworking. Also, evaluate new accounting pronouncements and adoptions. Contractually required.	-	600	600	180	1,840	CFO	5	5	5	5	5	25	Recurring	
3	5001	Perform Board Requests	Perform reviews at the request of the board.	-	200	200	180	2,140	BOD	5	5	5	5	5	25	Recurring	
4	5500	Perform Management Requests	Perform reviews at the request of management.	-	500	500	180	2,640	GM	5	5	5	5	5	25	Recurring	
5	6010	Audit Review	General Auditor review of audits and audit reports.	-	400	400	180	3,040	AUD	5	5	5	5	5	25	Recurring	
6	5010	Employee and Director Expense Reports	Evaluate controls over the expense reporting process, test expense claims for propriety and compliance with established policies (Operating Policy C-04), analyze expense trends and expenses. Required.	-	200	200	180	3,240	BOD/CFO	5	5	5	5	5	25	Recurring	Employee and Director Expense Reports (annual review), last audit June 2019 (Note: Fall (Expense) audit performed in 2020)
7	5031	Colorado River Water Users Association	Perform a limited review of the Colorado River Water Users Association Financial Reports to gain assurance that the information is accurate and supported adequately.	-	125	125	180	3,365	BOD	5	5	5	5	5	25	Recurring	Colorado River Water Users Association (annual as requested annually). Last issued November 2020
8	6000	Audit Management attendance at Board meetings	General Auditor attendance at board and management meetings. Ensure that timely, thorough information is provided to the board, maintain sound relationships with board members. Review board letters and Office of the General Manager monthly reports. Disseminate information to teleworking staff.	-	550	550	180	3,815	AUD	5	5	5	5	5	25	Recurring	
9	2403	Water Conveyance	Provide assistance as requested for the State Water Conveyance Project. Monitor for progress.	-	50	50	180	3,965	SWI	5	5	5	5	5	25		
10	2402	Delta Islands	Review leases and property management.	-	300	300	180	4,265	SWI	5	5	5	5	5	25		
11	2330	State Water Contract	Water supply contract with the California Department of Water Resources. Richardson & Co. provides audit coverage. Provide assistance if requested.	-	80	80	180	4,545	WRM	5	5	5	5	5	25	Recurring	
12	2502	Regional Recycled Water Program	Monitoring project status of the Pilot Program.	-	50	50	180	4,795	WRM	5	5	5	5	5	25		
13	2951	CRA Power Operations	Review CRA power purchases, regulation compliance, accuracy of service processing with Boulder Canyon Project, Parker Davis Project, Lake Mead/Colorado River, 3rd party energy suppliers, AEP/CO and CAISO. Review compliance for agreements with AEP/CO and CAISO.	-	500	500	180	4,895	WSD	5	5	5	5	5	25		The original Emergency Management System was separated into three areas: CRA Power Operations, Hydroelectric Power Operations, and WRCC Compliance.
14	2935	Security and Emergency Management	Evaluate physical security measures in place to protect persons and property, including outside security resources. Review activities of the Security Management Unit, including physical security function at CRA, water treatment plants, distribution systems and headquarters. Refer to Operating Policy E-01. Review Union Station Security and offsite security processes (Facility Security Audit, Security Agreement Audit)	-	450	450	180	5,345	CFO	4	5	5	5	5	25		
15	2250	Capital Investment Plan - PCCP Rehabilitation and Replacement Program	Review controls over PCCP Rehabilitation and Replacement program including those performed at the program, project, and contract levels. Include program management (project tracking activities, budget vs. actual monitoring, and reporting practices) for selected projects under the program. Evaluate controls over project authorization and project close-out processes. On the contract level, review controls over selected contract(s) including change orders and the validity of expenditures. Conduct substantial contractor audits under MWD's audit clause.	-	400	400	180	5,745	ESG	5	5	4	4	5	25	2019	Second Lower Funder PCCP (2018)

Risk Levels: 1=Low 2=Moderate 3=Medium 4=High 5=Significant

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FY2020/21 Audit Universe

Governance & Control Framework

- COSO - Committee of Sponsoring Organizations of the Treadway Commission
- Generally accepted model for internal control
- Standard against which organizations measure the effectiveness of their systems of internal control



Audit Execution

● Planning

- Define Scope and Objectives
- Document Process(es)
- Identify Risks and Controls
- Assess Fraud Risk
- Develop Audit Fieldwork Program



Audit Execution

- **Fieldwork**

- Execute audit fieldwork program
 - Sample Testing
 - Documentation Review
 - Data Analytics
 - Visual Inspection
- Review observations with management



Audit Execution

● Reporting

- Issue written report with audit's opinion
 - Satisfactory
 - Generally Satisfactory
 - Less than Satisfactory
 - Unsatisfactory



