



Metro Finance Committee
(Finance Advisory Committee to Metro JPA)

TO: Finance Committee Members and Metro Commissioners
DATE: Wednesday, July 28, 2010
TIME: 8:30 a.m.
LOCATION: PBS&J, 9275 Sky Park Court, Suite 200, San Diego, CA 92123*

* The location and time of future meetings is subject to change

THIS NOTICE HAS BEEN DISTRIBUTED TO THE METRO COMMISSIONERS AND FINANCE COMMITTEE MEMBERS

-
1. Roll Call
 2. Public Comments
Persons speaking during Public Comment may address the Metro Finance Committee on any subject matter within the jurisdiction of the Metro Finance Committee that is not listed as an agenda item. Comments are limited to three (3) minutes. Please complete a Speaker Slip and submit it prior to the meeting.
 3. Approval of Minutes from the May 26, 2010 Finance Committee Meeting (**Attachment**)
 4. Election of Finance Committee Vice-Chair
 5. FY2010 Period 11 Budget Update (**Attachment**)
 6. Review of JPA External Auditor Proposal (**Attachment**)
 7. Exhibit E. Audit Status Report (**Attachment**)
 - a. Draft 2009 Findings
 - b. Draft 2010 cost Allocations
 8. 2010 Performance Audit of Public Utilities department (**Attachment**)
 9. Review of Items to be Brought Forward to the Metro Commission/Metro JPA
 10. Other Business of the Finance Committee
 11. Adjournment

The Metro Finance Committee may take action on any item listed on the Agenda whether or not it is listed "for action".

Materials provided to the Metro Finance Committee related to any open-session item on this agenda are available for public review by contacting Karyn Keese (858)514.1008 during normal business hours.

Finance Committee 2010 Meeting Schedule

January 27	May 26	September 29
February 14	June 30	October 27
March 31	July 28	November 24
April 28	August 25	December 29

***In compliance with the
AMERICANS WITH DISABILITIES ACT***

The Metro Finance Committee requests individuals who require alternative agenda format or special accommodations to access, attend, and/or participate in the Metro Finance Committee meetings, contact Karyn Keese at (858)514.1008, at least forty-eight hours in advance of the meetings.

Agenda Item No. 3

Attachment



Metro Wastewater JPA Finance Committee

May 26, 2010

Draft Minutes

Meeting called to order: 8:36 a.m. at PBS&J Offices, 9275 Sky Park Court, San Diego, CA 92101 by Committee Chairman Ovrom.

1. Roll Call

Attendees:

Al Ovrom, Committee Chairman, Metro Wastewater JPA Finance Committee
Merrilee Boyack, Committee Member
Augie Caires, Committee Member
Ernie Ewin, Chairman, Metro Commission/Wastewater JPA
Alejandra Sotelo-Solis, Committee Member

Support Staff:

Doug Wilson, Metro JPA Treasurer
Karyn Keese, PBS&J
Paula de Sousa, BBK

General Public:

There were no general public.

2. Public Comment

There was no public comment.

3. Approval of Minutes from the April 28, 2010 Finance Committee Meeting

ACTION: Upon motion by Committee Member Boyack, seconded by Committee Member Caires, the April 28, 2010 Regular Meeting Minutes were unanimously approved.

4. Review of PBS&J Proposal for Contract Amendment for FY 2011

Karyn Keese reviewed the PBS&J proposed contract for FY 2011. She reported that PBS&J was not increasing their hourly rate (\$175 per hour) or the total contract amount (\$105,595) for the fourth straight year. There are four major work areas covered by the contract. The first is routine engineering services which include the attendance and participation in Metro TAC, Metro JPA/

Commission, and Metro JPA Finance Committee meetings. The only change in this work area is increased hours to support the Finance Committee.

The second work area is the Exhibit E Audit which has not changed in scope of work. Committee Member Boyack asked how many audits this task would cover in 2010. Ms. Keese responded that it would cover 1.5 because the 2009 audit will most likely not be completed prior to June 30, 2010. In addition the 2010 audit could be challenging because the City changed their accounting software in mid 2010 so the audit will be based on ½ year on their old accounting software and ½ year on their new system. She has had several planning meetings with staff to review the new accounting system and she noted there were some positive changes. In addition 2010 will be the first year for the Public Utilities department and attention will not only have to be paid between metro and muni costs but also water costs.

The third work area is the Metro JPA Budget review. This has not changed. The fourth area is special projects. Anticipated special projects include continued participation in the City of San Diego's Reclaimed Water Master Plan, resolution of contractual reclaimed water issues, and review of the upcoming draft of the reclaimed water pricing study. Scott Huth commented that there may not be enough hours in the reclaimed water master plan task as this is a very important regional issue which Metro TAC is going to become more involved in. Ms. Keese stated that she would update the Finance Committee at each of their meetings on the status of the PBS&J contract.

ACTION: Upon motion by Committee Member Boyack, seconded by Committee Member Caires, the Committee unanimously approved the PBS&J Contract for FY 2011.

5. Review of Amendments to Legal Services Agreement with BBK

Paula de Sousa reviewed a proposal for an amendment to the Legal Services Agreement between the JPA and Best Best & Krieger LLP (BBK) to increase the hourly rate for all attorneys to \$200.00 per hour, \$120.00 for paralegals/clerks and to provide for annual increases based on increases in the Consumer Price Index (increases commencing on July 1, 2011 should CPI increase. This increase would still be below BBK's standard general counsel rates.

Ms. de Sousa explained that BBK has not sought a fee increase since it began providing legal services to the JPA in 2001. A possible fee increase was discussed in 2007 with then Chair Abarbanel, when the agreement for continued representation of the JPA was considered and approved, but moving forward with an increase at that time, was deferred. Since 2001, rates have been held at the 2001 rate of:

Partners:	\$180
Sr. Associates	\$155
Jr. Associates	\$125
Paralegals:	\$100
Clerks:	\$100

Ms. de Sousa also stated that over the last few years services provided to the JPA by partners constitute approximately 55-70% of the total number of hours billed to the JPA. She does not

expect any substantial change in the number of partner hours devoted to the JPA in the years to come.

ACTION: Motion by Committee Member Boyack, seconded by Committee Member Sotelo-Solis that the Committee approves the Amendment to the Contract with Best, Best, & Krieger for FY 2011.

6. Review of Amendments to Treasurer Services Agreement with Padre Dam Municipal Water District

Doug Wilson, Treasurer to the Metro JPA indicated that the total contract of \$14,000 would continue at a flat amount for the next fiscal year despite the hourly rate change indicated by the current year's amendment. The hourly rate is the amount that Padre Dam MWD charge for Wilson's time under that agency's billing system. The increased rate will be offset by hours of work charged for the Treasurer's duties for the next fiscal year. The Treasurer's duties will be the same as listed within the original *Agreement for Treasurer's Services* (attached).

ACTION: Upon motion by Committee Member Boyack, seconded by Committee Member Caires, the Committee unanimously approved the Amendments to the Treasurer Services Agreement for FY 2011.

