



**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Audit of Expenditures of Federal Awards Performed in Accordance
with the Uniform Guidance

Year ended June 30, 2021

(With Independent Auditors' Report Thereon)

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
Metropolitan Water District of Southern California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and fiduciary activities of the Metropolitan Water District of Southern California (Metropolitan), which comprise the respective statement of financial position as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and, where applicable, cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 18, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metropolitan's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metropolitan's internal control. Accordingly, we do not express an opinion on the effectiveness of Metropolitan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metropolitan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Metropolitan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metropolitan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Los Angeles, California
October 18, 2021



KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
The Metropolitan Water District of Southern California:

Report on Compliance for the Major Federal Program

We have audited The Metropolitan Water District of Southern California's (Metropolitan) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Metropolitan's major federal program for the year ended June 30, 2021. Metropolitan's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Metropolitan's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metropolitan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Metropolitan's compliance.

Opinion the Major Federal Programs

In our opinion, Metropolitan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of Metropolitan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Metropolitan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing



procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Metropolitan's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Metropolitan's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Metropolitan is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. Metropolitan's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities and fiduciary funds of Metropolitan as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statement. We issued our report thereon dated October 18, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally



accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Los Angeles, California
September 28, 2022

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Schedule of Expenditures of Federal Awards

Through June 30, 2021

Federal grantor/pass-through grantor/ federal program title/project title	Assistance listing number	Pass-Through entity Identifying No.	Federal expenditures	Amount passed through to subrecipients
U.S. Department of the Interior:				
Water Conservation Field Services Program:				
Water Conservation Field Services (WCFS)	15.530	—	\$ 3,000	—
WaterSMART: Title XVI Congressionally Authorized Water Reclamation and Reuse Projects				
Demonstration of Pathogen Removal through an Alternative Treatment Technology to Treat:				
Title XVI Water Reclamation and Reuse	15.504	—	<u>605,479</u>	<u>—</u>
Total U.S. Department of the Interior			<u>608,479</u>	<u>—</u>
U.S. Department of Homeland Security:				
Passed through State of California, Governor's Office of Emergency Services (Cal OES):				
Disaster Grants – Public Assistance (Presidentially Declared Disasters)				
2019 California Severe Winter Storms, Flooding, Landslides, and Mudslides	97.036	037-91117	<u>3,120,244</u>	<u>—</u>
Total U.S. Department of Homeland Security			<u>3,120,244</u>	<u>—</u>
Total Federal Expenditures			\$ <u><u>3,728,723</u></u>	<u><u>—</u></u>

See accompanying notes to schedule of expenditures of federal awards.

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2021

(1) General

The accompanying schedule of expenditures of federal awards (SEFA) presents all of the activity of federal financial assistance programs of The Metropolitan Water District of Southern California (Metropolitan) for the year ended June 30, 2021. The SEFA includes \$3,019,442 of costs incurred for the year ended June 30, 2020 related to the Disaster Grants passed through CalOES which were not obligated until fiscal year 2021.

(2) Basis of Accounting

The SEFA is presented using the accrual basis of accounting. For disaster grants, expenditures are reported when both eligible expenses are incurred and agreements with the granting agency have been approved, as required by the granting agency.

(3) Grant Expenses

Metropolitan did not elect to use the 10% de minimus indirect cost rate per Uniform Guidance Section 200.414.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

(1) Summary of Auditors' Results

- a. Type of auditors' report issued on the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None Reported**
- c. Noncompliance material to the financial statements: **No**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **Yes – 2021-001 and 2021-002**
 - Significant deficiencies: **None Reported**
- e. Type of auditors' report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- g. Major Program:
 - Disaster Grants – Public Assistance (Presidentially Declared Disasters)- ALN number 97.036
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- i. Auditee qualified as low-risk auditee: **No**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2021-001	Activities Allowed and Allowable Costs
Federal Program	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Assistance Listing No.	97.036
Federal Agency	Federal Emergency Management Agency
Federal Award Number	FEMA-4431-DR-CA
Pass-Through Entity Identifying No. (name)	037-91117 (State of California, Governor's Office of Emergency Services)
Grant Award Periods	05/01/2019– 11/01/2021

Criteria:

Title 2 CFR 200.403 (a) and (g) stated that except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles; and (g) Be adequately documented. See also § 200.300 through 200.309 of this part.

Moreover, 2 CFR § 200.303 requires the recipient of federal funds establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition/Context:

Metropolitan did not have an effective system of internal control in place to ensure that costs are allowable. Metropolitan has implemented a process of compiling the relevant data elements, including allowed expenditures for all projects. However, there was no control addressing the completeness and accuracy of the allowed expenditures.

Cause:

Metropolitan did not have proper internal controls in place to ensure that the data elements for all projects are complete and accurate.

Effect:

The costs incurred by Metropolitan may be considered unallowable by the federal government.

Questioned Costs:

There are no questioned costs

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Repeating Finding:

This is not a repeat finding

Impact of Finding:

Material Weakness in Internal Controls Over Compliance and Noncompliance

Statistically Valid Sample:

The sample was not intended to be, and was not, a statistically valid sample.

