



April 22, 2010

Ms. Susan Sims, Chief Deputy Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Ms. Sims:

Final Report—East Bay Municipal Utility District, Proposition 13 Grant Audits

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audits of the following East Bay Municipal Utility District (EBMUD) Proposition 13 grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
4600003099	April 27, 2004 through October 15, 2008	\$ 1,660,725
4600002547	March 4, 2004 through December 31, 2007	\$ 482,081

The enclosed report is for your information and use. EBMUD's response to the report findings are incorporated into this final report. EBMUD agreed with our observations and we appreciate its willingness to implement corrective action. The observations in our report are intended to assist management in improving the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of EBMUD. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Richard Harris, Water Conservation Manager, East Bay Municipal Utility District
Mr. Richard Bennett, Project Manager, East Bay Municipal Utility District
Mr. Scott Sommerfeld, Water Conservation Representative, East Bay Municipal Utility District
Mr. Dennis Diemer, General Manager, East Bay Municipal Utility District
Mr. Scott Klein, Controller, East Bay Municipal Utility District
Ms. Perla Netto-Brown, Controller, California Department of Water Resources
Mr. Jim Libonati, Deputy Director, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Ms. Tracie Billington, Chief, Special Projects Sections, California Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, California Department of Water Resources
Mr. Eric Koch, Chief, Flood SAFE Program Management Office, Division of Flood Management, California Department of Water Resources
Mr. Eric Hong, Supervising Engineer, California Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

A GRANT AUDIT

East Bay Municipal Utility District Proposition 13 Bond Program Grant Agreements 4600003099 and 4600002547



Source: East Bay Municipal Utility District website

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Sherry Ma, CRP
Supervisor

Staff
Kylie Le
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), which authorized the State of California to sell \$1.97 billion in general obligation bonds. The bond proceeds provide funds for safe drinking water, water quality, flood protection, and water reliability programs. Proposition 13 also provides funding for the protection, restoration, and interpretation of the diverse cultural influences and extraordinary human achievements that have contributed to the unique development of California.

The California Department of Water Resources (DWR) is one of many state departments that administer Proposition 13 programs. The mission of DWR is to manage the water resources of California in cooperation with other agencies, and to protect, restore, and enhance the natural and human environments. Proposition 13's Urban Water Conservation Program authorizes DWR to make grants to urban water purveyors, other entities, and individuals interested in urban water conservation to finance feasible, cost effective urban water conservation projects to improve water use efficiency.

DWR awarded the East Bay Municipal Utility District (EBMUD) a \$1.66 million Proposition 13 grant for its Weather-Based Irrigation Controller Incentive Program. This program will provide approximately 2,605 weather-based irrigation controllers to residential and commercial landscapes to increase water savings. It is estimated that 30,477 acre feet of water will be saved by this project over 10 years. Additionally, DWR awarded EBMUD \$482,081 for the Pre-Rinse Spray Head and Dishwasher Installation Program. This program will provide approximately 4,400 pre-rinse spray nozzles and 32 energy efficient dishwashers to food service industries to increase water and energy savings.

EBMUD is a publicly owned utility formed in 1923 under California's Municipal Utility District Act of 1921. EBMUD supplies water and provides wastewater treatment for parts of Alameda and Contra Costa counties. Its mission is to: (1) manage the natural resources with which EBMUD is entrusted, (2) provide reliable, high quality water and wastewater services at fair and reasonable rates for the East Bay, and (3) preserve and protect the environment for future generations. EBMUD's water system serves approximately 1.3 million people in Alameda and Contra Costa counties within a 331 square-mile area, and the wastewater system serves approximately 640,000 people within an 88 square-mile area.¹

¹From East Bay Municipal Utility District's website.

SCOPE

In response to the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted an audit of the following grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
4600003099	April 27, 2004 through October 15, 2008	\$ 1,660,725
4600002547	March 4, 2004 through December 31, 2007	\$ 482,081

The audit's objective was to determine whether EBMUD's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

EBMUD management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. DWR and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether EBMUD's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by DWR, the grant agreements, and applicable policies and procedures.
- Reviewed EBMUD's accounting records, vendor invoices, payroll records, and bank statements.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Reviewed contracts EBMUD had with other agencies participating in the grant.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering bond funds. The audit was conducted from August 2009 through March 2010.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the East Bay Municipal Utility District's (EBMUD) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedules of Claimed, Audited, and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed, Audited, and Questioned Amounts