7. Review of 2010/2011 Metro JPA Budget

Treasurer Wilson reviewed the 2010/2011 Metro JPA Budget. Very few of the line items have changed from the prior year. Legal services have increased by 10% to reflect the proposed increased billing rate. Additional monies have been added to the Administrative Support category to reflect the fact that Lori Peoples will start attending the Metro TAC and possibly the Finance Committee to prepare the minutes from those meetings. The budget reflects the cash reserve policy target of 33% and although the actual projected cash is slightly less than the goal Treasurer Wilson did not feel that the budget should be increased to fully fund the target. Treasurer Wilson recommended adopting the budget of \$213,350 funded by \$210,000 of membership billings which is the same as the prior year. The remaining funding will come from earnings on investments and a small reduction on reserve balances. The individual agency billings will vary from the prior year based on their projected flow to the Metro System.

ACTION: Upon motion by Committee Member Caires, seconded by Committee Member Boyack, the Committee unanimously approved the 2010/2011 Metro JPA Budget.

8. Update on the Progress of the FY 2009 Audit

Ms. Keese passed out the most recent Exhibit E Audit Calendar. While the calendar shows that the audit is still anticipated to be complete by the end of the fiscal year there is some slippage in the City preparing responses to the questions from the PA representatives on the samples. There is some concern on the part of the auditors that if they are not complete by June 30, 2010, that they will be assigned to other audits and thus slow the process down.

9. Review of Items to be Brought Forward to the Metro Commission/Metro JPA

The Finance Committee recommended that items 3, 4, 5, 6, and 7 should be moved forward to the June 2010 Metro Commission/JPA meeting.

10. Other Business of the Finance Committee

There was no other business of the Finance Committee discussed.

11. Adjournment

The meeting was adjourned at 9:43 a.m. The next regularly scheduled meeting of the Finance Committee will be June 30, 2010 at the PBS&J San Diego Office. There was some discussion that there may not be a reason to have the June meeting. This will be determined later in June.

Agenda Item No. 5

Attachment



City of San Diego

Public Utilities Financial Summary Month 11 FY2010





City of San Diego

YTD REVENUE & EXPENSE STATEMENT (in thousands)

	<u>WASTEWATER</u>	<u>WATER</u>
OPERATING REVENUE	\$375,817	\$378,436
WATER PURCHASES	\$0	(\$119,022)
OPERATING EXPENSES	(\$186,882)	(\$112,141)
OPERATING INCOME/(LOSS)	\$188,935	\$147,273
DEBT EXPENSE	(\$103,538)	(\$52,754)
NET INCOME	\$85,397	\$94,519
BOND TRANSFERS	\$26,291	\$53,406
MUNI CAPITAL EXPENDITURES	(\$58,320)	(\$99,404)
METRO CAPITAL EXPENDITURES	(\$8,365)	
	(\$40,394)	(\$45,998)
CHANGE IN NET ASSETS	\$45,003	\$48,521



City of San Diego

YEAR END PROJECTED REVENUE & EXPENSE STATEMENT (in thousands)

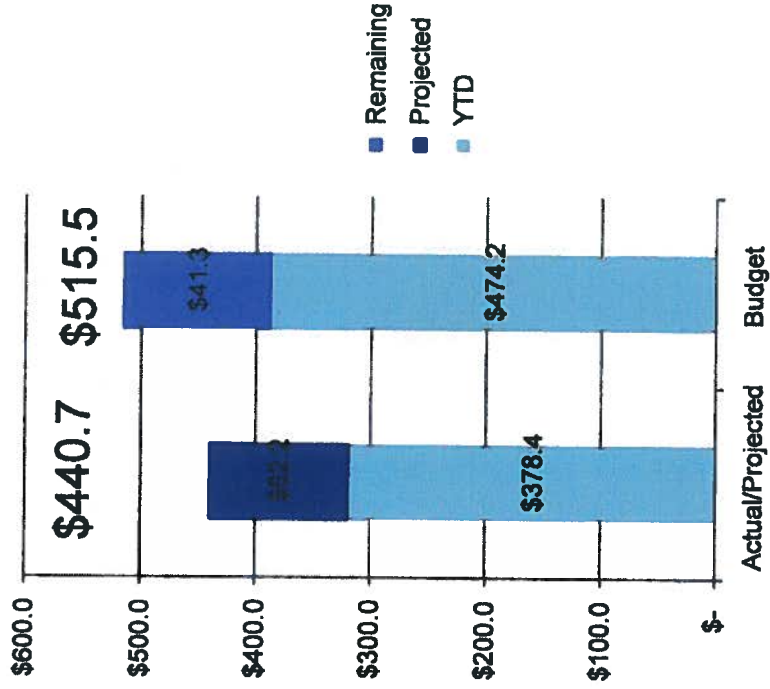
	<u>WASTEWATER</u>	<u>WATER</u>
OPERATING REVENUE	\$358,912	\$365,700
WATER PURCHASES	\$0	(\$151,133)
OPERATING EXPENSES	(\$209,878)	(\$157,788)
OPERATING INCOME/(LOSS)	\$149,034	\$56,779
DEBT EXPENSE	(\$103,547)	(\$63,407)
NET INCOME	\$45,487	(\$6,628)
BOND TRANSFERS	\$55,000	\$75,000
MUNI CAPITAL EXPENDITURES	(\$60,000)	(\$105,000)
METRO CAPITAL EXPENDITURES	(\$8,500)	
	(\$13,500)	(\$25,000)
CHANGE IN NET ASSETS	\$31,987	(\$36,628)



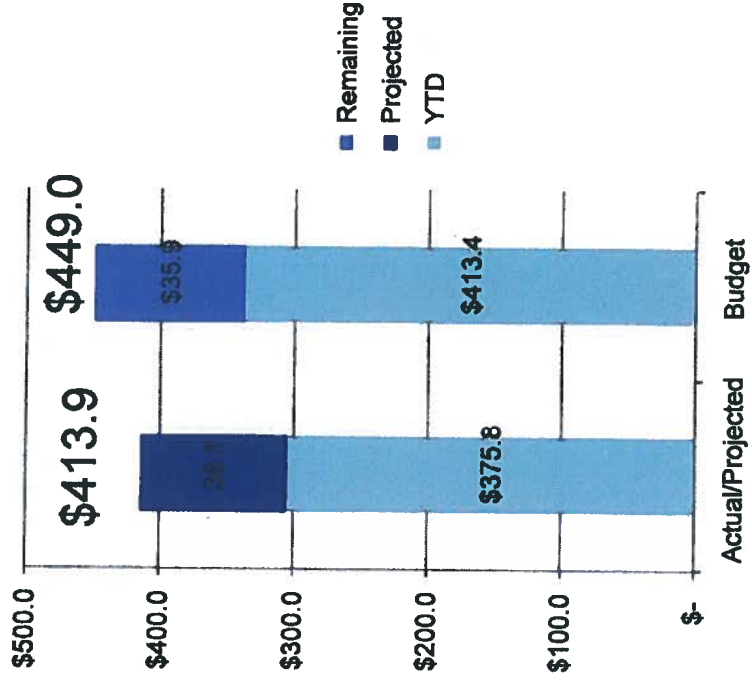
City of San Diego

FY10 Revenue

(In Millions)



