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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

October 13, 1997

To: Board of Directors (Special Audit Committee--Information)
(Budget & Finance Committee--Information)

From: Auditor Michael W. Hendry

SUBJECT: Single Audit Reports for the Fiscal Year Ended June 30, 1997

RECOMMENDATION

For information only.

DETAILED REPORT

The Federal Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996, requires state or local government units that expend \$300,000 or more of federal financial assistance in any one year to have an audit conducted for that year. The District's accrual basis financial statements are audited annually by the firm of KPMG Peat Marwick, LLP, in accordance with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants (AICPA). In the event that a so-called "Single Audit" is required to be conducted for a particular year, the cost of such an audit is included as part of the required audit services provided by that firm under its agreement with the District.

Auditors who conduct audits pursuant to the Single Audit Act are required to comply with government auditing standards issued by the Comptroller General of the United States (the so-called "Yellow Book"), as well as requirements of the Single Audit Act and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These standards require that various reports be issued by the external auditor in addition to the traditional auditor's report on the entity's general purpose financial statements. The AICPA has established authoritative guidance on the form and content of the reports required by the Single Audit Act.

Due to the magnitude of federal source moneys expended during the fiscal year ended June 30, 1997, the District was required to have a Single Audit performed. The necessary additional auditing procedures were performed by staff from KPMG Peat Marwick and the required audit reports, dated September 16, 1997, were issued by the firm prior to the statutory

deadline of July 31, 1998. Copies of these audit reports will be transmitted by my office to the cognizant and other agencies who require such reports, namely:

- The State Controller of California
- Bureau of Reclamation
- The U.S. Federal Emergency Management Agency
- The U.S. Environmental Protection Agency
- The U.S. Bureau of the Census

A copy of the required Single Audit Act audit reports from KPMG Peat Marwick is attached to this letter for information purposes.

Attachment



**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Single Audit Reports

Year ended June 30, 1997

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Single Audit Reports

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133**

The Board of Directors
The Metropolitan Water District of Southern California:

We have audited the financial statements of The Metropolitan Water District of Southern California (Metropolitan) as of and for the year ended June 30, 1997 and have issued our report thereon, dated September 16, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

We have audited the compliance of Metropolitan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 1997. Metropolitan's major Federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Metropolitan's management. Our responsibility is to express an opinion on Metropolitan's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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. Our audit does not provide a legal determination on Metropolitan's compliance with those requirements.

As described in item 97-1 in the accompanying Schedule of Findings and Recommendations, Metropolitan did not comply with requirement that its cost allocation plan (CAP) and/or indirect cost allocation rate proposal (IDCRP) be prepared and regularly updated in accordance with requirements governing such CAPs/IDCRPs and be maintained on file for later review by its cognizant agency. We believe Metropolitan should update its CAP/IDCRP in accordance with those requirements to comply with the requirements applicable to its major program: U.S. Bureau of Reclamation – Urban Water Conservation (CFDA 15.BBM).

In our opinion, except for the noncompliance described in the preceding paragraph, Metropolitan complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 1997.

The management of Metropolitan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Metropolitan's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Metropolitan in a separate letter dated September 16, 1997.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Metropolitan taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole, except for the effects, if any, of indirect costs allocated to Federal award programs in excess of allowable amounts.

This report is intended for the information of the Board of Directors, Special Audit Committee and management of Metropolitan and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

KPM & Peat Marwick LLP

September 16, 1997



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors
The Metropolitan Water District of Southern California:

We have audited the financial statements of The Metropolitan Water District of Southern California (Metropolitan) as of and for the year ended June 30, 1997 and have issued our report thereon, dated September 16, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

As part of obtaining reasonable assurance about whether Metropolitan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

In planning and performing our audit, we considered Metropolitan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Metropolitan in a separate letter dated September 16, 1997.

