

**EASTERN MUNICIPAL WATER DISTRICT  
PERRIS, CALIFORNIA**

**REPORT ON FEDERAL AWARDS  
IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**FISCAL YEAR ENDED JUNE 30, 2011**

**EASTERN MUNICIPAL WATER DISTRICT**

**FISCAL YEAR ENDED JUNE 30, 2011**

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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**

Board of Directors  
Eastern Municipal Water District  
Perris, California

We have audited the financial statements of Eastern Municipal Water District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 27, 2011. Our report refers to the District's restatement of beginning net assets for the effect of construction period interest and the correction of selected prior year information included in the District's financial statements. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2011-01 and 2011-02 that we consider to be significant deficiencies in internal control over financial reporting. 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of the District in a separate letter dated October 27, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Varrinck, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
October 27, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM,  
INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

Board of Directors  
Eastern Municipal Water District  
Perris, California

**Compliance**

We have audited the Eastern Municipal Water District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the District'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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-03 through 2011-06.

**Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the District's internal control over compliance.

*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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-03 through 2011-06. 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.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the District, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. Our report refers to the District's restatement of beginning net assets for the effect of construction period interest and the correction of selected prior year information included in the District's financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinick, Trine, Day & Co. LLP*

Rancho Cucamonga, California

February 28, 2012, except the Schedule of Expenditures of Federal Awards  
as to which the date is October 27, 2011

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through/ Direct Funding Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b><u>U.S. Environmental Protection Agency</u></b>			
<i>Passed through the State of California - California State Water Resources Control Board</i>			
Capitalization Grants for Clean Water State Revolving Funds - Moreno Valley Regional Water Reclamation Facility (SCATT) ARRA portion	66.458	08-845-550-1	\$ 3,236,933 *
Capitalization Grants for Clean Water State Revolving Funds - Moreno Valley Regional Water Reclamation Facility (APAD) ARRA portion	66.458	09-809-550-2	15,578,376 *
Capitalization Grants for Clean Water State Revolving Funds - San Jacinto Valley Regional Water Reclamation Facility (SJVRWRF)	66.458	10-804-550-0	<u>23,085,821</u> *
Total U.S. Environmental Protection Agency			<u>41,901,130</u>
<b><u>U.S. Department of the Interior</u></b>			
Direct funding:			
Water Reclamation and Reuse Program - HR122 / HR30 - Recycled Water System Pressurization and Expansion Project (ARRA)	15.504	R10AC35R18	4,309,529 *
WaterSmart Water and Energy Efficiency Grant FY2010 - High Efficiency Clothes Washer Direct Install	15.507	Inter-agency Agmt 20101124	15,950
WaterSmart Water and Energy Efficiency Grant FY2010 - Perris Water Filtration Plant Reject Recovery Facility	15.507	R10AP35285	150,000
Central Valley Water Improvement Act, Title XXIV - CALFED Water Use Efficiency	15.512	08-FG-35-0250	200,323
Fish and Wildlife Coordination Act - Assistance Agreement - San Jacinto Basin Restoration Fund	15.517	R10AC35283	<u>4,768,256</u> *
Total U.S Department of the Interior			<u>9,444,058</u>
<b><u>U.S. Department of Energy</u></b>			
Direct funding:			
Renewable Energy Research and Development - Biodiesel Feedstock Production / Restaurant Grease Trap Waste 2010	81.087	DE-EE0003119	28,412
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through the State of California - California Emergency Management Agency</i>			
Emergency Management Agency - Public Assistance Grants December 2010 Statewide Storms	97.036	FEMA-1952 DR-CA	<u>168,272</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 51,541,872</u>

\* Major Programs

**EASTERN MUNICIPAL WATER DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2011**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**General** – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the Eastern Municipal Water District (District). The District’s reporting entity is defined in Note 1 to the District’s basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

**Basis of Accounting** – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the District’s basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Relationship to Basic Financial Statements** – The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agrees, in all material respects, to amounts reported within the District’s financial statements. Federal award revenues are reported principally in the District’s financial statements as non-operating revenue or capital contributions.

**Catalog of Federal Domestic Assistance (CFDA) Numbers** – The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget’s Catalog of Federal Domestic Assistance.

