



Transmitted via e-mail

November 19, 2015

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Dear Mr. Howard:

Final Report—City of Colusa, Proposition 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the City of Colusa's (City) grants 07-597-550-0 and 07-086-550-0 issued by the State Water Resources Control Board.

The enclosed report is for your information and use. The City's response to the report observation and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

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

Sincerely,

Original signed by:

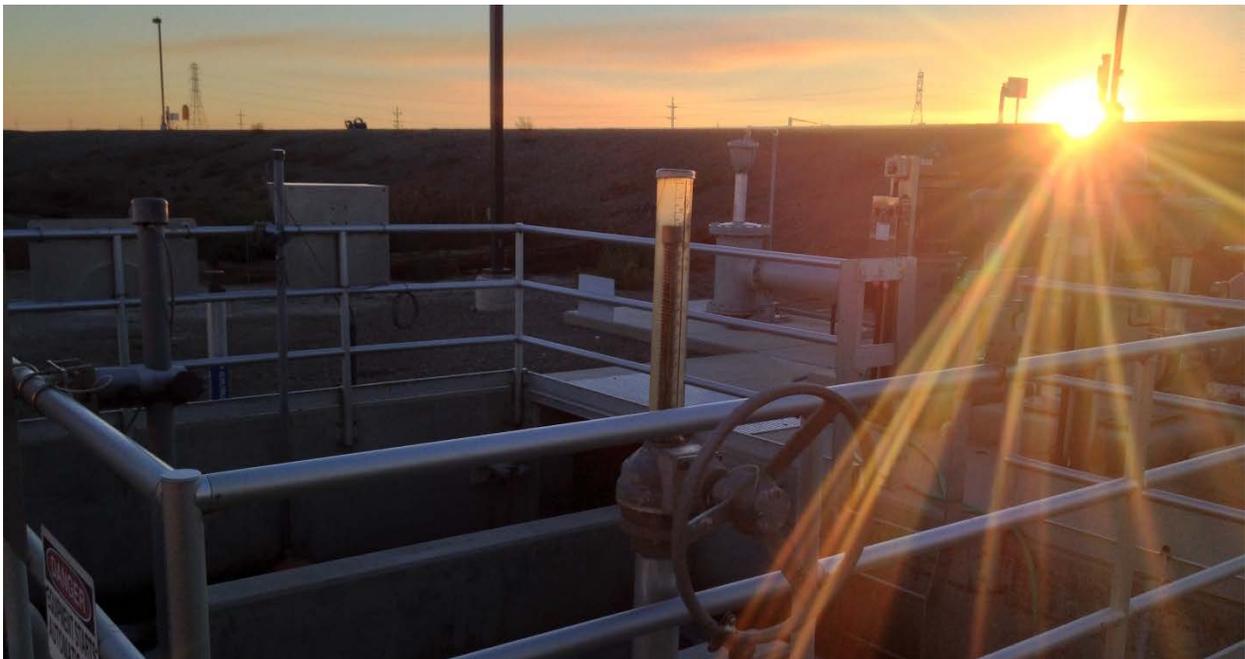
Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Leslie Laudon, Assistant Deputy Director, Division of Financial Assistance, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Branch Chief, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Ms. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board
Mr. Lance Reese, Loans and Grants Administration, Division of Financial Assistance, State Water Resources Control Board
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Randall Dunn, Interim City Manager, City of Colusa
Mr. Jesse Cain, Water and Sewer Superintendent, City of Colusa
Ms. Toni Benson, Office Manager, City of Colusa

AUDIT REPORT

City of Colusa Proposition 50 Bond Program Grant Agreements 07-597-550-0 and 07-086-550-0



City of Colusa Wastewater Treatment Plant

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

John Ponce
Supervisor

Staff
Garrett Fujitani
Joshua Mortimer

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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act (Proposition 50) for \$3.44 billion. The bond proceeds finance a variety of natural resource programs.

The City of Colusa (City) received two grants totaling \$2 million from the State Water Resources Control Board (Board) under the Small Community Wastewater Grant Program. These grants partially funded the design and construction of the wastewater treatment plant (Plant) upgrade. The project's goal was to upgrade the Plant to meet the waste discharge requirements issued by the Central Valley Regional Water Quality Control Board. The City's Water and Sewer Utilities Department administered the project and is responsible for the operation and maintenance of the sewer collection and treatment system.¹

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the following grants:

<u>Grant Agreement</u>	<u>Audit Period</u>
07-597-550-0	September 10, 2004 through September 30, 2008
07-086-550-0	September 13, 2007 through March 31, 2012

The audit objectives were to determine whether the City's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

City management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed as required, we performed the following procedures:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the City's accounting records, contracts, subcontractor invoices, and cancelled checks.

¹ Source: Excerpts from www.cityofcolusa.com/departments/utilities

- Selected a sample of claimed expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreements.
- Evaluated whether a sample of grant deliverables were met by conducting a site visit to verify existence, interviewing key personnel, reviewing supporting documentation, such as design plans and specifications, and final and progress reports.