This report is intended for the information of the Board of Directors, Special Audit Committee and management of Metropolitan and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

KPM & Peat Marwick LLP

September 16, 1997



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 1997

Federal grantor/pass-through grantor/program title	Federal CFDA number (note 6)	Grant number/ pass-through grantor's number	Federal entitlement amount	Accrued (deferred) grant revenue at July 1, 1996, as previously reported	Adjustments (note 4)	Accrued (deferred) grant revenue at July 1, 1996, as adjusted	Grant revenue received	Matching and other grant revenue	Grant expenses			Accrued (deferred) grant revenue at June 30, 1997
									Federal	Non-Federal	Total	
U.S. Bureau of Reclamation												
Direct Program: Urban Water Conservation Project (major program)	15.BBM	4-FC-30-00120	\$ 3,650,000	413,101	—	413,101	1,065,236	821,351	547,568	821,351	1,368,919	(104,567)
Direct Program: Salinity Management Study	N/A	1425-6-FC-30-00900	200,000	—	—	—	92,767	—	222,051	—	222,051	129,284
Total U.S. Bureau of Reclamation			3,850,000	413,101	—	413,101	1,158,003	821,351	769,619	821,351	1,590,970	24,717
U.S. Environmental Protection Agency												
Direct Programs: Development of a Quantitative Cell Culture-Based Infectivity Assay for <i>Cryptosporidium Parvum</i> in Source and Finished Water	66.506	R825146-01-0	214,502	—	—	—	—	—	40,356	—	40,356	40,356
Water Efficiency Analysis for Hospitality	66.801	X822215-01-0	140,000	136,861	—	136,861	140,000	—	—	—	—	(3,139)
Total U.S. Environmental Protection Agency			354,502	136,861	—	136,861	140,000	—	40,356	—	40,356	37,217
U.S. Federal Emergency Management Agency												
Passed-through the California Office of Emergency Services - Disaster Assistance (note 4): 1992 Storm Damage	83.516	FEMA-1005-DR-CA/ OES 92-01-037	161,457	33,262	(33,262)	—	—	—	—	—	—	—
1993 Storm Damage	83.516	FEMA-1005-DR-CA/ OES 93-01-102	962,758	103,332	—	103,332	—	—	—	—	—	103,332
1993 Firestorm Damage	83.516	FEMA-1005-DR-CA/ OES 93-01-102	77,295	26,155	—	26,155	—	—	—	—	—	26,155
1994 Earthquake	83.516	FEMA-1008-DR-CA/ OES 94-01-041	6,227,051	1,682,403	(1,563,681)	118,722	108,753	664,452	59,356	664,452	723,808	69,325
Total Federal Emergency Management Agency			7,428,561	1,845,152	(1,596,943)	248,209	108,753	664,452	59,356	664,452	723,808	198,812
Total Federal assistance			\$ 11,633,063	2,395,114	(1,596,943)	798,171	1,406,756	1,485,803	869,331	1,485,803	2,355,134	260,746

See accompanying notes to Schedule of Expenditures of Federal Awards and Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with U.S.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 1997

(1) General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of Federal financial assistance programs of The Metropolitan Water District of Southern California (Metropolitan).

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, whereby grant revenues are recognized when they are earned and expenses are recognized when they are incurred.

(3) Definition of Major Federal Financial Assistance Program

The Single Audit Act Amendments of 1996 define major Federal award programs based upon total Federal expenditures of the grantee during the period reported and inherent risk of the programs audited. Based on the assessment of its external auditors, Metropolitan has determined that the United States Bureau of Reclamation – Cooperative Agreement for Urban Water Conservation Program (CFDA No. 15.BBM) is considered to be a major Federal financial assistance program for the year ended June 30, 1997. (See Summary of Auditors' Results section of the accompanying Schedule of Findings and Recommendations.)

(4) Federal Emergency Management Agency Program

Approved reimbursement amounts for claims made under the Federal Emergency Management Agency (FEMA) – Disaster Assistance program (CFDA No. 83.516) are not finalized until after final inspection by FEMA or the State of California Office of Emergency Services (OES). Metropolitan has submitted claims in the form of Disaster Survey Reports (DSRs) to FEMA through OES. The amounts listed for the FEMA projects under "Federal Entitlement Amount" represent approved DSR amounts, which is an estimate of the total cost of the projects. Certain entitlement amounts were revised from fiscal year 1996 due to changes in scope of work or estimates.

