



## THE CITY OF SAN DIEGO

April 8, 2009

Jim Barrett  
Director of Public Utilities  
City of San Diego

Subject: **Agreed-Upon Procedures Review of the City of San Diego Water Department's Proposed Water Allocation Over-Use Penalty Rate**

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We performed the agreed-upon procedures review requested by the Water Department related to the proposed water allocation over-use penalty rate for City of San Diego customers, pursuant to the proposed Metropolitan Water District of Southern California water allocation plan, effective July 1, 2009. In summary, we agreed to perform a review of the mathematical accuracy of the Water Department's calculations for the penalty rates of over-use of water for City of San Diego customers based on the Metropolitan Water District's proposed assessment.

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 April 1, 2009, and completed our work on April 8, 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 Sonja Thorington, Judy Zellers, 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 Executive Officer  
Alex Ruiz, Assistant Director, Water Department  
Rod Greek, Deputy Director, 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**

### **Background**

The City of San Diego purchases water from the San Diego County Water Authority (CWA) which purchases water from the Metropolitan Water District of Southern California (MWD). On February 11, 2008, the MWD Board of Directors approved the Water Supply Allocation Plan - which includes a penalty structure - in response to water supply challenges for MWD and its services area in Calendar Year 2007, and in anticipation of limited and insufficient access of necessary supplies in the upcoming years. CWA has decided to pass through any penalties levied by MWD to those member agencies that have exceeded their annual water allocation. Therefore, the Water Department has proposed allocation over-use penalty rates to be paid by the City of San Diego customers. Prior to implementation of increased rates, a Proposition 218 public notice will be sent to rate payers.

The Water Department prepared a calculation of the proposed penalty rates. They provided us with a penalty rate table that includes figures that will be included in the public notice, documentation regarding allocation over-use penalties from MWD from which the Department's penalties are based, and requested that we perform agreed-upon procedures on their calculations. Their calculations included the following:

- FY 2010 base rates for all City of San Diego customer classes
- Penalty formulas for treated and untreated water, determined by MWD
- Conversion from Acre Foot (MWD's unit of measure) to Hundred Cubic Feet (Water Department's unit of measure)

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

**Results of Agreed-Upon Procedures Review of the City of San Diego Water Department's Proposed Water Allocation Penalty Rates**

Agreed-Upon Procedure	Result	Review Procedures
<p><i>1) Verify the methodology used by the Water Department is consistent with how penalties are proposed to be assessed by MWD and CWA.</i></p>	<p>The Water Department’s methodology for assessment of penalties is consistent with those proposed by MWD and CWA.</p>	<p>Reviewed documents from both MWD and CWA to determine the methodology in water allocation over-use penalty rates. As it is CWA’s intention to pass through MWD penalties, apportioning penalties to member agencies with allocation over-use, and not to add additional penalties to those assessed by MWD, we dealt solely with the proposed penalty plan approved by MWD’s Board of Directors. MWD’s penalty plan consists of two formulas: one for allocation over-use above 100% of the water allocation up to 115% over-use; the second for water over-use exceeding 115% of water allocation. We compared MWD penalty calculation to the Water Department’s calculation as presented in the Department- provided penalty table and found no discrepancies between MWD’s proposed penalties and the Water Department’s assessment.</p>
<p><i>2) Verify the penalty rates are consistently applied to each customer class.</i></p>	<p>The Water Department’s penalty rates are consistently applied to each customer class.</p>	<p>We reviewed the penalty rates for each of the City of San Diego Water Department’s customer classes and found that all customer classes receive identical penalties of water allocation over-use up to 115% and for over-use beyond 115%.</p>

Agreed-Upon Procedure	Result	Review Procedures
<p><i>3) Verify the mathematical accuracy of the Water Department's calculations in determining the penalty rates for over-use of water.</i></p>	<p>The Water Department's calculations of penalty rates for over-use were mathematically accurate.</p>	<p>We independently calculated the penalty rates for water allocation over-use using the MWD's proposed allocation over-use penalty calculation formulas. We then compared our calculations to the Water Department's calculation as presented in the provided penalty table. We found no discrepancies between our assessment of proposed penalties and the Water Department's assessment.</p>
<p><i>4) Trace the penalties in the draft 218 notice from the table on the proposed City of San Diego Water Allocation Penalty Plan to the MWD penalty table provided by the Water Department and used to calculate the penalty rate by converting the per Acre Foot penalty from MWD to Hundred Cubic Feet equivalents.</i></p>	<p>The Water Department accurately converted the MWD penalty from \$/Acre Foot (AF) to the Water Department's \$/Hundred Cubic Foot (HCF) equivalent.</p>	<p>The draft 218 document includes MWD's penalty rates for water allocation over-use to member agencies in units of \$/Acre Foot (AF), as well as the Water Department's penalty rate for water allocation over-use to City of San Diego customers units of \$/Hundred Cubic Feet (HCF). Using MWD's penalty formulas for water allocation over-use in \$/AF, we performed the following steps:</p> <ul style="list-style-type: none"> <li>• Calculated MWD's penalty rates;</li> <li>• Converted the penalties to \$/HCF using the Water Department's Water Quantity Conversation Table;</li> <li>• Applied the penalties in \$/HCF to each City of San Diego customer class, using the Water Department's FY 2010 base rates;</li> <li>• Traced both the MWD's penalty rates in \$/AF and the Water Department's penalty rates in \$/HCF as stated in the Water Department's MWD Penalty Rate Chart, based upon its assessment of the MWD Water Supply Allocation Plan, as well as the Department's Proposed City of San Diego Allocation Plan Penalty Chart for each customer class.</li> </ul>