WATER FUND



WASTEWATER FUND



City of San Diego

Major Revenue Drivers

- **Water**
 - Jan 1 Rate Increase will boost revenues – 10.6%
 - Sunset IPR Rate – 3.08%
 - Capacity Fees continue below budget
 - Bond Reimbursements below budget
- **Wastewater**
 - Rate increase in May – 7%
 - Capacity Fees continue below budget
 - Bond Reimbursements below budget



City of San Diego

Major Wastewater Expenditure Variances

Operating Budget

- \$5.8M Savings in Supplies
 - Chemicals, other machine parts, electrical materials and pipe fitting – WWTD
- \$17M Savings in contracts including reserves
 - \$9.9M Assurance Reserve (FY10 B2G) – Dept Mgt
 - \$1.6M Environmental Projects – EPM
 - \$2M Digester Cleaning – WWTD
 - \$3.5M ADS - WWC
- \$2.9M Under Budget in IT



City of San Diego

Debt Service Payments

Water

Month	Principal	Interest	SRF
July	\$15,418,697	\$15,289,044	
December			\$673,985
January 2010		\$21,283,475	
Totals	\$15,418,697	\$36,572,522	\$673,985
*\$51,991,219 (Principal & Interest)			

Wastewater

Nov	\$28,893,088	
April 2010	\$5,547,913	
May 2010	\$43,319,999	\$25,802,089
Totals	\$43,319,999	\$60,243,090
*\$103,563,089 (Principal & Interest)		

SRF Payments made throughout the year \$6,059,214

*Based on Amortization schedule

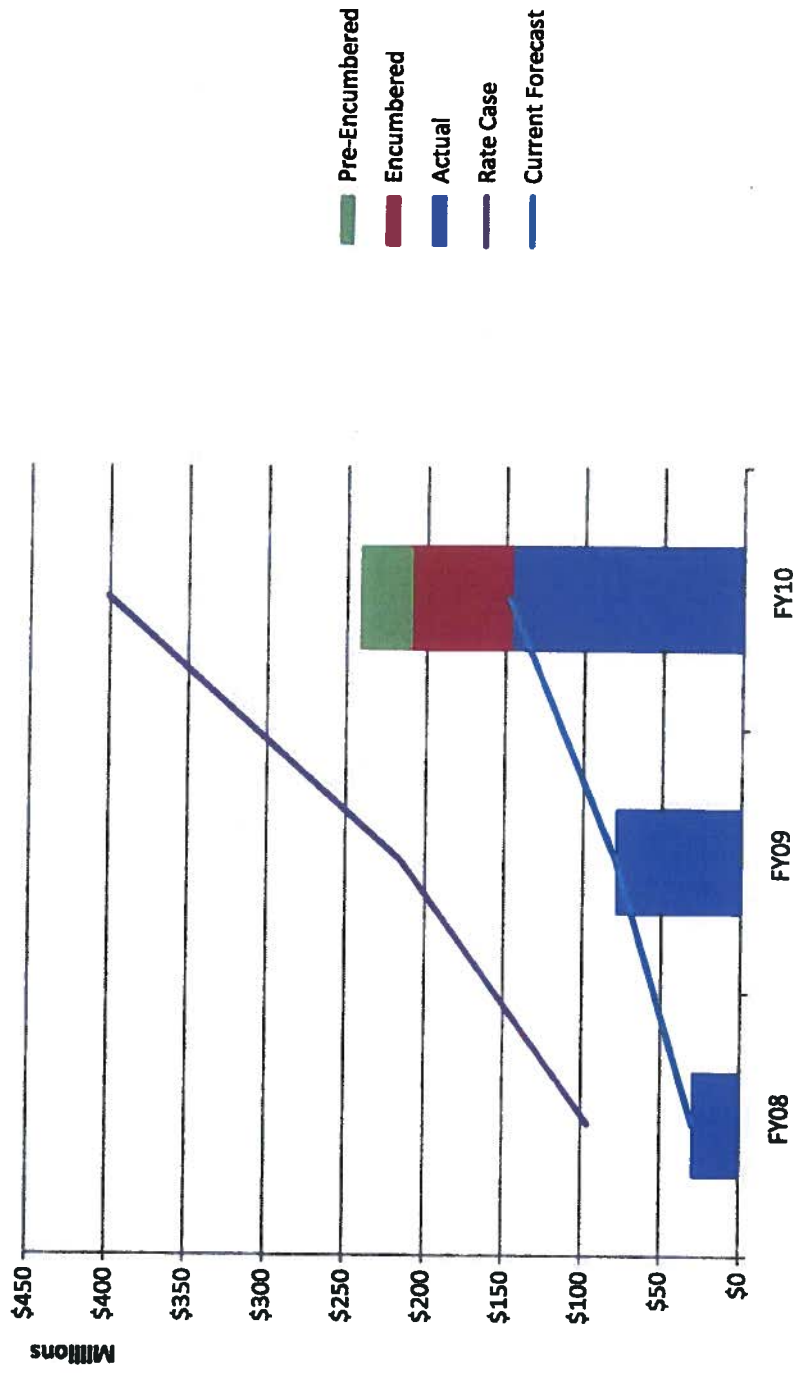


City of San Diego



Capital Improvement Program

(In Millions)



WASTEWATER (cumulative)