Reimbursements received from OES in 1995 and 1996 were unidentified as to specific DSR; accordingly, amounts were combined and included as reimbursements of 1994 Earthquake claims. In 1997, management identified those reimbursements, which related to 1992 Storm Damage and to specific DSRs of 1994 Earthquake claims. In addition, OES approved revisions to entitlements, eligible amounts and supplemental DSRs related to 1992 Storm Damage and 1994 Earthquake claims. These revisions resulted in a net increase in allowable Federal costs, with corresponding decrease in non-Federal costs, through June 30, 1996 of \$2,274 for 1992 Storm Damage and \$869,851 for 1994 Earthquake Damage. The net effect of identification of reimbursement amounts and OES revisions was a decrease in accrued grant revenue at July 1, 1996 of \$33,262 for 1992 Storm Damage and \$1,563,681 for 1994 Earthquake Damage.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards, Continued

(5) Grant Expenses

Included in Grant Expenses on the accompanying Schedule of Expenditures of Federal Awards are indirect costs (i.e., overhead) charged to the various programs. These costs aggregate approximately \$134,220 for the year ended June 30, 1997. Indirect or administrative costs for FEMA projects are limited based upon the amount of the total final approved claim, typically an amount less than 2% of the approved claim amount. Accordingly, some portion of the indirect costs may be disallowed upon final review by FEMA and OES. In addition, Metropolitan has not updated its indirect cost allocation plan (CAP) or indirect cost allocation rate proposal (IDCRP) since 1990/91. (See Finding 97-1 in the accompanying Schedule of Findings and Recommendations.)

(6) CFDA Number

The U.S. Bureau of Reclamation (USBR) — Urban Water Conservation Project, a cooperative agreement between Metropolitan and USBR, has not been assigned a CFDA number. Accordingly, USBR has instructed Metropolitan to identify the program using the designation 15.BBM. The USBR — Salinity Management Study has not been assigned a CFDA number, nor has USBR provided an alternative identification for purposes of the Single Audit reports.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Schedule of Findings and Recommendations

Year ended June 30, 1997

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified Opinion.**
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: **No**; Material weaknesses: **No.**
- (c) Noncompliance which is material to the financial statements: **No.**
- (d) Reportable conditions in internal control over major programs: **No.**
- (e) The type of report issued on compliance for major programs: **Qualified Opinion.**
- (f) Any audit findings which are required to be reported under section .510(a) of OMB Circular A-133: **Yes.**
- (g) Major programs: **United States Bureau of Reclamation – Cooperative Agreement for Urban Water Conservation Program (CFDA No. 15.BBM)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000.**
- (i) Auditee qualified as a low-risk auditee under section .530 of OMB Circular A-133: **No.**

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

None.

(3) Findings and Recommendations Relating to Federal Awards

Finding No. 97-1

Cost Allocation Plans – Allowable Costs/Cost Principles (OMB Circular A-87)

Finding

Cost allocation plans (CAP) or, alternatively, indirect cost allocation rate proposals (IDCRP), are used by organizations to identify and allocate direct and indirect charges, including overhead costs, to their various programs, projects and other activities, whether capitalized or expensed. CAPs and IDCRPs are usually prepared or updated annually on a prospective basis using a prior year's financial data; alternatively, current year's budget data is also sometimes used. When the actual costs for the year are determined, the difference between the originally proposed costs and the actual costs are either carried forward to a subsequent CAP/IDCRP or adjusted on a retrospective basis. Metropolitan has not updated its CAP/IDCRP since fiscal 1991.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Schedule of Findings and Recommendations, Continued

In order to receive reimbursement for indirect costs, recipients of Federal awards are generally required to prepare a CAP and/or IDCPR that provide a basis for allocating indirect costs to Federal programs. Each state, state department and major local unit of government, as well as any other organization specifically requested to do so, must submit its CAP/IDCRP to its cognizant agency for approval. Other unlisted organizations must prepare the appropriate plans/proposals and maintain them on file for later review but may use their results in the meantime. Metropolitan has not been required to submit its CAP and IDCPR to its cognizant agency for review in the past, but as it expects to continue to participate in Federal grant programs, it could be required to do so in the future.

The exposure created by the lack of an updated CAP/IDCRP has been described in our findings in Metropolitan's Single Audit reports for fiscal years 1994, 1995 and 1996. Management responses to this finding in the past Single Audit reports have indicated that management concurred with the need to complete an updated CAP/IDCRP. Last year's response from management stated that Metropolitan would obtain formal bids, hire a contractor and prepare a cost allocation plan within the next fiscal year. While such contractor was hired in fiscal year 1997, the cost allocation plan has not yet been completed as of the date of this report.