**Pass-Through Entities’ Identifying Number** – When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity.

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with 510(a) of OMB Circular A-133? Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>66.458</u>	<u>Capitalization Grants for Clean Water State Revolving Funds (includes ARRA)</u>
<u>15.504</u>	<u>Water Reclamation and Reuse Program (includes ARRA)</u>
<u>15.517</u>	<u>Fish and Wildlife Coordination Act</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,546,256

Auditee qualified as low-risk auditee? No

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**II. FINANCIAL STATEMENT FINDINGS**

The following findings represent significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.

**Finding 2011-01**

**EVIDENCE OF SUPERVISORY APPROVAL OF EMPLOYEES HOURS**

**Criteria or Specific Requirement:**

Employee hours processed through the payroll system should be approved by an employee's supervisor. For the District's system, as part of the workflow, the supervisor must access the payroll system and certify the employees' payroll time for the pay period. The supervisor's online certification is the main approval over the payroll time entered. The District's payroll system should maintain support evidencing the supervisor's online certification.

**Condition Found:**

*Significant Deficiency* - Based on the testing over the payroll process internal controls, we noted the District's internal controls require supervisor approval of employee's hours prior to processing of payroll.

However, we noted the District's payroll system is currently not designed to maintain a record of the supervisor's approval. Due to a system flaw, the payroll system could not provide evidence of the supervisors' certification. As such, District approval of an employee's time worked cannot be substantiated. We also noted the District has not implemented a complementary or compensating control to mitigate the deficiency in the design of the system.

**Context:**

The condition noted above was identified during our testing over the approval of payroll time processed through the District's electronic timekeeping system.

**Effect:**

The District was not able to provide evidence of supervisor certification of employee's payroll time processed through the electronic payroll system. The control deficiency also required additional audit procedures over salaries expense.

**Cause:**

The District's payroll system does not maintain evidence of supervisory certification/approval of payroll time processed. The system is not adequately designed to document supervisor approval over employee's time.

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**II. FINANCIAL STATEMENT FINDINGS**

**Recommendation:**

We recommend that the District review the current design of the payroll system to identify a solution that will enable the District the ability to maintain documentation of approval of hours worked for it employees each pay period.

**View of responsible official and planned corrective action:**

District management recognizes this internal control weakness and agrees with this recommendation. The District has a Timecard System Replacement project which has completed Phase I – Discovery requirements. This phase identified the technical and functional requirements for the replacement system, including the requirement of an audit trail for timecard approval. Phase II of this project includes selection and implementation of a replacement system and a request for proposal was sent to vendors on October 18, 2011.

As an interim solution, the District will modify the current Timecard system by developing a Supervisory Approval screen to replace the current screen in the Timecard system. This new screen will specifically store and report approver information for hours worked by employees each pay period. Testing and signoff of this modification will occur to ensure the new screen and reporting features satisfy this deficiency in the Timecard system. This interim solution will be replaced by functionality in the upcoming Timecard System Replacement project.

**Finding 2011-02**

**REPORTING OF FEDERAL EXPENDITURES**

**Criteria or Specific Requirement:**

OMB Circular A-133 in Subpart C – states that the District shall:

- a. Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received.
- b. Prepare appropriate financial statements, including the schedule of expenditures of federal awards, including notes that describe the significant accounting policies used in preparing the schedule.

**Condition:**

*Significant Deficiency* - The District’s internal controls over the compilation of the annual schedule of expenditures of federal awards did not identify all the federal expenditures required to prepare a complete schedule of expenditures of federal awards as of June 30, 2011. Additionally, through our inquiry with management and the State of California, additional federal expenditures were required to be reported on the FY 2011 and FY 2010 schedule of expenditures of federal awards. The discovery of the additional FY 2010 federal expenditures will require the District to resubmit the FY 2010 corrected single audit report and SF-SAC forms to the federal clearinghouse and pass-through entities. See Finding 2011-05.

# **EASTERN MUNICIPAL WATER DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011**

### **II. FINANCIAL STATEMENT FINDINGS**

#### **Context:**

The District receives various federal funds which are governed by OMB Circular A-133. Approximately 45% of the District's federal funding is Recovery Act funded.