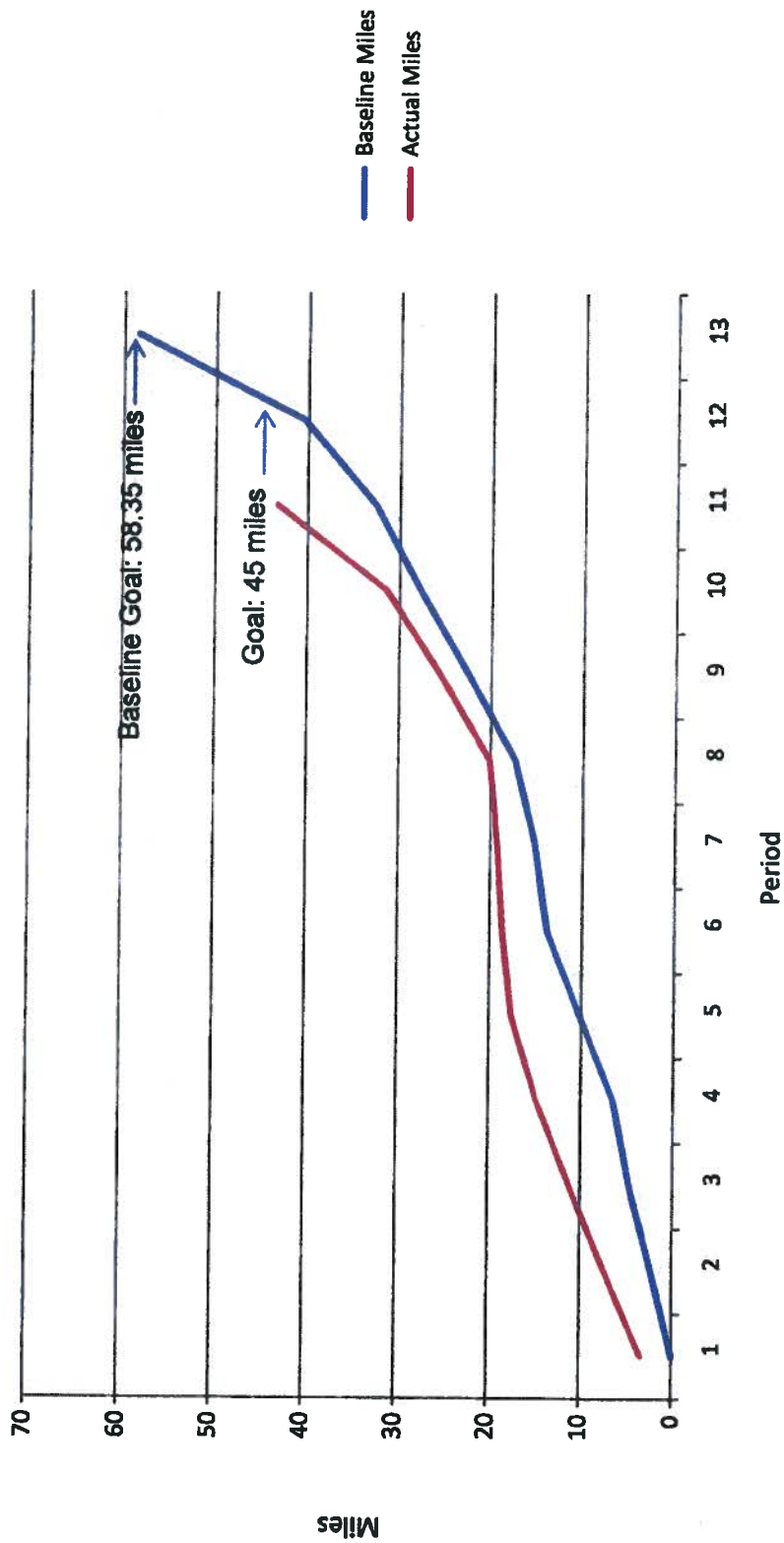


City of San Diego



Capital Improvement Program

(Miles of Main)



WASTEWATER



City of San Diego



Capital Improvement Program

Description	Pre-Encumbered	Encumbered	Actual
*** ABP00002 Metropolitan System Pump Stations	\$0	\$6,430,705	\$1,717,366
*** L10000 Metro Facilities Control Systems Upgrade	\$0	\$1,810,699	\$3,900,373
*** ABO00001 Metro Treatment Plants	\$893,350	\$1,872,900	\$1,017,774
*** S00321 MBC Centrate Collection Upgrades	\$0	\$1,566,308	\$177,751
*** S00315 Point Loma Grit Processing Improvements	\$0	\$1,151,567	\$484,546
*** S00322 MBC Biosolids Storage Silos	\$0	\$439,049	\$514,827
All Other Metro Projects	\$10,000	\$236,024	\$552,670
Metro Fund: Total Projects	\$903,350	\$13,507,252	\$8,365,306

METRO

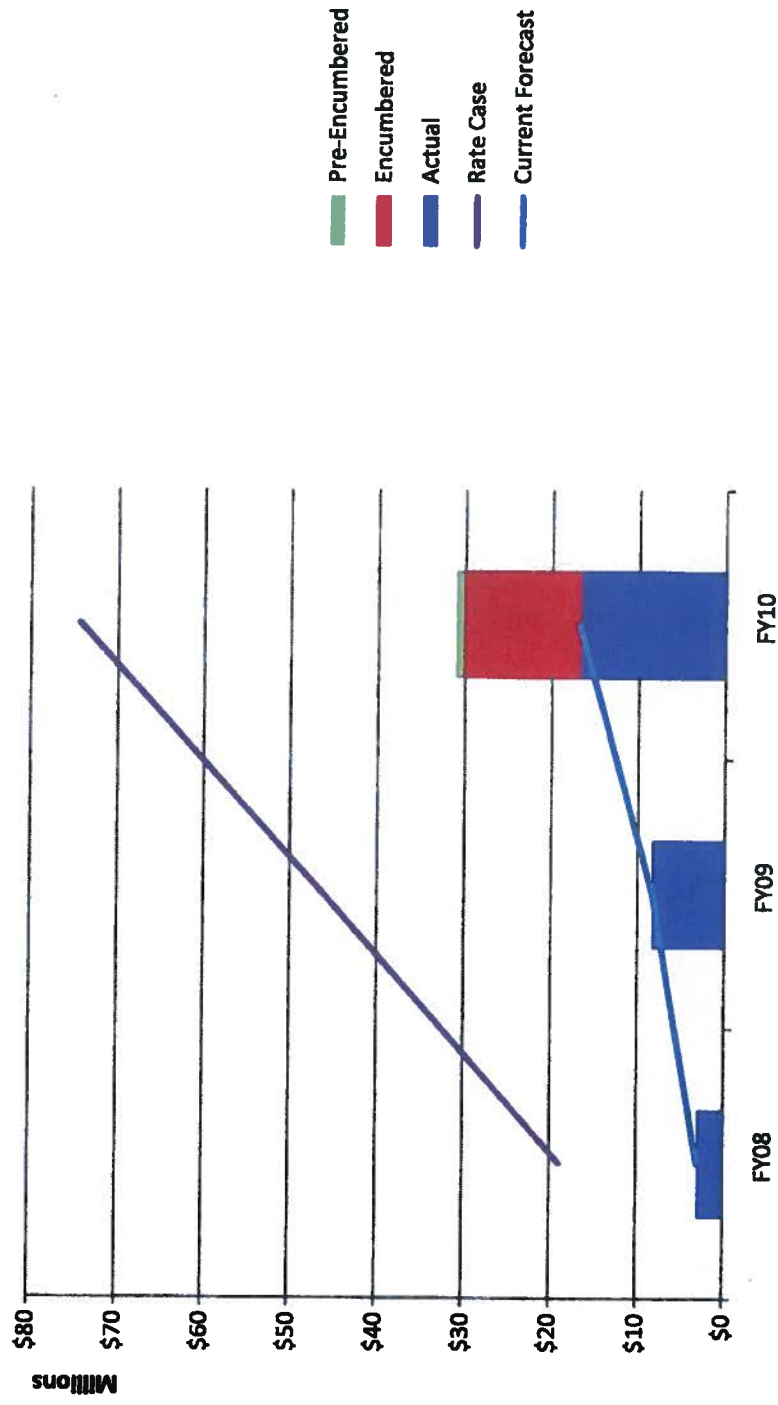


City of San Diego



Capital Improvement Program

(In Millions)