Recommendation

We again recommend that Metropolitan complete its cost allocation plan as soon as possible in order to allocate overhead and other costs to all projects and cost centers as applicable. Implementing this recommendation in conjunction with an updated Federal CAP/IDCRP will enhance the accuracy of the costs of providing service or constructing facilities. The CAP/IDCRP should be updated on an annual basis, and differences between the originally proposed costs of the plan and the actual costs should be carried forward to subsequent CAPs and IDCPRs or adjusted with the granting Federal agency on a retrospective basis, as appropriate. Such plans/rates should consider the effect or reimbursement limitations for certain types of programs such as FEMA Disaster Assistance programs.

Management's Response

A draft of the Cost Allocation study is currently under review by management. Management expects the CAP to be finalized in November 1997 with full implementation and automation of the plan by June 30, 1998. Updates based on prior year actual amounts will be performed annually.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Status of Prior Year Findings

Year ended June 30, 1997

Finding No. 96-1

Cost Allocation Plans – Allowable Costs/Cost Principles (OMB Circular A-87)

Finding

In order to receive reimbursement for indirect costs, recipients of Federal financial assistance are generally required to prepare a cost allocation plan (CAP) and/or indirect cost allocation rate proposal (IDCRP) that provide a basis for allocating indirect costs to Federal programs. Each state, state department and major local unit of government, as well as any other organization specifically requested to do so, must submit its CAP/IDCRP to its cognizant agency for approval. Other unlisted organizations must prepare the appropriate plans/proposals and maintain them on file for later review but may use their results in the meantime.

CAPs and IDCRPs are usually prepared on a prospective basis using actual financial data from a prior fiscal year or budgeted data for the current year. When the actual costs for the year are determined, the difference between the originally proposed costs and the actual costs are either carried forward to a subsequent CAP/IDCRP or adjusted with the granting Federal agency on a retrospective basis. In cases where fixed rates are determined and approved by the cognizant Federal agency, subsequent adjustments are not made.

During the year ended June 30, 1996, The Metropolitan Water District of Southern California (Metropolitan) charged or allocated indirect costs totaling \$126,590 to its Federal Emergency Management Agency (FEMA) projects through its work order system and has not updated its CAP/IDCRP since 1990/91. Generally, reimbursement for such indirect costs or administrative costs is limited in FEMA claims based on the total approved final project expenditures (final approved costs will not be known until completion and final review by FEMA). The final allowable indirect costs could be different from the amounts charged to date. In addition, while Metropolitan has not been required to submit its CAP and IDCRP to its cognizant agency for review in the past, it could be required to do so in the future.

(This was a finding in the Single Audit reports for the years ended June 30, 1995 and 1996.)

Recommendation

We understand that Metropolitan expects to participate in Federal grant programs in the future in which allocation of allowable direct or indirect costs will continue to be a factor. Accordingly, we recommend that Metropolitan update its CAP and IDCRP on an annual basis in accordance with requirements for such plans. These plans should be developed prospectively as described above, and differences between the originally proposed costs of the plan and the actual costs should be carried forward to subsequent CAPs and IDCRPs or adjusted with the granting Federal agency on a retrospective basis, as appropriate. Automatic allocations in accordance with the approved plans to the grant programs and future updates to the plans based upon actual results should be facilitated by Metropolitan's new computer system. Such plans/rates should consider the effect or reimbursement limitations for certain types of programs such as FEMA Disaster Assistance programs.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Status of Prior Year Findings, Continued

Management's Response

Metropolitan has received formal bids from qualified vendors to complete this project and expects to award a contract to prepare and complete a CAP/IDCRP in fiscal year 1996-97.

Status

While the contractor was hired in fiscal year 1997, the cost allocation plan has not yet been completed as of the date of this report. (See Finding 97-1 in the accompanying Schedule of Findings and Recommendations.)

Finding No. 96-2

**Specific Requirement – Matching, Level of Effort and/or
Earmarking Requirement Reporting**

Finding

Metropolitan has received several reimbursement checks from the Office of Emergency Services (OES) obligated by the Federal Emergency Management Association (FEMA) for reimbursement for the Federal grant projects undertaken by Metropolitan to repair their facilities from the natural disasters (i.e., 1992 Storm Damage, 1993 Storm Damage, 1993 Firestorm Damage and the 1994 Earthquake) that have occurred in prior years. Upon receipt of these reimbursement checks, the OES and/or FEMA provided no documentation explaining which Disaster Survey Reports (DSRs) and what percentage of the total grant was being funded and whether sub-grantee administrative costs were included in this payment.

