



June 18, 2010

Ms. Susan Sims, Chief Deputy Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Ms. Sims:

Final Report—Metropolitan Water District of Southern California, Propositions 13 and 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the following Metropolitan Water District of Southern California (District) grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
4600003108	February 27, 2004 through April 15, 2007	\$2.5 million
4600004214	December 29, 2005 through December 30, 2008	\$1.66 million

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final.

In accordance with Finance's policy of increased transparency, the final report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, the California Department of Water Resources is required to post the final report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of the final transmittal.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Evelyn Suess, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Jeffrey Kightlinger, General Manager, Metropolitan Water District of Southern California
Mr. Brian Thomas, Chief Financial Officer, Metropolitan Water District of Southern California
Mr. Stephen Arakawa, Manager, Water Resources Management, Metropolitan Water District of Southern California
Mr. Andrew Hui, Unit Manager, WRM Regional Supply Unit, Metropolitan Water District of Southern California
Ms. Alice Webb, Senior Resource Specialist, WRM Regional Supply Unit, Metropolitan Water District of Southern California
Mr. Carlos de Leon, Resource Specialist, WRM Regional Supply Unit, Metropolitan Water District of Southern California
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Perla Netto-Brown, Controller, California Department of Water Resources
Mr. Jim Libonati, Deputy Director, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Ms. Tracie Billington, Chief, Special Projects Section, California Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, California Department of Water Resources
Mr. Eric Hong, Supervising Engineer, California Department of Water Resources
Mr. Eric Koch, Chief, Flood SAFE Program Management Office, Division of Flood Management, California Department of Water Resources

A GRANT AUDIT

Metropolitan Water District of Southern California Proposition 13 and 50 Bond Programs Grant Agreements 4600003108 and 4600004214



Source: Los Angeles Times

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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MEMBERS OF THE TEAM

Frances Parmelee, CPA
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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Office of State Audits and Evaluations
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(916) 322-2985

BACKGROUND

In March 2000 and November of 2002, California voters passed two bond measures totaling \$5.41 billion. The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13) was passed on the March 2000 ballot. The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) was passed on the November 2002 ballot. These propositions authorized the sale of bonds to finance a variety of water programs.

Administered by a number of state departments, agencies, boards, and conservancies, the bond proceeds support a broad range of programs that protect, preserve, and improve California's water quality and resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

The California Department of Water Resources (DWR) is one of many state departments that administer bond programs and award funds in the form of grants. One of DWR's programs—the Urban Water Conservation Program—provides funding to local public agencies and incorporated mutual water companies to finance feasible, cost-effective urban water conservation projects improving water use efficiency.

DWR awarded the Metropolitan Water District of Southern California (District) a \$2.5 million Proposition 13 grant for the Residential High-Efficiency Clothes Washers Rebate Program (program) for the purpose of providing approximately 33,333 rebates to residential customers. To sustain momentum of the Proposition 13 grant, the Department also awarded a \$1.66 million Proposition 50 grant to provide an additional 33,200 rebates. The program projects water savings of 7,000 gallons per unit per year.

The District is a quasi-municipal corporation created in 1929. The District is a consortium of 26 cities and water districts that provides drinking water to nearly 19 million people in parts of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura counties. Its mission is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way. It currently delivers an average of 1.7 billion gallons of water per day to a 5,200 square mile service area.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the following grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
4600003108	February 27, 2004 through April 15, 2007	\$2.5 million
4600004214	December 29, 2005 through December 30, 2008	\$1.66 million

The audit's objective was to determine whether the District's grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. DWR and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by DWR, the grant agreements, and applicable policies and procedures.
- Reviewed the District's accounting records and vendor invoices, water bills, and master agreements with member agencies.
- Selected a sample of expenditures at selected member agencies to determine if costs were allowable, grant-related, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Performed site visits at selected member agencies to determine if rebates claimed against the grants were valid.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering bond funds. The audit was conducted from August 2009 through June 2010.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

RESULTS

Based on the audit procedures performed, the District met the fiscal requirements for the grant agreements and no findings or questioned costs were reported. The Schedules of Claimed, Audited, and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed, Audited, and Questioned Amounts

Grant Agreement 4600003108 For the Period February 27, 2004 through April 15, 2007			
Category	Claimed	Audited	Questioned
Rebate Costs	\$ 2,497,050	\$ 2,497,050	\$ 0
Total Expenditures	\$ 2,497,050	\$ 2,497,050	\$ 0

Grant Agreement 4600004214 For the Period December 29, 2005 through December 30, 2008			
Category	Claimed	Audited	Questioned
Materials/Installation/Implementation	\$ 1,626,695	\$ 1,626,695	\$ 0
Total Expenditures	\$ 1,626,695	\$ 1,626,695	\$ 0