METRO (cumulative)

PUBLIC UTILITIES
 Month 11 - Current Year Monitoring
 Fiscal Year 92% Complete as of 5/31/10

MUNI FUND	A	B	C	D	E	F A-(C+D+E)	G E/B	H F/A	I E/A
	Annual Budget	Month-to-Date Budget	Pre Encumbrance	Encumbrance	Actuals	Available Budget	% Utilized (Monthly)	% Annual Budget Remaining	% of Budget Expended YTD
Calculations Formula									
Operations & Maintenance									
Personnel Cost	17,588,134	10,854,816			15,613,180	1,974,974	142.5%	11.2%	88.8%
Fringe Benefits	8,111,890	5,544,158			8,673,286	(561,386)	156.4%	-8.9%	108.9%
Supplies	5,805,525	1,263,141			2,010,848	2,373,162	159.2%	40.9%	34.6%
Contracts	42,053,756	10,517,787	78,282	1,343,223	22,702,892	9,823,470	215.9%	23.4%	54.0%
Information Tech	5,258,813	588,278			3,822,450	1,434,405	652.0%	27.3%	72.7%
Energy & Utilities	5,041,634	1,203,972	246	1,712	3,580,466	1,446,881	295.7%	28.7%	70.8%
Other	25,838	374			10,148	15,690	2713.5%	60.7%	39.3%
Operating Contingency							0.0%	0.0%	0.0%
Capital Expenditure	1,014,589	-	344,191	64,174	191,149	415,056	0.0%	40.9%	18.8%
Debt	34,537,582	-		19,738	34,337,423	180,420	0.0%	0.5%	99.4%
Expenditure	\$ 119,437,741	\$ 30,070,808	\$ 5,081,710	\$ 6,331,747	\$ 90,921,623	\$ 17,102,662	302.4%	14.3%	76.1%
METRO FUND									
Personnel Cost	33,598,802	28,602,182			29,097,909	4,500,893	101.7%	13.4%	88.6%
Fringe Benefits	15,784,137	15,236,056			15,750,805	43,532	103.4%	0.3%	99.7%
Supplies	32,889,854	15,558,816	893,152	8,929,214	19,785,627	3,381,861	127.2%	10.3%	60.0%
Contracts	77,702,878	38,889,450	2,978,137	8,690,748	48,494,477	17,539,516	124.8%	22.6%	62.4%
Information Tech	9,474,889	11,984,119	45,001	13,631	4,828,794	4,586,463	40.3%	48.4%	51.0%
Energy & Utilities	19,106,388	13,239,527	50,000	1,093,634	11,784,809	6,177,945	69.0%	32.3%	61.7%
Other	707,809	32,677			195,230	512,579	597.4%	72.4%	27.6%
Operating Contingency	1,346,093	1,228,051	256,775	361,357	360,273	1,346,093	0.0%	100.0%	0.0%
Capital Expenditure	1,434,340	237,138		162,984	69,201,243	455,934	151.9%	31.8%	25.1%
Debt	69,937,609	-			69,201,243	573,381	0.0%	0.8%	98.9%
Expenditure	\$ 262,092,799	\$ 124,988,017	\$ 4,223,064	\$ 19,251,669	\$ 199,499,967	\$ 39,118,199	159.6%	14.9%	76.1%
Debt (Municipal Fund)	34,537,582	-	-	19,738	34,337,423	180,420	0.0%	0.5%	99.4%
Debt (Metro Fund)	69,937,609	-	-	162,984	69,201,243	573,381	0.0%	0.8%	98.9%
	\$ 104,475,191	\$ -	\$ -	\$ 182,723	\$ 103,538,667	\$ 783,801	\$ -	0.7%	99.1%
WASTEWATER FUND									
Personnel Cost	51,186,936	39,556,997			44,711,069	8,475,867	113.0%	12.7%	87.3%
Fringe Benefits	23,906,027	20,780,214			24,423,890	(517,863)	117.5%	-2.2%	102.2%
Supplies	38,785,379	16,821,959			21,796,475	5,755,024	129.6%	14.8%	56.2%
Contracts	119,756,633	49,387,217	971,444	10,272,437	71,197,169	27,362,986	144.2%	22.8%	59.5%
Information Tech	14,733,702	12,570,367	7,637,118	13,559,360	6,652,244	6,020,869	88.8%	40.9%	58.7%
Energy & Utilities	24,148,022	14,443,489	45,247	15,343	15,345,275	7,624,826	106.2%	31.6%	63.5%
Other	733,647	33,051	50,000	1,127,921	205,378	528,269	621.4%	72.0%	28.0%
Operating Contingency	1,346,093	1,228,051				1,346,093	0.0%	100.0%	0.0%
Capital Expenditure	2,448,909	237,138	800,865	425,531	551,423	870,990	232.5%	35.6%	22.5%
Expenditure	\$ 277,066,348	\$ 166,068,623	\$ 9,304,774	\$ 25,400,592	\$ 186,882,923	\$ 55,467,059	120.8%	20.0%	67.5%

Agenda Item No. 6 Attachment

From: Wilson, Doug [dwilson@padre.org]
Sent: Friday, July 09, 2010 11:35 AM
To: Keese, Karyn; Paula De Sousa; Lori Peoples
Subject: FW: JPA Audit Fees

Lori/Karyn,

Please place this on the next Metro Finance Committee meeting. The Committee had asked me to find out what an audit might cost for the Metro JPA.

Thanks

Doug Wilson
CEO/General Manager
Padre Dam Municipal Water District

From: Lee Parravano [mailto:LeeP@diehlevans.com]
Sent: Friday, July 09, 2010 8:57 AM
To: Wilson, Doug
Subject: JPA Audit Fees

Doug,

As per our conversation on Tuesday an approximate range for the audit of the Metro Wastewater JPA for the Fiscal Year Ending June 30, 2010 would be between \$5,000-\$7,500.

If you have any questions please give Harvey Schroeder or myself a call at the number below.

Lee Parravano, CPA
Diehl, Evans & Company, LLP
2965 Roosevelt Street
Carlsbad, CA 92008-2389
Office phone (760)729-2343 Office fax (760)729-2234
Visit our website at www.diehlevans.com for firm information and useful links.

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Keese, Karyn

From: Wilson, Doug [dwilson@padre.org]
Sent: Tuesday, July 13, 2010 8:01 AM
To: Paula de Sousa
Cc: Keese, Karyn
Subject: RE: Metro JPA Finance Committee: Meeting in July?

Paula,

If an audit is wanted, it should proceed soon as we end the fiscal year at June 30th because audit/financial result should be presented to the Commission by the Sept/Oct time frame. Also, we should try to have the timing coincide with Padre's on-sight auditor work for better efficiency if possible. Historical financial results become stale when provided late.