#### **Effect:**

The District was not able to compile a complete and accurate schedule of expenditures of federal awards for audit. As a result, additional audit procedures were necessary to ensure the accuracy and completeness of the District's schedule of expenditures of federal awards.

#### **Cause:**

The department responsible for overseeing the District's federal reimbursements is not communicating effectively with the finance department over the total federal expenditures incurred during the year. The finance department is responsible for preparing the schedule of expenditures of federal awards. In addition, improper cutoff of federal expenditures resulted in an understatement of both the FY 2011 and FY 2010 schedule of expenditures of federal awards. We noted the District's Grants and Loans Administrator is in process of writing District-wide procedures to provide guidance for all key personnel throughout the grant and loan application and administrative process. These written District-wide procedures were not available to District staff responsible for the compilation of the FY 2011 schedule of expenditures of federal awards.

#### **Recommendation:**

The District should work with departments to accumulate the data that is necessary to compile the schedule of expenditures of federal awards. We recommend that this compilation take place at least quarterly. The District must continue to work with departments to obtain the data that is necessary to prepare an accurate and complete schedule of expenditures of federal awards.

#### **Views of Responsible Officials and Planned Corrective Action:**

Determining the amount of federal expenditures to include on the Schedule of Expenditures of Federal Awards has been challenging because:

- a) The awarding agency does not communicate the funding source prior to the payment for claim reimbursement; and
- b) The Schedule of Expenditures of Federal Awards must include all expenditures that qualify for reimbursement, whether these have been claimed or not.

This finding specifically relates to programs that received funding from both federal (federal pass-through) and state sources, including the State Revolving Fund loans for APAD and SCATT. For the SCATT loan, even after the total expected amount of federal funding had been received, additional federal funds were subsequently allocated to this loan by the state of California. The District did not receive notification of the added federal funding and noted that the claim reimbursement was federally-funded when payment was received.

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**II. FINANCIAL STATEMENT FINDINGS**

Management understands that the Schedule of Expenditures of Federal Awards must include all federally-funded expenditures. Therefore, District staff (specifically, the Post-Award Administrator) will work proactively with each awarding agency to determine the planned funding source for each claim reimbursement. The Post-Award Administrator will communicate this information to Finance department staff, who will update the Schedule of Expenditures of Federal Awards throughout the year, so it is complete at year-end.

## EASTERN MUNICIPAL WATER DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

#### III. FEDERAL FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported in accordance with *OMB Circular A-133, section .510(a)*.

##### **Finding 2011-03**

**Programs:** Capitalization Grants for Clean Water State Revolving Funds (includes ARRA), Water Reclamation and Reuse Program - Recycled Water System Pressurization and Expansion Project (includes ARRA), Fish and Wildlife Coordination Act - Assistance Agreement– San Jacinto Basin Restoration Fund

**CFDA No.:** 66.458, 15.504 and 15.517

**Federal Grantor:** U.S. Environmental Protection Agency, U.S. Department of the Interior

**Passed-through:** State of California - Capitalization Grants for Clean Water State Revolving Funds

**Award Year:** FY 2010-2011

**Compliance Requirement:** Activities Allowed or Unallowed/Allowable Costs/Cost Principles

**Questioned Costs:** None. We identified no questioned costs in our tests of compliance with this requirement.

##### **Criteria or Specific Requirement:**

Each of the District's grants, loans and cooperative agreements listed above under "Programs" require the District to comply with 2 CFR Part 225 (OMB Circular A-87), *Cost Principles for State, Local, and Indian Tribal Governments*.

In accordance with OMB Circular A-87, Attachment B, Section 8h, the following requirements apply to the District's grants and expenditures of federal loans:

Per subsection (1): Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

Per subsection (4): Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5). Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

Per subsection (5): Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.

# EASTERN MUNICIPAL WATER DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

### III. FEDERAL FINDINGS AND QUESTIONED COSTS

#### **Condition Found:**

*Significant Deficiency, Instance of Non-Compliance* – Based on the testing over the District’s internal controls over payroll expenses charged to federal programs, we noted the District’s internal controls require supervisor approval of employee’s hours prior to processing payroll within the District’s electronic timekeeping system.

