



Transmitted via e-mail

May 1, 2014

Ronald Chapman, MD, MPH, Director
California Department of Public Health
P.O. Box 997377, MS 0500
Sacramento, CA 95899-7377

Dear Dr. Chapman:

Final Report—Metropolitan Water District of Southern California, Proposition 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Metropolitan Water District of Southern California's (Metropolitan) grant P50-1910087-044 issued by the California Department of Public Health.

The enclosed report is for your information and use. Metropolitan's response to the report observation is incorporated into this final report. Metropolitan agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving its program. This report will be placed on our website.

We appreciate the assistance and cooperation of Metropolitan. If you have any questions regarding this report, please contact Diana Antony, Manager, or Jon Chapple, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. David Mazzer, Acting Chief, Drinking Water Technical Programs Branch, California Department of Public Health
Mr. William Young, Audit Manager, Internal Audits, California Department of Public Health
Ms. Jean Iacino, Acting Chief, Internal Audits, California Department of Public Health
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Jeffrey Kightlinger, General Manager, Metropolitan Water District of Southern California
Mr. Gary Breaux, Assistant General Manager/Chief Financial Officer, Metropolitan Water District of Southern California
Mr. Mike Claisse, Program Manager, Metropolitan Water District of Southern California
Mr. Gerald Riss, General Auditor, Metropolitan Water District of Southern California

Metropolitan Water District of Southern California
Proposition 50 Bond Program
Grant Agreement P50-1910087-044



Weymouth Water Treatment Facility Oxidation Retrofit Project

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Jon G. Chapple, 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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50). The \$3.44 billion in bond proceeds finance a variety of resource programs.

The Metropolitan Water District of Southern California (Metropolitan) is a consortium of 26 cities and water districts that provide drinking water to nearly 19 million people in parts of Los Angeles, Orange, San Diego, Riverside, San Bernardino, and Ventura counties. Metropolitan's mission is to provide its service area with adequate, reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.¹

The California Department of Public Health (DPH) awarded Metropolitan a \$20 million Proposition 50 grant to design and construct a portion of the Weymouth Water Treatment Facility Oxidation Retrofit Project. The project's purpose is to upgrade the disinfectant capabilities of the Weymouth Water Treatment Facility to comply with Stage 1 of the United States Environmental Protection Agency's Disinfectant/Disinfection By-Products Rule. The grant funding was to assist in financing a portion of a larger project and also required Metropolitan to provide a match contribution equal to the grant amount.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant P50-1910087-044 for the period March 5, 2005 through January 31, 2013.

The audit objectives were to determine whether Metropolitan's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

Metropolitan's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DPH and the California Natural Resources Agency are responsible for the state-level administration of the bond programs.

¹ www.mwdh2o.com.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed as required, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed Metropolitan's accounting records, contracts, contract invoices, and payment requests.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, 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.
- Conducted a site visit to verify project existence.
- Evaluated whether a sample of grant deliverables required by the grant agreement were met.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Except as noted below, the grant expenditures claimed were in compliance with the requirements of the grant agreement and grant deliverables were completed as required. The Schedule of Claimed Amounts is presented in Table 1.

Table 1: Schedule of Claimed Amounts

Grant Agreement P50-1910087-044	
Task	Claimed¹
Design and Engineering	\$ 235,730
Equipment	7,429,386
Construction	12,251,750
Total Grant Costs	19,916,866
Total Match	19,918,126
Total Project Costs	\$ 39,834,992

Observation 1: State Funded Equipment Stored Off-Site Pending Completion of Project’s Final Phase

State-funded equipment exceeding \$7 million remains in storage pending completion of the project’s final phase, which is expected to be in 2016. As noted in the Background section of this report, this grant funded a portion of a larger project. According to Metropolitan and DPH, the project site is not ready for the equipment. As a result, the majority of the equipment (including four ozone generators) remains in storage at an off-site facility.

With such a large investment in equipment, the state has a vested interest in ensuring the equipment is placed into operation. Grant agreement, section 9, states that upon completion of the project, and for a period of 20 years, the Grantee shall commence and continue operation of the project.

Recommendation:

Metropolitan and DPH should ensure the state-funded equipment is ultimately placed into operation and utilized in accordance with the terms of the grant agreement.

¹ The grantee claimed \$19,916,866 of the \$20 million awarded.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

MAR 12 2014

Mr. Richard R. Sierra
Chief, Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Sierra:

Audit Response: Grant Agreement P50-1910087-044

The Metropolitan Water District of Southern California is in receipt of your letter dated February 28, 2014, and its attached audit of our Grant Agreement P50-1910087-044. Metropolitan greatly appreciates the work of state staff in the preparation of this document and concurs with the recommendation of the audit report.

In response to the audit report Observation 1, Metropolitan and its Board are committed to the installation and operation of the Weymouth Oxidation Retrofit Program ozonation equipment. Metropolitan had executed a procurement contract to purchase this long-lead time equipment, and stored it in a secure facility in anticipation of Metropolitan's general Weymouth Oxidation Retrofit facilities construction project. As part of this work, Metropolitan executed construction Contract No. 1741, to build ozonation facilities and install this equipment for operational use. This construction contract was awarded to Archer Western Contractors LLC on June 12, 2012, and the equipment was turned over to them on August 17, 2012, for their installation. This construction contract is on schedule to have all necessary facilities constructed and ozonation equipment installed for completion in September 2016, with commissioning and operational use of the ozonation equipment to follow.

Metropolitan has greatly appreciated the state of California's assistance in this effort and enjoyed working with its staff.

Very truly yours,

Original signed by:

Jeffrey Kightlinger
General Manager

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