However, there is no set rule for this timing. I could still provide the "unaudited" results timely with the audit to follow later. Sorry I copied everyone on my e-mail; I had misread your e-mail as indicated we needed to have a meeting on July 28th. Later, I saw that you were just asking for any agenda items.

Doug Wilson
CEO/General Manager
Padre Dam Municipal Water District

From: Paula de Sousa [mailto:Paula.deSousa@bbklaw.com]
Sent: Monday, July 12, 2010 5:27 PM
To: Wilson, Doug
Subject: RE: Metro JPA Finance Committee: Meeting in July?

Hey Doug--

First, Congratulations on your daughter's upcoming wedding! Where is the ceremony?

Second, is there any reason why this item couldn't be held over until August--would moving forward with an audit require the consideration of the committee in July? The reason I ask is that if this is the only item to be considered, it might be best to hold off until August (and save the JPA some money in consultant fees and per diem)? If this is the case, can you send a follow up email to let folks know that it can be held off until August?

Thanks Doug.

Paula

From: Wilson, Doug [mailto:dwilson@padre.org]
Sent: Monday, July 12, 2010 5:22 PM
To: Paula de Sousa; Lori Peoples; Keese, Karyn; Allan Ovrom; Al Ovrom
Cc: Ernest Ewin
Subject: RE: Metro JPA Finance Committee: Meeting in July?

All,

I previously sent an e-mail from our auditor indicating a range of cost for an audit on the Metro JPA. I can not be at the 28th meeting because I'll be away at my daughter's wedding. However, anyone can present this information for the

Agenda Item No. 7

Attachment



An employee-owned company

July 20, 2010

Mr. Al Ovrom
Chairman
Metro Wastewater Finance Committee
276 Fourth Ave.
Chula Vista, CA 91910

SUBJECT: 2009 Draft Audit Results

Dear Mr. Ovrom and Committee Members:

Attached is a listing of draft findings from the 2009 Exhibit E Audit for your review.

The audit followed the same sampling procedures we have followed in past years. The City generates a listing of all transactions in excess of \$1,000 excluding payroll, San Diego Data Processing (SDDP) charges, and capital improvements (CIP) costs. The total dollar amount of these transactions was \$130.4 million this year. The selected samples from this data base totaled \$102.9 million or 79% of the total dollar amount.

In addition the auditors select 25 payroll samples and the JPA team selects 10 CIP and 20 revenue samples from separate transaction reports. The total sample in 2009 is as follows:

Sample	# Sample
Auditor (MGO)	225
JPA (Metro)	100
CIP (Metro)	10
SDDP (Metro)	1 week
Payroll (MGO)	25
Revenue (Metro)	17
Legal (MGO)	1
Total	378

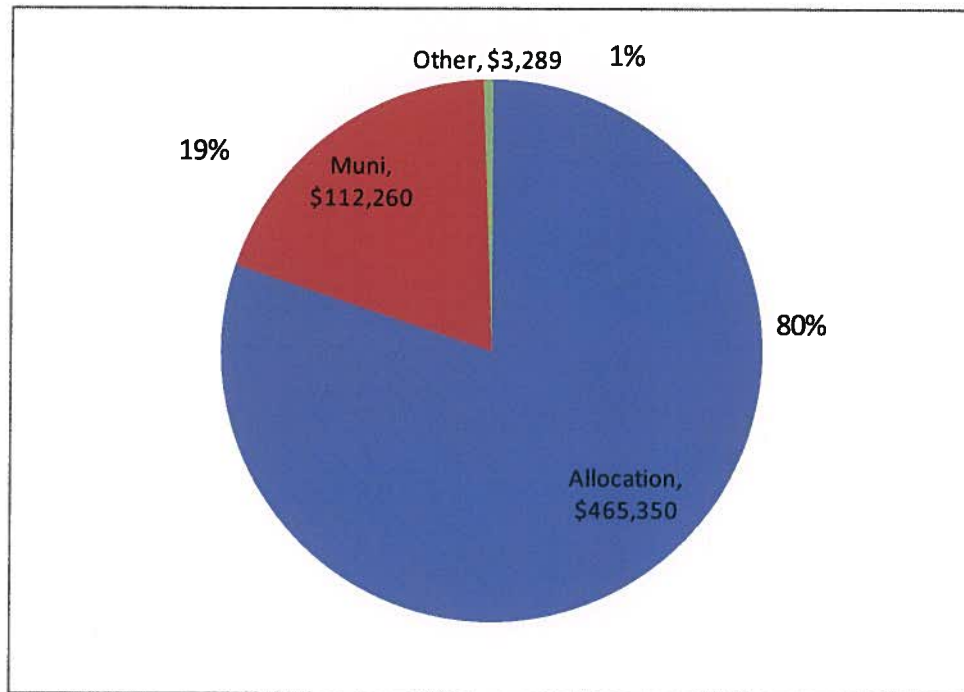
Out of the sample, there were a total of 25 findings totaling \$581,000 dollars as shown in the first two sections of the following table. This is further broken down into Metro and Muni findings. The Metro findings totaled \$581,000 and the Muni findings totaled \$0. Metro findings are defined as transactions found in the sample that are actually Muni expenses but have been charged as Metro expenses. The converse definition applies for Muni expenses. The total is the sum of the two to reflect the aggregate of incorrect transactions or audit findings. Please note from the table that the total dollar amount of the findings is almost half of what it was last year.

Section 1: Comparison of Number of Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	
Metro	25	28	15					
Muni	0	7	9					
Total	25	35	24					
Section 2: Comparison of Total Dollars of Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	7-Year Average
Metro	\$ 580,899	\$ 697,915	\$ 368,292	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,126,274
Muni		\$ 354,673	\$ 189,024	\$ -	\$ -	\$ -	\$ -	\$ 90,616
Total Metro/Muni Findings	\$ 580,899	\$ 1,052,588	\$ 557,317	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,216,890
Section 3: Annual Metro Savings From Audit Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	7-Year Average
Total Annual Metro Savings	\$ 580,899	\$ 343,242	\$ 179,268	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,035,658
Total Savings PAs	\$ 203,315	\$ 120,135	\$ 62,744	\$ 270,472	\$ 801,434	\$ 620,978	\$ 490,000	\$ 362,480

The third section of the table shows the actual Metro savings from the audit results (Metro findings – Muni findings = Actual Metro Savings). The Metro savings are shared with the City of San Diego users. Thus the participating agencies share of the Metro findings is approximately 35% of the total annual Metro savings or in Fiscal Year 2009 \$203,315.

It should be noted that the goal of your audit team (PBS&J and your Treasurer, Doug Wilson) is to work with the Public Utilities staff so that through continued improvements in accounting practices and the continuity of personnel that eventually there will be no audit findings. As the table illustrates there has been great improvements since 2003.

