



May 9, 2017

TO: Metro TAC Members and Interested Parties

FROM: Karyn Keese

SUBJECT: FYE 2015 City of San Diego Public Utilities Department Schedule of Allocation for Billing to Metropolitan Wastewater Utility and Independent Auditor's Report (Exhibit E Audit)

BACKGROUND

In March 2017 Public Utilities Department (PUD) staff provided the final FYE 2015 Independent Auditors Report (FYE 2015 audit) and final reconciliation for that year (copy attached to this staff memo). Although the FYE 2015 audit was immediately sent out to all Metro TAC and Metro Commission/JPA members as well as interested parties the audit has not been brought forward for formal review and acceptance.

When the FYE 2015 audit was released questions were raised by the Metro TAC and Metro Commission/JPA's chairs regarding the Pure Water Program costs that were being included in FYE 2015 and were being charged to the PAs in that fiscal year since the Pure Water Program (PWP) cost allocation between City of San Diego water and wastewater departments had not been finalized and had in fact been stalled since September 2015. Prior to moving forward with the acceptance of this audit the following questions were asked:

1. What were the total PWP costs charged to wastewater and therefore the PAs in FYE 2015?
2. Would all PWP costs be revised as needed once the final Pure Water cost allocation has been determined and agreed to by all parties?

DISCUSSION

PWP costs are currently being allocated as either O&M Program Costs or CIP Program costs to both the water and wastewater departments. O&M program cost are those general program management expenses that cannot be directly capitalized into a project. CIP Program costs currently include predesign and design of the Morena Pump Station and Pipeline and the North City Expansior Projects.

In response to item #1 above PUD audit staff provided detail of 35 Pure Water Program O&M purchase orders that have been issued with incurred costs since the project inception in 2014 through June 30, 2016 and the costs associated with them (see following summary table). We have audited these costs and have verified that water has paid 50% of the costs as well. In addition, we identified 5 additional purchase orders that are currently under review by staff that have 50/50 cost allocations that were issued by June 30, 2016.

THE JOINT POWERS AUTHORITY PROACTIVELY ADDRESSING REGIONAL WASTEWATER ISSUES.

**50/50 PWP O&M Costs from Project Inception
Metro Wastewater Costs Only**

2014	\$ 49,485.73
2015	\$ 1,323,166.83
2016	\$ 2,367,463.42
<u>Total</u>	<u>\$ 3,740,115.98</u>

In 2013 the PAs agreed to pay for general program PWP O&M costs on a 50/50 basis with the water department as cost allocation was being actively negotiated and it was assured at that time that once final cost allocation had been determined and approved by all parties that the split between water and wastewater would be revised retroactively to the inception of the project and that project costs would be adjusted. However, final PWP cost allocations have not been determined or approved by the PAs and the City of San Diego. At the April 19, 2017 Metro TAC meeting PUD financial staff reviewed this issue in regards to the PWP costs contained in the FYE 2015 audit and assured Metro TAC members that they would prepare the needed audit adjustments once cost allocation is complete in conjunction with the annual audit of the year that cost allocation is completed in that will most likely be FYE 2018.

In addition to the 50/50 split PWP O&M purchase orders our audit identified two CIP projects with costs starting in FYE 2015. A summary of these costs follows:

**PWP CIP Costs
Metro Wastewater Costs Only**

Morena PS & Pipeline: 78% Metro 22% water

2015	154,897.38
2015	\$ 1,647,287.87

NC Treatment Plant Expansion 100% Metro

2015	\$ 268,778.29
2016	\$ 2,349,629.56

IN CONCLUSION

The majority of the FYE 2015 costs for the Pure Water Program have been identified and we will continue to refine these numbers with PUD audit staff to insure that all PWP costs are identified for potential adjustment once PWP cost allocation is complete. PUD financial staff have provided assurances that any changes to either the PWP 50/50 split O&M or direct O&M or CIP cost allocations will be accomplished through a journal entry once cost allocations are complete in the fiscal year when they are finalized.

PUD financial staff will be at the May 17, 2017 Metro TAC meeting to review the audit and answer any question Metro TAC members may have.