Because of the lack of information provided with the reimbursements, Metropolitan has placed these funds in a suspense account and is unable to credit the appropriate project reimbursable work orders that correspond to particular DSRs. As such, Metropolitan is unable to determine their share (percentage remaining) of the cost-sharing, matching, level of effort and/or earmarking requirements for each of the Federal grant projects (DSRs) undertaken to repair their facilities from the natural disasters that have occurred in prior years.

The amount held in this suspense account is approximately \$1,880,095 and is reflected in the 1996 Statement of Federal Financial Assistance under the column heading "Grant Revenue Received" and is presented in the "1994 Earthquake" Federal Grant project, due to the majority of funding received being attributed to the work performed for this grant project.

Recommendation

We recommend that Metropolitan continue their efforts to obtain detail information from the OES and/or FEMA regarding payments recorded so as to credit the appropriate project reimbursable work orders that correspond to particular DSRs.

Management's Response

Metropolitan has not received any documentation from the OES to allocate reimbursement checks among the respective DSRs. Staff will continue its efforts to obtain such information from OES.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Status of Prior Year Findings, Continued

Status

Management has received documentation from OES necessary to properly allocate the reimbursement checks among the respective DSRs. (See note 4 to the accompanying Schedule of Expenditures of Federal Awards.)

Finding No. 96-3

Specific Requirement – Submission of Quarterly and Annual Performance Reports

Finding

Since the April 1, 1995 conversion to Metropolitan's new core business financial reporting systems, the USBR Federal Grant project team has been unable to access the information on the financial reporting system to prepare its quarterly and annual performance reports to the respective Federal agencies.

Due to the switch to the new financial reporting system at mid-fiscal year, the USBR grant project team coordinator cannot access the system to review information regarding funds balance, interest received on advance, total water billing credits distributed, total overhead allocated to the program and total payments to vendors for water-saving devices.

Metropolitan is posting all entries related to the USBR Urban Conservation Project to the Conservation division's budget and the USBR grant project team coordinator must manually review all the documents (i.e., monthly water bills to agencies for a tally of their water billing credits, etc.) to separately identify the amounts related to the program and prepare all of the quarterly and annual performance reports.

We also understand that due to this means of reporting, the USBR project team has experienced a time delay in producing their quarterly and annual performance reports. As such, the USBR project team was excused from the imposed deadlines of 30 days following the end of a quarter for the Quarterly Reports and 90 days after the end of a fiscal year for the Annual Report. This is technically considered a finding as it relates to the overall internal controls over the safeguarding, management and reporting of Federal grant funds.

Recommendation

We recommend that Metropolitan revise the new financial reporting system software to meet the needs of the USBR project team and train the USBR project team personnel to extract the information necessary to timely prepare performance reports using the new financial reporting system.

Management's Response

In January 1996, a reimbursable project number (750044) was assigned to the USBR grant project, water conservation program, to monitor the project's accounting activities.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Status of Prior Year Findings, Continued

The project's accounting activities are recorded to the Oracle general ledger. The following reports can be produced from the current Oracle General Ledger System to provide the accounting information:

- A trial balance report (summary 2). It lists all accounting activities by account charged or credited at a summary level for the period requested.
- The General Ledger-Entry report. It lists general ledger with entry item detail.

The above two reports capture the project's accounting activities either at the summary level or at the detail entry level. Therefore, there is no need to develop a new financial reporting system to report the USBR project activity.

Coding for the USBR project will be set up in the Oracle and the WIN systems to capture the project expenditures. The target date is December 1, 1996.

Status

Management has established the reports and accounts in the Oracle General Ledger System as indicated above. Internally generated information required to provide the required reports is now available on a timely basis; however, we noted that the reports are still not timely submitted. Although the late submission has been waived by USBR, the reports have not been timely submitted because Metropolitan has been unable to obtain certain information from subgrantees (i.e., participating member agencies) on a timely basis.

We recommend that Metropolitan revise its procedures regarding notification of participating member agencies of specific information requirements and deadlines for reporting in order to submit its reports to USBR on a timely basis. We further recommend that Metropolitan work with the participating member agencies to establish procedures to ensure timely compilation and reporting of this information to Metropolitan.