Audit Opinions Overview

Satisfactory

Generally Satisfactory



Preferred and acceptable

Less Than Satisfactory

Needs improvement

Unsatisfactory

Requires immediate Management attention

Audit Execution

● Reporting

- Obtain Management Remediation Plans
 - Actions to be taken
 - Anticipated implementation date
- We will report any major disagreements with audit client to the Audit and Ethics Committee and the Board

Questions





Ethics Office Staffing Needs

Audit & Ethics Committee

Item 6b

February 22, 2022

Ethics Office Staffing



Current FTEs	Additional FTEs	Total FTEs
5	4	9

Ethics Office Core Functions



Advice



Education



Compliance

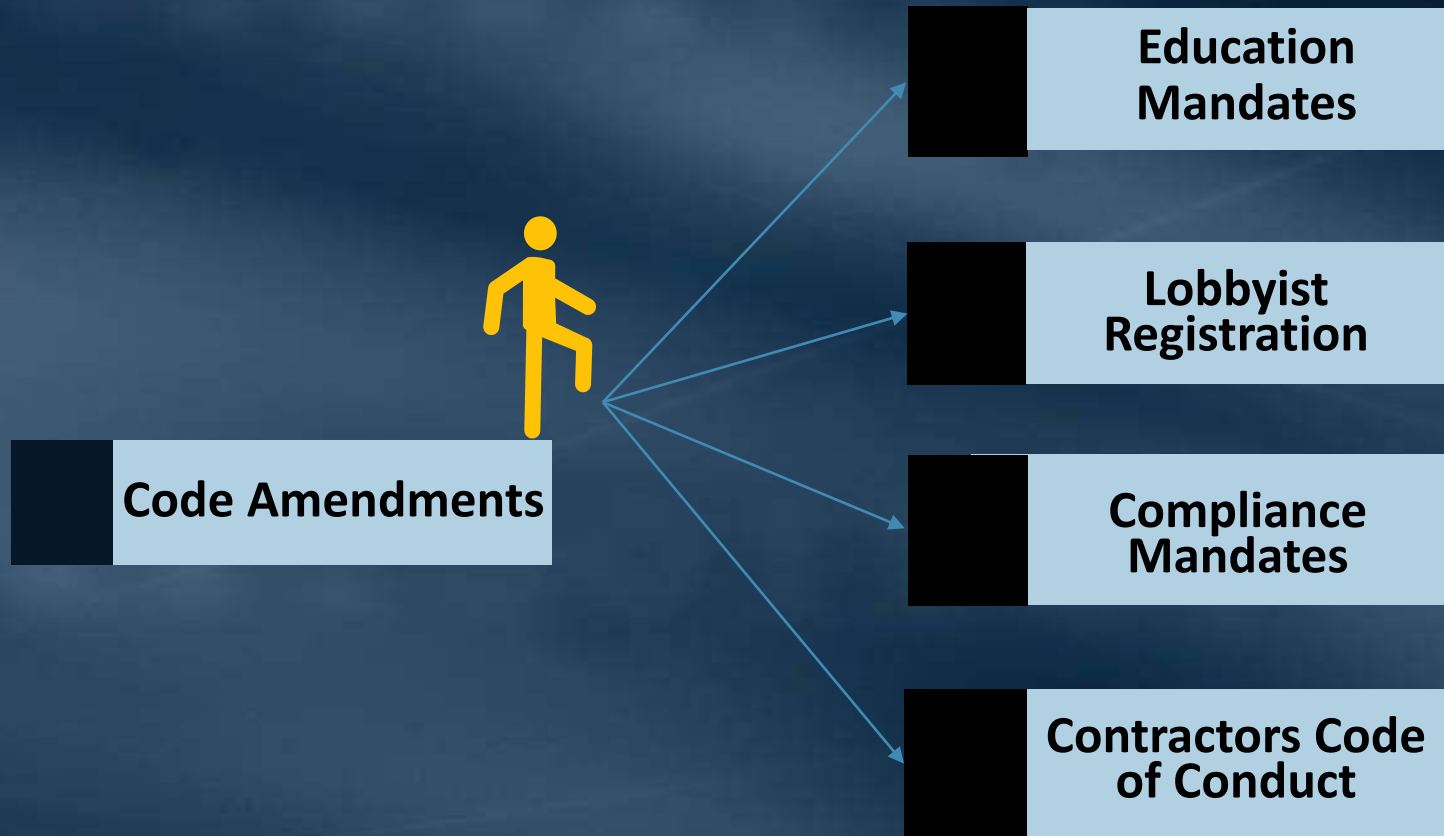


Policy



Investigations

Administrative Code Amendments



Ethics Office Staffing

- Impact of current staffing levels:
 - Delay in delivering education programs
 - Delay in meeting new mandates
 - Delay in responding to requests for assistance

Ethics Office Staffing

- Immediate benefits of additional staff:
 - Development and deployment of robust education program
 - Ability to meet new administrative code mandates
 - Improved response times for advice, training, and other assistance
 - More timely investigations