However, we noted the District’s payroll/timekeeping system is currently not designed to maintain a historic record or audit trail of the supervisor’s approval of hours worked each pay period. Due to the design of the system, the payroll/timekeeping system cannot provide documentary or electronic evidence of the supervisor’s certification. We also noted the District does not require employees charging time to individual federal projects to prepare and sign separate personnel activity reports supporting the hours charged to each federal grant or project as required by Subsection (5) of OMB Circular A-87. However, we noted on a quarterly basis, the District reviews aggregate hours charged to each federal grant and any discrepancies are adjusted prior to submitting claims for reimbursement. We also noted that each employee sampled for compliance with activities allowed and allowable costs/cost principles charged their time correctly to each project, and as a result, no questioned costs were identified in our tests of compliance with this requirement.

#### **Context:**

The condition noted above was identified during the testing of the District’s internal controls over the allowable costs/activities through the District’s electronic timekeeping system.

#### **Effect:**

The District is not able to provide evidence of supervisor certification of employee’s time processed through the electronic payroll system. Additionally, the District also does not maintain separate signed personnel activity reports for each employee who charges their time to each grant in accordance with Subsection (5) of OMB Circular A-87. However, the District does have procedures designed to review the accuracy of the aggregate hours charged to each federal grant prior to claiming reimbursement.

#### **Cause:**

The District’s payroll/timekeeping system does not maintain documentary or electronic evidence of supervisory certification/approval of payroll time processed. The system is not designed to maintain supervisor approval over employee’s time. The District has not implemented compensating internal controls to address the design weakness of the payroll/timekeeping system.

#### **Recommendation:**

While the District does have procedures in place to review aggregate hours charged to each federal grant, we recommend that the District review the current design of the payroll/timekeeping system to identify a solution that will enable the District the ability to maintain documentation of approval of hours worked for its employees each pay period. We also recommend that the District implement policies and procedures requiring each of its employees that charge their time to federal grants, loans or cooperative agreements to document their time and effort through the use of separate personal activity reports or equivalent documentation in accordance with subsection (5) of OMB Circular A-87.

## EASTERN MUNICIPAL WATER DISTRICT

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

#### III. FEDERAL FINDINGS AND QUESTIONED COSTS

##### Views of Responsible Officials and Corrective Action:

District management recognizes this internal control weakness and agrees with this recommendation. See management's response to Finding 2011-01 related to supervisor approval of employee's payroll hours. District personnel are currently evaluating vendor proposals for a Timecard Replacement System. Functionality in the Timecard Replacement System will provide an audit trail for payroll entry and approval by the employee and the supervisor. Reports will also be developed that show the category and distribution of time for each employee by payroll period and the applicable activity codes relating to projects funded by federal awards.

##### Finding 2011-04

**Programs:** Capitalization Grants for Clean Water State Revolving Funds (includes ARRA), Water Reclamation and Reuse Program - Recycled Water System Pressurization and Expansion Project (includes ARRA), Fish and Wildlife Coordination Act - Assistance Agreement – San Jacinto Basin Restoration Fund

**CFDA No.:** 66.458, 15.504 and 15.517

**Federal Grantor:** U.S. Environmental Protection Agency, U.S. Department of the Interior

**Passed-through:** State of California - Capitalization Grants for Clean Water State Revolving Funds

**Award Year:** FY 2010-2011

**Compliance Requirement:** Procurement and Suspension and Debarment

**Questioned Costs:** None

##### Criteria or Specific Requirement:

The *March 2011 Office of Budget and Management (OMB) OMB Circular A-133 Compliance Supplement* states that Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended and debarred. The non Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)*, collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

##### Condition Found:

*Significant Deficiency, Instance of Non-Compliance* – During our procedures performed we noted the District could not provide evidence that the required suspension and debarment check for the covered transaction was performed. A subsequent suspension and debarment check was performed at the date of our audit with no exceptions noted.

##### Context:

The District is required to maintain evidence that the required suspension and debarment check was performed prior to entering into a covered transaction.

##### Effect:

As a result of the condition, the District did not have internal controls in place to ensure compliance with the requirements applicable to suspension and debarment.

**EASTERN MUNICIPAL WATER DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**III. FEDERAL FINDINGS AND QUESTIONED COSTS**

**Cause:**

The District did not maintain procedures requiring verification of the suspended and debarred status of contracted vendors.