Auditor's Recommendation:

We recommend the Metropolitan develop a process and internal control to ensure there are effective internal controls in place to ensure that costs are allowable.

Views of Responsible Officials and Planned Corrective Action:

We agree with Finding 2021-001 and will act as noted in the Corrective Action Plan which includes revisions to policies and procedures and training for Metropolitan employees involved in grant administration.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Finding 2021-002	Reporting
Federal Program Title	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
Assistance Listing No.	97.036
Federal Agency	Federal Emergency Management Agency
Federal Award Number	FEMA-4431-DR-CA
Pass-Through Entity Identifying No. (Name)	037-91117 (State of California, Governor's Office of Emergency Services)
Grant Award Periods	05/01/2019– 11/01/2021

Criteria:

As set forth in 2 CFR 200.329, the Federal Financial Report, SF 425, Non-federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB. They also may be required to submit special reports as required by the terms and conditions of the federal award.

In addition, 2 CFR 200.303 requires nonfederal entities to, among other things, establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition/Context:

Metropolitan did not have an effective system of internal control in place to ensure the reports that are required to be submitted to the Federal Emergency Management Agency were accurate. Metropolitan has implemented a process of compiling the relevant data elements for all projects and prepare the quarterly progress based on this. However, there was no control addressing the completeness and accuracy of the data included in the quarterly reports.

Cause:

Metropolitan did not have proper internal controls in place to ensure that the data elements for all projects are complete and accurate.

Effect:

The data on the reports submitted by Metropolitan to the Federal Emergency Management Agency may not be complete and accurate.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2021

Questioned Costs:

There are no questioned costs

Repeating Finding:

This is not a repeat finding

Impact of Finding:

Material Weakness in Internal Controls Over Compliance and Noncompliance

Statistically Valid Sample:

The sample was not intended to be, and was not, a statistically valid sample.

Auditor's Recommendation:

We recommend the Metropolitan develop a process and internal control to ensure there are effective internal controls in place to ensure that reports are complete and accurate prior to submitting to the Federal Emergency Management Agency.

Views of Responsible Officials and Planned Corrective Action:

We agree with Finding 2021-002 and will act as noted in the Corrective Action Plan which includes immediate communication to all Metropolitan employees regarding proper review of data prior to submission, revisions to policies and procedures, and training for Metropolitan employees involved in grant administration.



THE METROPOLITAN WATER DISTRICT
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Corrective Action Plan
For the Fiscal Year Ended June 30, 2021

Section II – Financial Statement Findings

MATERIAL WEAKNESSES

2021 –001 Allowable Costs

Name of contact person: Bernadette Robertson, Controller

Corrective Action:

Metropolitan will update its Grant Procedures Manual and its Operating Policy C-21 *Accounting, Administration, and Management of Federally Funded and Non-Federally Funded Grants and Cooperative Agreements*, to include procedures over the timely identification of allowable costs by the grant administrator to ensure all allowed expenditures are accurately accounted for within the appropriate grant project. The Controller Section will host a training for all current and potential grant administrators regarding proper procedures, as outlined in the revised Grant Procedures Manual and Operating Policy C-21, for the identification and tracking of allowable costs.

Anticipated Completion Date:

Metropolitan will amend its Grant Procedures Manual and Operating Policy C-21 as noted in the corrective active plan, above, in fiscal year 2023. A training will be conducted following the revisions to the Manual and Operating Policy but will take place prior to the end of fiscal year 2023.

2021 –002 Reporting

Name of contact person: Bernadette Robertson, Controller

Corrective Action:

In August 2022, the Controller Section hosted a training focused on compliance for all current and potential grant administrators across Metropolitan which included the importance of controls over reporting. This training was proactive prior to identification of the finding. In consideration of the finding, the Controller Section will host an additional training in fiscal year 2023 as a follow-up to the previous training. Further, Metropolitan will update its Grant Procedures Manual and its Operating Policy C-21 *Accounting, Administration, and Management of Federally Funded and Non-Federally Funded Grants and Cooperative Agreements*, to include that all reports to awarding agencies on allowable costs or activities require at least one level of review by the appropriate individual. Communication reiterating the importance of such review will be distributed to all Metropolitan employees. This communication will be further reiterated to management



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level employees in the next Quarterly Finance Update meeting hosted by the Chief Financial Officer.

Anticipated Completion Date:

Metropolitan has already started the process of corrective action by proactively hosting a training for all current and potential grant administrators on compliance which was held in August 2022. Metropolitan will conduct a follow-up training in fiscal year 2023. Also, in fiscal year 2023, Metropolitan will update its Grant Procedures Manual and Operating Policy C-21 as outlined in the corrective active plan. Communication regarding the importance of review of all reports to award agencies will be distributed to Metropolitan employees immediately and reiterated to management level employees at the next Quarterly Finance Update meeting to be held between January and March 2023.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV – State Award Findings and Questioned Costs
