



THE CITY OF SAN DIEGO

July 16, 2009

J. M. Barrett
Director of Public Utilities
City of San Diego

Subject: **Agreed-Upon Procedures Review of the Water Department's Increase
in City of San Diego Water Rates**

We performed the agreed-upon procedures review requested by the Water Department related to the proposed increase in water rates for City of San Diego rate payers, pursuant to San Diego County Water Authority rate increases effective September 1, 2009 and January 1, 2010. In summary, we agreed to perform a review of the mathematical accuracy of the Water Department's calculations of projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2010.

We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the Water Department is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We were not requested to, and did not conduct an audit verifying the reasonableness of the assumptions made relative to the proposed assessment of penalties by any agency which would have required additional procedures. Such additional procedures may have identified other matters, if they existed, that would have been reported to you. We initiated our agreed-upon procedures on July 7, 2009, and completed our work on July 16, 2009.

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The agreed-upon procedures and the results of our work in the report attached were provided in draft to the Water Department for review and comments and they concurred with its contents. Key contributors to this report were Farhat Popal and Kyle Elser. Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink on a light-colored background.

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Honorable Audit Committee Members
Jay M. Goldstone, Chief Operating Officer
Alex Ruiz, Assistant Director, Water Department
Rod Greek, Deputy Director, Water Department
Chris Ojeda, Supervising Economist, Water Department
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor

Water Department Agreed-Upon Procedures Review Report FY2010 Pass Through

Background

The City of San Diego purchases water from the San Diego County Water Authority (SDCWA). As a result of increases in the Metropolitan Water District's (MWD) water supply rates (some of which are effective September 1, 2009) the SDCWA Board of Directors authorized an increase in the cost of water purchased from the Water Authority. Of the nine SDCWA rate categories, five are effective September 1, 2009 and the remaining four are effective January 1, 2010. The City of San Diego Water Department has proposed an increase to the rates paid by City of San Diego customers to account for these increasing costs. The new City of San Diego rates are to be effective January 1, 2010. The Water Department asked the Office of the City Auditor to perform an agreed-upon procedures audit to verify the accuracy of those calculations.

Water Department calculations included the following:

- Increase in base rates per meter, based on water meter sizes
- Increase in costs to purchase water from SDCWA, based on SDCWA rate changes and estimated water purchases
- Increased revenue from San Diego ratepayers necessary to offset the purchase costs based on estimated water sales
- Allocation of the increased revenues to customers, based on water usage

While a Proposition 218 public notice is required prior to increasing rates, a draft of this notice was not provided and was therefore not part of this review.

The following table provides the results of our agreed-upon procedures audit.

Agreed-Upon Procedure	Result	Review Procedures
<p><i>1) Trace the September 1, 2009 and January 1, 2010 water purchase costs to the SDCWA ordinance.</i></p>	<p>The rates established by the SDCWA agreed to the rates used in the Water Department calculations.</p>	<p>Traced rates effective as of September 1, 2009 as well as those effective as of January 1, 2010 from the SDCWA ordinance to the rates used by the Water Department in their calculations. Payments to the SDCWA for in-lieu taxes are based on budgeted estimates and are the responsibility of the Water Department; we did not confirm the calculation of these estimates.</p>
<p><i>2) Verify the prior year purchase costs used to calculate the change in costs between calendar year 2009 and calendar year 2010 rates.</i></p>	<p>The prior year SDCWA rates agreed to the rates used in the Water Department calculations.</p>	<p>We verified the SDCWA rates, effective January 1, 2009 based on the prior year SDCWA ordinance. Payments to the SDCWA for in-lieu taxes were traced to the prior year estimate.</p>

Agreed-Upon Procedure	Result	Review Procedures
<p><i>3) Verify the mathematical accuracy of the Water Department calculations of projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2010.</i></p>	<p>There was a mathematical error of 1 MCF in the Industrial water sales figure for FY2008. Because projected water sales for FY2010 are based on FY2008 figures, this changes the projected water sales for FY2010 by (\$28,453) but does not change the required revenue increase to offset increased costs. Furthermore, the 1 MCF discrepancy doesn't affect the pass through rate calculation.</p>	<p>The projected total increases in water purchase costs and the revenues required to offset the purchases for calendar year 2010 are based on estimates of acre feet of water purchased and sold, which may vary depending on usage. We used the following procedures to verify mathematical accuracy:</p> <ul style="list-style-type: none"> • Traced FY2008 water sales figures to Customer Information System Report U0-400-30. • Traced projected water sales to CWA Target Allocation for FY2010. • Verified revenue estimates for FY2010 and FY2011. • Verified additional revenue required based on projected water sales.

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<p>4) Verify the allocation of rate increases to rate payers.</p>	<p>The July 1, 2009 base rate for the 1-inch, 3-inch, and 8-inch meter sizes was inconsistently rounded, resulting in a \$0.01 overcharge per month. The Water Department was notified and has remedied the inconsistency.</p> <table border="1" data-bbox="787 667 1304 841"> <thead> <tr> <th>Meter Size</th> <th>7/1/2009</th> <th>1/1/2010</th> </tr> </thead> <tbody> <tr> <td>1 inch</td> <td>\$25.78</td> <td>\$25.98</td> </tr> <tr> <td>3 inch</td> <td>\$122.79</td> <td>\$123.99</td> </tr> <tr> <td>8 inch</td> <td>\$628.91</td> <td>\$635.31</td> </tr> </tbody> </table> <p><i>Consistent Rounding</i></p> <table border="1" data-bbox="787 915 1304 1089"> <thead> <tr> <th>Meter Size</th> <th>7/1/2009</th> <th>1/1/2010</th> </tr> </thead> <tbody> <tr> <td>1 inch</td> <td>\$25.77</td> <td>\$25.97</td> </tr> <tr> <td>3 inch</td> <td>\$122.78</td> <td>\$123.98</td> </tr> <tr> <td>8 inch</td> <td>\$628.90</td> <td>\$635.30</td> </tr> </tbody> </table>	Meter Size	7/1/2009	1/1/2010	1 inch	\$25.78	\$25.98	3 inch	\$122.79	\$123.99	8 inch	\$628.91	\$635.31	Meter Size	7/1/2009	1/1/2010	1 inch	\$25.77	\$25.97	3 inch	\$122.78	\$123.98	8 inch	\$628.90	\$635.30	<ul style="list-style-type: none"> Recalculated July 1, 2009 rates based on 6.5% annual increase approved by Council Res. 302380 for FY2008-2011. Recalculated projected January 1, 2010 rates based on July 1, 2009 rates and SDCWA pass-through. Verified percentage increase in commodity charges based on additional revenue required to offset costs.
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