**Recommendation:**

We recommend that the District implement procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment, or a certification is collected from the vendor, or a clause or condition is included in the contract with the vendor.

**Views of Responsible Officials and Corrective Action:**

District management recognizes this internal control weakness and agrees with this recommendation. The District has implemented procedures to ensure that procurements and sub awards of federally funded projects are verified against the EPLS for suspension and debarment. The procedures also require that hard and electronic files of the EPLS print outs are maintained for each procurement and sub award.

**Finding 2011-05**

**Programs:** Capitalization Grants for Clean Water State Revolving Funds (includes ARRA), Water Reclamation and Reuse Program - Recycled Water System Pressurization and Expansion Project (includes ARRA)

**CFDA No.:** 66.458, 15.504

**Federal Grantor:** U.S. Environmental Protection Agency, U.S. Department of the Interior

**Passed-through:** State of California - Capitalization Grants for Clean Water State Revolving Funds

**Award Year:** FY 2010-2011

**Compliance Requirement:** Special Tests and Provisions - R2 - Presentation on the Schedule of Expenditures of Federal Awards and Data Collection Form

**Questioned Costs:** None

**Criteria:**

The *March 2011 OMB Circular A-133 Compliance Supplement* and 2 CFR section 176.210 requires Federal agencies to require recipients to agree to separately identify the expenditures for Federal awards under the American Recovery and Reinvestment Act (ARRA) on the Schedule of Expenditures of Federal Awards (SEFA) required by *OMB Circular A-133*. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately on the SEFA, by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the Federal program on the SEFA.

## **EASTERN MUNICIPAL WATER DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011**

#### **III. FEDERAL FINDINGS AND QUESTIONED COSTS**

##### **Condition Found:**

*Significant Deficiency, Instance of Non-Compliance* - As a result of our audit of the District's Schedule of Expenditures of Federal Awards and of the District's ARRA awards, we noted the District does not have adequate internal controls in place to ensure its ARRA awards were accurately identified on the SEFA. The District also does not have adequate internal controls in place to ensure its SEFA is prepared accurately. We noted the District made numerous adjustments and revisions to its SEFA during the course of our audit fieldwork to properly account for and identify its ARRA and non-ARRA federal awards. See Finding 2011-02 for additional information.

##### **Context:**

The District receives various federal grants and loans which are governed by OMB Circular A-133. Approximately 45% of the District's federal funding is Recovery Act funded.

##### **Effect:**

We noted the District was reporting ARRA expenditures on its SEFA on the cash basis of accounting versus the accrual basis. As a result, the District's SEFA did not accurately report its ARRA awards as of June 30, 2011. The District was required to make numerous adjustments to correct the SEFA.

We also noted the District did not accurately report ARRA awards on its FY 2010 SEFA. As a result, the FY 2010 SEFA was required to be restated and reissued.

##### **Cause:**

The District does not have adequate internal controls in place to ensure the SEFA is prepared in accordance with OMB Circular A-133 and 2 CFR section 176.210.

##### **Recommendation:**

The District should implement formal policies and procedures to ensure the SEFA is prepared accurately and completely, and ensure the separate identification of expenditures for Federal awards made under the ARRA.

The District should work with departments to accumulate the data that is necessary to compile the schedule of expenditures of federal awards. We recommend that this compilation take place at least quarterly. The District must continue to work with departments to obtain the data that is necessary to prepare an accurate and complete schedule of expenditures of federal awards.

##### **Views of Responsible Officials and Corrective Action:**

District management recognizes this internal control weakness and agrees with this recommendation. See management's response to Finding 2011-02.

