



Office of the City Auditor

Report to the City Council
City of San José

**AN AUDIT OF THE SAN JOSE
MUNICIPAL WATER SYSTEM
CONSOLIDATED WATER UTILITY
FUND TRANSFERS**

**The San Jose Municipal Water System
Complied With San Jose Municipal Code
Requirements For Transferring Monies To
The General Fund And For Maintaining
Established Reserve Funds; However, The
City Should Institute A Policy On The Use
And Replenishment Of The Reserve Funds**

Report 07-02
April 2007

PREFACE

Presented herein is the City Auditor's Executive Summary to *An Audit Of The San Jose Municipal Water System Consolidated Water Utility Fund Transfers*. This summary is intended to reduce the City's cost of printing and distributing audit reports. If you would like a copy of the full report, please call the City Auditor's Office at (408) 535-1250; we will be happy to send you a complete report.

Executive Summary

In accordance with the City Auditor's 2006-07 Audit Workplan, we audited the San Jose Municipal Water System (SJMWS) Consolidated Water Utility Fund (Fund 515) transfers. We audited the SJMWS to determine whether it transferred the proper amount to the General Fund in compliance with the San Jose Municipal Code (Municipal Code). We also audited the SJMWS to determine whether it maintained two water system reserve funds – the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve – in accordance with the Municipal Code. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Objectives, Scope, and Methodology section of this report.

Finding I

The San Jose Municipal Water System Complied With San Jose Municipal Code Requirements For Transferring Monies To The General Fund And For Maintaining Established Reserve Funds; However, The City Should Institute A Policy On The Use And Replenishment Of The Reserve Funds

We found that the San Jose Municipal Water System (SJMWS) transferred monies from the Consolidated Water Utility Fund (Fund 515) to the General Fund and maintained established reserve funds in accordance with the City of San Jose Municipal Code (Municipal Code). Specifically, during 2005-06 and 2006-07, the SJMWS adhered to Municipal Code requirements to limit fund transfers between Fund 515 and the General Fund and fully-fund two water system reserve funds. However, we also found that the City of San Jose (City) needs a policy regarding the use and replenishment of the reserve funds. Accordingly, in our opinion, the City Council should adopt a policy for the use and replenishment of the System Rehabilitation/Replacement Reserve and Rate Stabilization Reserve Funds.

RECOMMENDATION

We recommend that the City Council:

Recommendation #1 Adopt a policy regarding the use and replenishment of the System Rehabilitation/Replacement Reserve Fund and the Rate Stabilization Reserve Fund. (Priority 3)