



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

May 6, 2017

Randy Record
and members of the Board

P. O. Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

- Carlsbad Municipal Water District
 - City of Del Mar
 - City of Escondido
 - City of National City
 - City of Oceanside
 - City of Poway
 - City of San Diego
 - Fallbrook Public Utility District
 - Helix Water District
 - Lakeside Water District
 - Olivenhain Municipal Water District
 - Otay Water District
 - Padre Dam Municipal Water District
 - Camp Pendleton Marine Corps Base
 - Rainbow Municipal Water District
 - Ramona Municipal Water District
 - Rincon del Diablo Municipal Water District
 - San Dieguito Water District
 - Santa Fe Irrigation District
 - South Bay Irrigation District
 - Vallecitos Water District
 - Valley Center Municipal Water District
 - Vista Irrigation District
 - Yuima Municipal Water District
- OTHER REPRESENTATIVE**
- County of San Diego

RE: Board Memo 7-1: Adopt CEQA determination and authorize the amendment of the contract with Macias Gini O’Connell, LLP to increase the maximum amount payable by \$324,715, from \$915,096 to \$1,239,811 and extend the term by one year for external audit services

Chairman Record and Members of the Board,

We have reviewed Board Memo 7-1, to amend the agreement with Macias Gini O’Connell LLP (MGO) to increase the contract amount and extend the term by one year for MGO for external audit services. While we will support the action, we want to be clear that we have continued concerns regarding various characterizations contained in the Basic Financial Statements, as described and for the reasons stated in our October 25, 2016 letter and attachments (copy attached).

Sincerely,

Michael T. Hogan Director	Keith Lewinger Director	Elsa Saxod Director	Fern Steiner Director
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cc: Water Authority Board of Directors

Attachment: Water Authority Delegates’ letter dated October 25, 2016 RE Audit and Ethics Committee Agenda Item 3a – Discussion of Independent Auditor’s Report from MGO LLP/Basic Financial Statements (without attachment)



San Diego County Water Authority

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October 25, 2016

Laura Friedman and
Audit and Ethics Committee Members
Metropolitan Water District of Southern California
P.O. Box 54153

Los Angeles, CA 90054-0153

MEMBER AGENCIES

Carlsbad
Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook
Public Utility District
Helix Water District
Lakeside Water District
Olivenhain
Municipal Water District
Otay Water District
Padre Dam
Municipal Water District
Camp Pendleton
Marine Corps Base
Rainbow
Municipal Water District
Ramona
Municipal Water District
Rincon del Diablo
Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center
Municipal Water District
Vista Irrigation District
Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

RE: Audit and Ethics Committee Agenda Item 3a
Discussion of Independent Auditor's Report from MGO LLP/Basic Financial Statements

Dear Chair Friedman:

We have completed preliminary review of The Metropolitan Water District of Southern California Basic Financial Statements Years Ended June 30, 2016 and 2015 (With Independent Auditor's Report Thereon) ("Report"). We have many of the same concerns stated in our October 26, 2015 letter (copy attached) regarding mischaracterizations contained in the Report. These include but are not limited to the continued reporting of Water Authority's payments to MWD under the Exchange Agreement as MWD "water sales," and representations that the Water Authority is paying MWD "a lower rate" for this water supply. Similarly, the description of MWD's contract with the Department of Water Resources (DWR) as a contract for a "system to provide water" rather than as a water supply contract is inconsistent with the terms of the agreement, and with how MWD has historically described it. Judge Karnow has already found all of these facts in favor of the Water Authority and against MWD.

While we appreciate that the Report makes brief mention of Judge Karnow's final statements of decision, it fails to mention Judge Karnow's rulings that MWD's System Access Rate, System Power Rate, Water Stewardship Rate and MWD's wheeling rate violate Proposition 26 (2013-14 rates only), the Wheeling statute, Govt. Code § 549997(a), and the common law and that each of these rate was invalidated for both the 2011-2012 and 2013-2014 rate cycles. Further, the Report fails to note that MWD has continued to use the same flawed rate methodology and cost allocations in setting its rates that are now subject to challenge in the four rate years covered by the 2014 and 2016 cases.

In addition, we note that while the Report goes into great detail discussing BDCP, California WaterFix and prepaid water costs, it does not disclose the materiality of California WaterFix costs; we recommend that some report be added on this subject. We also recommend that the Report include disclosure of the recent trial court decision invalidating the Delta Stewardship Council's Delta Plan and potential cost impacts. We suggest MWD add an additional paragraph similar to the following disclosure contained in a recent Department of Water Resources Offering Statement:

The costs of any conveyance system, if ultimately approved and constructed through the BDCP process, could be substantial. Capital costs to construct a conveyance system as envisioned by California WaterFix are estimated to be \$14.9 billion (in discounted 2014 dollars). These costs would be paid by state and federal water contractors benefiting from the project. Metropolitan's share of the costs could be at least 25 percent or higher depending upon how costs are allocated. In June 2016, a trial court ruled that the Delta Plan was invalid, until such time as the Delta Stewardship Council is able to remedy three specifically identified Delta Plan deficiencies.

We are attaching a copy of our last letter regarding MWD's draft official statements in order to ensure that MGO LLP is aware of the concerns we have expressed about MWD's disclosures.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Elsa Saxod
Director



Fern Steiner
Director

Attachment:

1) Water Authority's July 11, 2016 Letter to MWD RE Draft Appendix A Dated 7/6/16, including attachments

cc:

MWD Board of Directors

Jeff Kightlinger, General Manager

Macias Gini & O'Connell LLP, MWD Independent Auditor