The Metro findings of \$580,899 can be classified into three basic categories: incorrect allocations, muni costs charged to Metro, and other. The breakdown of these three groups is illustrated in the following graph and a detail is included as an attachment to the letter. It should be noted that only two charges were muni charges, two charges were other city department charges, and that the majority of the findings were incorrect allocations between Metro and Muni. Your audit team has already met with Metro Internal Audit Staff to establish prior to the beginning of the 2010 audit revised cost allocations with hope that prior planning will eliminate continued allocation challenges.



If I can provide you with any additional information please do not hesitate to call me at 858-514-1008.

Sincerely,
PBS&J

Karyn Keese
Client Financial Services Manager

2009 Exhibit E
Findings

#	Date	Amount	CY PY	Document Ref Nbr	DFS	City Response	Finding Amount	Dept	JO
Total FY09 expenditures for PO 5102436 (Bureau Veritas - Rate Model) paid 100% Metro in error. Should be 17% Metro and 83% Muni. Decrease Metro and increase Muni by \$7,332.18.									
N/A-1	FY09	\$ 8,833.95	P	PO5102436	E215		\$ 7,332.18	776	765041
Total payments for FY08 were adjusted in the Findings Schedule during the FY08 Audit.									
Total FY09 expenditures for PO 5204334 (Raftelis - Rate Model) paid 100% Metro in error. Should be 100% Muni. Decrease Metro and increase Muni by \$21,192.33. See J56 from last year.									
N/A-2	FY09	\$ 21,192.33	C	PO5204334			\$ 21,192.33	776	765041
Several JO's, used for EPM labor costs related to Muni projects, were on the E215 list in error (to be allocated at the end of the year based on Labor Costs). The identified JO's and their expense will be moved to a Muni Engineering Financial Statement category, in which the PA's will not share in the cost.									
N/A-3	FY09			E215 List			\$ 127,434.75		Comptroller: Please move the identified JO's to a Muni Engineering Financial Statement category.
Total expenses = \$196,053.46 Estimated FY09 Exh E Labor Allocation percentages: Metro = 65% Muni = 35%									
Metro Savings due to moving identified JO's from E215 list to a Muni category: \$196,053.46 x 65% = \$127,434.75									
J1	12/31/2008	\$ 4,649.77	C	820160337	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$325.48.	\$ 325.48	775	271031

2009 Exhibit E
Findings

#	Date	Amount	CY PY	Document Ref Nbr	DFS	City Response	Finding Amount	Dept	JO
J16	6/30/2009	\$ 19,173.17	C	SDGE5350	E225	This expenditure paid 100% Metro in error. Should be 66% Metro and 34% Muni. Decrease Metro and increase Muni by \$6,518.88. The allocation for the remaining expenditure for FY09 was already corrected by JV70990 on 06/30/09.	\$ 6,518.88	775	271021
J17	6/30/2009	\$ 4,002.27	C	SDGE5350	E225	This expenditure paid 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$280.16. The allocation for the remaining expenditure for FY09 was already corrected by JV70990 on 06/30/09.	\$ 280.16	775	271031
J20	6/30/2009	\$ (24,303.00)	C	ACT771365	E225	Total FY09 expenditures paid 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$25,152.89.	\$ 25,152.89	775	271031
J50	3/31/2009	\$ 4,296.92	C	SR9931144	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$300.78.	\$ 300.78	775	271031
J51	4/27/2009	\$ 2,782.93	C	SR9932211	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$194.81.	\$ 194.81	775	271031
J53	4/29/2009	\$ 4,408.93	C	SR9936054	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$308.63.	\$ 308.63	775	271031

2009 Exhibit E
Findings

#	Date	Amount	CY PY	Document Ref Nbr	DFS	City Response	Finding Amount	Dept	JO
J54	10/1/2008	\$ 13,073.74	C	DE2900005	E510	The first rent payment allocated incorrectly and the remaining rent payments for the year paid 100% from Metro in error. Should be 2.5% Metro and 97.5% Muni. Decrease Metro and increase Muni by \$163,361.73. The last payment should have been an accrual for FY10 as noted below.	\$ 163,361.73	776	762010
J55	7/10/2008	\$ 28,873.87	C	DP4223780	E215	Total expenditure for FY09 paid 100% Metro with the allocation based on labor (E215 list) in error. Should be 79% Metro / 21% Muni. Decrease Metro and increase Muni by \$17,246.35. Remove JO 5022 from the E215 list.	\$ 17,246.35	776	765051
J69	9/22/2008	\$ 13,413.68	C	PO5200971	E510	Total FY09 expenditures paid 100% Metro in error. Should be 100% Muni. Decrease Metro and increase Muni by \$91,067.72.	\$ 91,067.72	776	762008
J101	5/21/2009	\$ 17,760.59	C	PO5204650	E225	This one-time expenditure paid 100% Metro in error. Should be 50% Metro and 50% Muni. Decrease Metro and increase Muni by \$8,880.30.	\$ 8,880.30	775	271021
M10	2/5/2009	\$ 1,646.88	C	DP3991664	E225	Total FY09 expenditures paid 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$115.28.	\$ 115.28	775	271031
M11	2/12/2009	\$ 30,196.00	C	ACT771365	E225	Same as J20.	Included in J20.	--	--

2009 Exhibit E
Findings

#	Date	Amount	CY PY	Document Ref Nbr	DFS	City Response	Finding Amount	Dept	JO
M22	6/2/2009	\$ 1,122.00	C	DP3994529	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$78.54.	\$ 78.54	775	271031
M60	6/4/2009	\$ 1,119.16	C	SR0107274	E225	One-time payment expensed 100% Metro in error. Should be 93% Metro and 7% Muni. Decrease Metro and increase Muni by \$78.34.	\$ 78.34	775	271031
M62	8/29/2008	\$ 2,752.06	C	SR9911800	E106	Dept 771 was charged twice in error by Central Stores for one invoice. Decrease Metro and increase Muni by \$1,376.01.	\$ 1,376.01	775	271031
M131	10/24/2008	\$ 2,917.50	P	PO5105048	E215	Total FY09 expenditures paid 100% Metro with the allocation based on labor (E215 list) in error. Should be 12% Metro / 88% Muni. Decrease Metro and increase Muni by \$86,990.78. Remove JO 5024 from the E215 list.	\$ 86,990.78	776	765041
M188	9/2/2008	\$ 26,604.40	C	PO5201302	E106	Use tax paid in error. Decrease Metro and increase Muni by \$1,913.00.	\$ 1,913.00	775	271031
M219	1/8/2009	\$ 25,000.00	C	PO5203491	E215	Total expenditure for FY09 paid 100% Metro with the allocation based on labor (E215 list) in error. Should be 17% Metro / 83% Muni. Decrease Metro and increase Muni by \$20,750. Remove JO 3060 from the E215 list.	\$ 20,750.00	776	765041
TOTAL FINDINGS - Decr Metro & Incr Muni							\$ 580,898.94		



July 19, 2010

Ms. Darlene Morrow-Truver
City of San Diego
Public Utilities Department
Metropolitan Operations Complex
9192 Topaz Way
San Diego, CA 92123

Subject: June 29, 2010 Audit Workshop

Dear Ms. Morrow-Truver:

Thank you for your and your staff's time to review the final 2009 Exhibit E findings as well as the 2010 cost allocation plan with us. It was a very productive meeting and it is always a good feeling to close out another year's audit.