# EASTERN MUNICIPAL WATER DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011

### III. FEDERAL FINDINGS AND QUESTIONED COSTS

#### Finding 2011-06

**Programs:** Water Reclamation and Reuse Program - Recycled Water System Pressurization and Expansion Project (includes ARRA)

**CFDA No.:** 15.504

**Federal Grantor:** U.S. Department of the Interior

**Award Year:** FY 2010-2011

**Compliance Requirement:** Reporting

**Questioned Costs:** None

#### **Criteria or Specific Requirement:**

The *March 2011 OMB Circular A-133 Compliance Supplement* and 2 CFR Part 176.5 states that direct recipients (prime recipients) of ARRA funding are subject to Section 1512 of the Recovery Act and responsible for reporting the information required by Section 1512 of the Recovery Act. The reported data must be presented in accordance with the required criteria and methodology, including accurate and complete reporting of payment to vendors and subawards. Payments made by prime recipients of Federal award dollars can be classified into two categories – (i) payments to sub-recipients and (ii) payments to vendors. The prime recipient is responsible for reporting data on payments made to both sub-recipients and vendors. Sub-recipients are non-Federal entities that are awarded Recovery funding through a legal instrument from the prime recipient to support the performance of any portion of the substantive project or program for which the prime recipient received the Recovery funding. Additionally, the terms and conditions of the Federal award are carried forward to the sub-recipient. It is possible that a sub-recipient for one award may also be a prime recipient of another Federal award provided directly from the Federal Government. A Non-Federal entity means a State, local government, or non-profit organization.

A vendor is defined as a dealer, distributor, merchant or other seller providing goods or services that are required for the conduct of a Federal program. Prime recipients or subrecipients may purchase goods or services needed to carry out the project or program from vendors. Vendors are not awarded funds by the same means as sub-recipients and are not subject to the terms and conditions of the Federal financial assistance award.

The characteristics of a vendor that make it distinct from a sub-recipient are summarized below. A vendor:

- (1) Provides the goods and services within normal business operations;
- (2) Provides similar goods or services to many different purchasers;
- (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the Federal program; and
- (5) Is not subject to compliance requirements of the Federal program.

The specific information that is required to be reported for each vendor in accordance with Section 1512 of the Recovery Act is as follows:

#### Recipient Vendor

- (1) D-U-N-S or Name and zip code of Headquarters (HQ)
- (2) Expenditure amount
- (3) Expenditure description

## **EASTERN MUNICIPAL WATER DISTRICT**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2011**

#### **III. FEDERAL FINDINGS AND QUESTIONED COSTS**

##### **Condition Found:**

*Significant Deficiency, Instance of Non-Compliance* – During our procedures performed we noted for each of the Section 1512 reports tested, the District is classifying expenditures to vendors on the Section 1512 reports under the “Sub-awards” classification, whereas these type of expenditures are required to be classified under the “Vendors” classification. As a result, the expenditures reported on the District’s Section 1512 reports reported on the Recovery.gov website are not classified properly. We also noted the District’s Section 1512 reports do not contain evidence of management review and approval.

##### **Context:**

The District is required to accurately report and classify the key data elements with its Section 1512 reporting. If any information is inaccurate, the District should make corrections to the reported data within the continuous corrections period.

##### **Effect:**

As a result of the condition, the District did not properly classify expenditures paid to vendors on its Section 1512 reports.

##### **Cause:**

The District’s internal controls did not prevent or detect the misclassification of expenditures made to vendors on its Section 1512 reports in accordance with the Recovery Act.

##### **Recommendation:**

We recommend that the District strengthen its internal controls to ensure expenditures made to vendors are properly reported in accordance with the required ARRA Section 1512 reporting compliance criteria. In addition, we recommend that the District implement procedures requiring documentation of the review and approval of the quarterly Section 1512 reports.

##### **Views of Responsible Officials and Corrective Action:**

District management recognizes this internal control weakness and agrees with this recommendation. The District maintains that all key data elements were accurately reported within the Section 1512 reports, however management does recognize that expenditures to vendors were misclassified as “sub-recipients”. In future reports, the District will classify its contractors and sub consultants as “vendors” in conformance with OMB Circular A-133 and OMB Memorandum 09-21. Additionally, the District will revise its report preparation procedures to provide documentation that the reports are properly reviewed and approved prior to submittal to the [FederalReporting.gov](http://FederalReporting.gov) website.

**EASTERN MUNICIPAL WATER DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2011**

<b>Finding No.</b>	<b>Program</b>	<b>CFDA No.</b>	<b>Compliance Requirement</b>	<b>Status</b>
2010-1	Water Reclamation and Reuse Program	15.504	Period of Availability	Implemented