

AUDITOR-CONTROLLER

FEB 18 2016

**THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA**

Single Audit Report

For the year ended June 30, 2015

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*

To 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, 2015, 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 19, 2015, except for the third paragraph of Note 15, as to which the date is November 19, 2015.

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 19, 2015



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

To 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, 2015. 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, 2015.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2015, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements. We issued our report thereon dated October 19, 2015, 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
January 27, 2016

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program Title or Cluster</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Pass-through Entity Identifying Number/Grant 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>26,027</u>
Total U.S. Environmental Protection Agency			<u>26,027</u>
Total Research and Development Cluster			<u>26,027</u>
U.S. Department of the Interior Bureau of Reclamation:			
Recycled Water On-Site Retrofit Pilot Program - Direct Program	15.507	R14AP00115	<u>235,145</u>
Water Conservation Field Services Program - Direct Program	15.530	R13AP35364	<u>34,302</u>
California Water Security and Environmental Enhancement - Direct Program	15.533	R12AP25251	191,015
California Water Security and Environmental Enhancement - Direct Program	15.533	R13AP35371	<u>16,750</u>
Total California Water Security and Environmental Enhancement			<u>207,765</u>
Total U.S. Department of the Interior Bureau of Reclamation			<u>477,212</u>
Total Federal Expenditures			\$ <u><u>503,239</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, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) 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, 2015. The Schedule includes federal awards received directly from federal agencies as well as federal awards passed through other agencies. The information in the Schedule is presented in accordance with the requirement of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Metropolitan, it is not intended to, and does not, present the financial position, changes in net position or cash flows of Metropolitan. Metropolitan's reporting entity is defined in Note 1 to Metropolitan's basic financial statements.

(2) Summary of Significant Accounting Policies

Expenditures of the accompanying Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Grant Expenses

There are no indirect costs included in grant expenses on the accompanying Schedule for the year ended June 30, 2015.

(4) Subrecipients

Of the federal expenditures presented in the Schedule, Metropolitan did not provide any federal awards to subrecipients for the fiscal year ended June 30, 2015.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2015

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?	No
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?	No

Identification of major programs

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

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee?	Yes
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THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2015

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Summary Schedule of Prior Year Findings and Questioned Costs
Year ended June 30, 2015

Prior Year Federal Award Findings				
Finding No.	Federal Program Name	CFDA No.	Compliance Requirement	Status of Corrective Action
2014-001	High Efficiency Clothes Washer Incentive Program	15.533	Reporting	Implemented