Grant Agreement 460003099			
For the Period April 27, 2004 through October 15, 2008			
Category	Claimed	Audited	Questioned
Start Up	\$ 99,420	\$ 99,420	\$ 0
Central Administration	184,892	181,651	3,241
Process Evaluation	36,959	36,959	0
Impact Evaluation	89,772	89,772	0
Implementation	720,431	720,431	0
Total Expenditures	\$ 1,131,474	\$ 1,128,233	\$ 3,241

Grant Agreement 460002547			
For the Period March 4, 2004 through December 31, 2007			
Category	Claimed	Audited	Questioned
Pre-Rinse Spray Nozzles	\$ 311,220	\$ 311,220	\$ 0
Dishwasher Installations	3,000	3,000	0
Total Expenditures	\$ 314,220	\$ 314,220	\$ 0

Observation 1: Ineligible Expenditures Claimed for Reimbursement

For grant agreement 460003099, EBMUD claimed \$3,241 in ineligible personnel expenditures. Discussions with EBMUD indicated claimed expenditures were based on estimated hours needed by EBMUD management to review the final report after the grant period ended. However, a grant amendment for a time extension was not authorized; therefore, such expenditures were deemed ineligible.

Recommendation:

Obtain reimbursement from EBMUD for the \$3,241 questioned amount. DWR will make the final determination regarding the resolution of this observation.

Observation 2: Late Submission of Required Reports

For grant agreement 4600003099, EBMUD submitted four progress reports an average of 36 days late. In addition, the final report was submitted 60 days late. EBMUD indicated it was unable to submit progress reports timely due to the amount of time required to gather and analyze data from the partner agencies. The grant agreement states the Grantee shall submit quarterly progress reports on January 15, April 15, July 15, and October 15. Additionally, within 60 days of project completion or termination, the Grantee shall submit a final report on the project completion or termination and expenditures for the state's review and comment. Failure to timely submit required reports may result in the withholding or disallowance of grant payments, the reduction or termination of grant funds, and/or the denial of future grant funding.

For grant agreement 4600002547, EBMUD submitted 6 quarterly progress reports out of 14 required. EBMUD indicated it only submitted progress reports when a reimbursement request was prepared. The grant agreement states the Grantee shall submit quarterly progress reports on the status of the project.

Recommendation:

For future grants, EBMUD should submit required reports in accordance with the grant terms.



April 5, 2010

Mr. David Botelho, CPA
Department of Finance
Office of State Audits and Evaluations
300 Capital Mall, Suite 801
Sacramento, Ca 95814

Dear Mr. Botelho:

Response – East Bay Municipal Utility District (EBMUD), Proposition 13 Grant Audits

The following is our written response to your letter dated March 24, 2010. We will comply with the Office of State Audits and Evaluations two recommendations.

As to observation 1, the District agrees to reimburse the questioned amount of \$3,241 based on the California Department of Water Resources (CDWR) final determination regarding the resolution of the observation related to grant agreement 4600003099. We will send payment to:

Department of Water Resources
Division of Fiscal Services
Attn: Ron Ingle
1416 9th Street, Room 849
Sacramento, California 95814

As to observation 2, the District agrees to submit required reports in accordance with the grant terms by improving existing processes to better control report submission requirements for future grants.

We hope our response closes this issue with your office. If you have any questions regarding our response, please contact me.

Sincerely,

Original signed by:

D. Scott Klein
Controller
East Bay Municipal Utility District
375 11th Street, MS 402
Oakland, Ca 94607
510-287-0271 (phone)
510-287-0315 (fax)

Attachments
cc on following page

375 ELEVENTH STREET, OAKLAND, CA 94607-4240, TOLL FREE 1-866-40-EBMUD

cc

Mr. Dennis Diemer, General Manager, EBMUD
Mr. Gary Breaux, Finance Director, EBMUD
Ms. Carol Nishita, Administration Director, EBMUD
Mr. Richard Harris, Water Conservation Manager, EBMUD
Mr. Richard Bennett, Project Manager, EBMUD
Mr. Scott Sommerfeld, Water Conservation Representative, EBMUD
Ms. Perla Netto-Brown, Controller, CDWR
Mr. Jim Libonati, Deputy Director, CDWR
Mr. Jeffrey Ingles, Chief Auditor, CDWR
Ms. Tracie Billington, Chief, Special Projects Sections, CDWR
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