The purpose of this letter is to review a few items we touched on to make sure that all parties remember what our decisions were. The first area is the 2009 Exhibit E Audit Findings.

1. J29: It was agreed to accept the maximum amount accrual for gain-sharing because 2009 was the first year for this program and thus an average could not be determined. It is understood that the maximum amount will be reversed in 2010 and that the actual accrual will be used. Starting in 2010, the maximum accrual will not be used as there will be experience with this program to determine a percentage. This accrual will be reviewed each year based on a rolling average of the program's experience.
2. J32, etc.: In FYE2009, the City started the practice of "averaging" several years of O&M project experience in order to prepare accruals on a timely basis. It was agreed that this practice moving forward was acceptable but only for O&M expenses. Capital expenses, including construction projects, engineering fees, and other items to be capitalized, would be actual accruals based on invoices and not subject to averaging. The City will let the audit team know if there are any changes in or variances from this policy.
3. M185: The City has maintained the policy of using "non-allocable" job orders for the past several years. These job orders are essentially non-Metro expenses that are charged to Metro job orders and are backed out at year end before the final Exhibit E totals are determined. It is our understanding that this practice will be eliminated starting with FYE2010 and that all Muni and/or Water expenses will be charged directly to their own job numbers. This will save PUD staff time during the audit process and provide for a much cleaner audit trail.

The second area of discussion was the Business Support Branch's Cost Allocation Plan. We appreciate being brought in on the beginning of the planning process on the cost allocation plan

The Joint Powers Authority Proactively Addressing Regional Wastewater Issues

for 2010. We agree with your methodologies as summarized on the following draft schedule. It is our understanding that the cost allocations will be updated on a yearly basis and will be based on the prior year's actual numbers of employees, capital projects, etc. The draft schedule provided by staff was based on FYE2007 Exhibit E audit allocations but will be updated for 2010 Exhibit E to at least 2008 actual numbers (2009 actual numbers are preferred if they are available for planning purposes). It is also our understanding that this table will be edited and revised so that it can be presented to the Finance Committee on July 28, 2010.

Our audit team would like to commend your internal audit staff for the continued improvement in audit facilitation. We have seen major improvements in the documentation prepared for us that speeds our review of the samples. Please feel free to contact Karyn at 858-514-1008 or me at 619-258-4617 should you have any questions regarding this letter.

Sincerely,

Doug Wilson
Treasurer

A handwritten signature in black ink, appearing to read 'Karyn Keese', with a long horizontal flourish extending to the right.

Karyn Keese
Financial Consultant, PBS&J

Business Support Branch
Cost Allocation Plan

Division/Section	Total FTE	Methodology	Allocation W versus WW	Total Wastewater	Total	Allocation
			Water	Muni Metro		Water WW
Employee Services/Internal Control) ESIC:						
Div	2	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
Safety	13	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
Security	3	Based on number of facilities with security (10 Water/8 WW)	56%	16%	28%	100%
HR	24	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
Training	13	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
Internal Controls	16	Based on O&M Budget (Water = \$154m/WW = \$228m)	40%	22%	38%	100%
SSS	4	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
Total	75					36
Finance & Information Technology) FIT:						
Div	2	Based on total number of Water and WW employees (Water=746/WW=772)	49%	18%	33%	100%
CIP	12	Based on number of budgeted projects (Water=247/WW=278)	47%	19%	34%	100%
Rates and Fin	13	Based on number of grants and contracts (Water=22/WW=13)	63%	13%	24%	100%
Agency Contracts	4	Based on outstanding debt issuances (Water=4/WW=7)	25%	27%	48%	100%
Debt	34	Based on O&M Budget (Water = \$154m/WW = \$228m)	36%	23%	41%	100%
Budget/AP	25	Number of computers/other hardware Water vs. WW (767 Water/882 WW)	40%	22%	38%	100%
IT	25	Number of computers/other hardware Water vs. WW (767 Water/882 WW)	47%	19%	34%	100%
Total	90					42

FY07 Exhibit E Allocation Applied to Total Wastewater (WW) Costs

35.0% 64.0%

Agenda Item No. 8 Attachment



MEMO

Date: July 21, 2010

To: Metro JPA Finance Committee

From: Augie Caires, Metro Commission and IROC Representative

Re: 2010 Performance Audit of the Public Utilities Department (PUD) to be conducted by the Office of the City Auditor (OCA) at the direction of the Independent Rates Oversight Committee (IROC)

At the request of the IROC, funds have been budgeted (\$100,000) to conduct an external audit of the PUD in 2010 which focuses on departmental performance. This audit is to be led by IROC who will advise the Mayor and Chief Financial Officer about its scope. The OCA is considered an independent outside auditor because it was formed as such by a recent City Charter Amendment.

Therefore the OCA will conduct the audit and is currently developing a scope of work with input from the City's Management Team, PUD management, and the IROC. As the Metro Commission's representative on IROC I have been asked for my perspective and insights regarding water and sewer issues. To be thorough, I think our input should be developed after consideration by the Metro Finance Committee, TAC and the Commission/JPA.

The scoping process has begun with discussions between IROC Subcommittees and the OCA over the past month. The OCA will dedicate about 1,100 audit hours to conduct a performance audit of water and wastewater issues of concern to IROC (preliminary list provided on page 2). OCA's methodology in conducting the audit will include an initial survey to identify high risk areas for the PUD. IROC and the OCA want to focus on challenges and risks that offer the greatest chance of audit success, which may come in the form of cost savings and/or operational efficiencies.

IROC and the OCA will finalize the scope of work at their September meeting, so any input that the Metro Commission/JPA/TAC wishes to provide will need to be formulated by early September.

LIST OF POTENTIAL ISSUES TO BE AUDITED (not in any particular order, some overlap exists):

1. Cost and benefits of the reclaimed water program
2. Impact of legal mandates on efficiency of wastewater system
3. Prioritization, control, and funding of mandated capital projects
4. Risk to ratepayers due to dependence on imported water
5. Conducting operations in an environmentally safe and cost-effective manner
6. Developing a plan for system vulnerability
7. Outreach to ratepayers
8. Overhead rates and inter-departmental charges
9. Capital outlay expenditures
10. Efficiency and business routines
11. CIP program oversight
12. Chemical purchases, uses and optimization
13. Treated water purchases and uses
14. Responsibility for trench repairs
15. Long-term planning and investment
16. Reducing reliance on purchased water
17. Water distribution system
18. Staffing levels and trends, and qualifications
19. Asset management
20. Alternative rate structure to promote conservation

I suggest the Finance Committee initially review this matter and develop a course of action. I will also be discussing this with the Metro TAC on Wednesday, July 21.

cc: Ernie Ewin
Scott Huth