

**THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA**

Single Audit Reports

Year ended June 30, 2014

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
The Metropolitan Water District  
of Southern California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of The Metropolitan Water District of Southern California (Metropolitan), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered Metropolitan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan's internal control. Accordingly, we do not express an opinion on the effectiveness of Metropolitan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California  
October 17, 2014



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**Independent Auditor's Report on Compliance for the Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

The Board of Directors  
The Metropolitan Water District of Southern California

**Report on Compliance for the Major Federal Program**

We have audited The Metropolitan Water District of Southern California's (Metropolitan) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Metropolitan's major federal program for the year ended June 30, 2014. Metropolitan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Metropolitan's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metropolitan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Metropolitan's compliance.

***Opinion on the Major Federal Program***

In our opinion, The Metropolitan Water District of Southern California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

Metropolitan's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Metropolitan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control over Compliance

Management of Metropolitan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Metropolitan's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Metropolitan's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

Metropolitan's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Metropolitan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Metropolitan as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements. We issued our report thereon dated October 17, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Macias Gini & O'Connell LLP*

Newport Beach, California  
March 12, 2015

**THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2014

<u>Federal grantor/pass-through grantor/program title</u>	<u>Catalog of federal and domestic assistance number</u>	<u>Contract number</u>	<u>Federal expenditures</u>
Research and Development Cluster:			
U.S. Environmental Protection Agency:			
Passed through Water Research Foundation:			
Congressionally Mandated Projects: Controlling the Formation of Nitrosamines During Water Treatment	66.202	4370	\$ <u>167,917</u>
Total U.S. Environmental Protection Agency			<u>167,917</u>
Total Research and Development Cluster			<u>167,917</u>
U.S. Department of the Interior Bureau of Reclamation:			
WaterSMART (Sustain and Manage America's Resources for Tomorrow)	15.507	R11AP35314	72,249
Water Conservation Field Services Program	15.530	08FG350247	59,995
Water Conservation Field Services Program	15.530	R10AP35274	50,000
Water Conservation Field Services Program	15.530	R10AP35279	1,000
Water Conservation Field Services Program	15.530	R11AP35322	10,000
Water Conservation Field Services Program	15.530	R13AP35364	<u>7,626</u>
Total Water Conservation Field Services Program			128,621
California Water Security and Environmental Enhancement	15.533	R12AP25251	174,021
California Water Security and Environmental Enhancement	15.533	R13AP35371	<u>315,539</u>
Total California Water Security and Environmental Enhancement			<u>489,560</u>
Total U.S. Department of the Interior Bureau of Reclamation			<u>690,430</u>
Total Federal Expenditures			\$ <u><u>858,347</u></u>

See accompanying notes to schedule of expenditures of federal awards.



**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

**(1) General**

The accompanying schedule of expenditures of federal awards (SEFA) presents all of the activity of federal financial assistance programs of The Metropolitan Water District of Southern California (Metropolitan) for the year ended June 30, 2014.

**(2) Basis of Accounting**

The SEFA is presented using the accrual basis of accounting, whereby grant expenses are recognized when they are incurred.

**(3) Grant Expenses**

There are no indirect costs included in grant expenses on the accompanying SEFA for the year ended June 30, 2014.

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2014

**Section I – Summary of Auditor’s Results**

***Financial Statements:***

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None noted
Noncompliance material to financial statements noted?	No

***Federal Awards:***

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Yes

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.533	<b>California Water Security and Environmental Enhancement</b>

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
Year ended June 30, 2014

**Section II – Financial Statement Findings**

None noted.

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA**  
Schedule of Findings and Questioned Costs (Continued)  
Year ended June 30, 2014

**Section III – Federal Award Findings and Questioned Costs**

<b>Reference Number:</b>	<b>2014-001</b>
<b>Federal Program Title:</b>	<b>California Water Security and Environmental Enhancement</b>
<b>Federal Catalog Number:</b>	<b>15.533</b>
<b>Federal Agency:</b>	<b>U.S. Department of Interior Bureau of Reclamation (USBR)</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Contract Number and Name:</b>	<b>R13AP35371 - High Efficiency Clothes Washer Incentive Program</b>
<b>Category of Finding:</b>	<b>Reporting</b>

**Criteria:**

Excerpt from Contract R13AP35371:

9.2 Financial Reports. Financial status reports shall be submitted by means of the [Semi-Annual Federal Financial Status Reports] SF-425.

The Semi-Annual Financial Reporting period consists of October 1 through March 31 and April 1 through September 30. These Semi-Annual Financial Status Reports are due within 30 days after the end of the reporting period.

**Condition and context:**

We noted one of the three SF-425 reports reviewed was under reported by \$70,295 on Metropolitan's share of expenditures for the period October 1 through March 31, 2014.

**Cause and effect:**

Management inadvertently omitted Metropolitan's share of expenditures related to the grant over a period of time and did not agree the amounts reported to the underlying supporting data. As a result, inaccurate information was provided to the federal grantor in the SF-425 report for the six-month period.

**Questioned costs:**

None

**Recommendation:**

We recommend that Metropolitan strengthen internal controls to ensure accurate reporting and perform a thorough review of the SF-425 report prior to submission to the USBR.

**Views of responsible officials and corrective action:**

The under reported amount of \$70,295 for Metropolitan's share of expenditures was corrected on SF-425 for the reporting period ended September 30, 2014. To prevent further occurrences, Metropolitan will perform the following prior to submitting the SF-425 to USBR:

- Cross-validate the number of devices with Metropolitan's required match to ensure Metropolitan meets the matching requirement; and
- Perform a quarterly reconciliation of expenditures and the number of devices rebated.