In conducting our audits, we obtained an understanding of the City's internal controls, including any information systems controls, that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Except as noted below, the grant expenditures claimed complied with the grant requirements. Additionally, the grant deliverables were completed as specified in the grant agreements. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Grant Agreement 07-597-550-0		
Task	Claimed¹	Questioned
Design	\$ 513,139	\$ 0
Total Grant Funds	\$ 513,139	\$ 0

Grant Agreement 07-086-550-0		
Task	Claimed	Questioned
Construction	\$ 1,149,084	\$ 0
Contingencies	93,276	0
Planning Allowance	244,451	244,451
Total Grant Funds	\$ 1,486,811	\$ 244,451

Observation 1: Ineligible Expenditures Claimed for Reimbursement

The City of Colusa (City) claimed \$244,451 of ineligible planning costs. The claimed subcontractor’s planning costs were incurred between October 1, 2005 and December 31, 2006, which is before the grant agreement’s effective start date of September 13, 2007.

In January 2008, the State Water Resources Control Board (Board) awarded the City funds for the construction of wastewater plant upgrades for the original grant period September 13, 2007 through March 31, 2010. Grant agreement 07-086-550-0 was subsequently amended in June 2010 and extended the end date through March 31, 2012. Although the grant agreement and the amendment included a “planning allowance” as an allowable cost, these documents were silent on allowing costs incurred prior to the effective start date.

The City claimed prior planning costs due to a misinterpretation of the grant terms and guidance provided from Board staff. Through verbal discussions, Board staff advised the City to claim planning costs incurred prior to the effective start date of the grant agreement. In practice, Board staff has allowed planning costs incurred several years prior to execution of a construction agreement to be eligible for reimbursement.

Absent explicit language in the program guidelines, the grant agreement, the approved amendment, or other written approval from the Board, reimbursement of costs incurred prior to the execution start date are considered ineligible for reimbursement.

¹ The Board awarded \$513,189 and the grantee claimed \$513,139.

Recommendations:

The City should:

- A. Remit \$244,451 to the Board.
- B. For future grants, follow the terms and conditions of the grant agreement and work with the Board to amend the grant agreement to reflect any changes in scope or performance period.



CITY OF COLUSA
425 Webster Street
Colusa, CA 95932

October 20th, 2015

Department of Finance
915 L Street
Sacramento, CA 95814-3706

Re: Draft Report, City of Colusa Proposition 50 Grant Audits

The City of Colusa has reviewed the Department of Finance Draft Report dated October 13th 2015, and is providing a response and a copy of the revised Final Cost Summary submitted to the Division of Financial Assistance, State Water Resources Control Board.

In the revised Final Cost Summary Report, the City requested to shift \$244,451 in Proposition 50 grant funds, previously disbursed to reimburse the City for Planning allowance costs, to instead cover \$244,451 of eligible Construction costs. Those same Construction costs were previously funded with Clean Water State Revolving Fund (CWSRF) financing, also provided by the SWRCB, and those CWSRF funds will be shifted to cover reimbursement of the \$244,451 in Planning allowance costs.

The City, in the future, will follow the terms and conditions of the grant agreement and work with the Board to ensure that all changes are reflected to match the scope or the performance period.

Sincerely,

Original signed by:

Randall L. Dunn
Interim City Manager

Enclosure

Ms. Marilyn Rogers
 Division of Financial Assistance
 State Water Resources Control Board
 P. O. Box 944212
 Sacramento, CA 94244-2120

Dear Ms. Rogers:

RE: FINAL PROJECT COST SUMMARY
 CITY OF COLUSA
 SMALL COMMUNITY GRANT NO. SCG-929-030
 PROJECT NO. 07-086-550-0

We are submitting the following project cost summary in compliance with the terms and conditions of the above-referenced grant.

<u>Description</u>	<u>Costs Incurred (Actual)</u> (Column C)	<u>Costs Eligible for Grant Funding</u> (Column B)	<u>Grant Funds Received</u> (Column F)
CONSTRUCTION			
Auburn Contractors	\$14,621,706	\$1,393,535	\$1,393,535
Contingencies	\$ 488,145	\$ 93,276	\$ 93,276
ALLOWANCES:			
Planning (P)	\$ 447,127	\$ -0-	\$ -0-
Design (D)	\$ 1,485,160	\$ 513,189	\$ 513,189
Construction	\$ -0-	\$ -0-	\$ -0-
Prime Engineering	\$ -0-	\$ -0-	\$ -0-
Subtotal	\$ 17,316,589	\$ 2,000,000	\$ 2,000,000
Less Previous Design (D)	(\$513,189)	(\$513,189)	(\$513,189)
Totals	\$ 17,316,589	\$ 1,486,811	\$ 1,486,811

I hereby certify that the above project cost summary is correct and that costs claimed are specific to the grant and within the approved scope of work; and that no interest has been earned on grant funds before disbursement of incurred project costs.

Original signed by:

Randall L Dunn, Interim City Manager
 City of Colusa
 425 Webster Street
 Colusa, CA 95932

10-20-15
 Date

EVALUATION OF RESPONSE

The City of Colusa's (City) response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge the City's willingness to implement our recommendations. In evaluating the response, we provide the following comments:

Observation 1: Ineligible Expenditures Claimed for Reimbursement

The City agreed with the observation that the City's planning allowance was ineligible for reimbursement and states it has taken corrective action by shifting \$244,451 in related project construction costs funded by the Clean Water State Revolving Fund to cover the questioned costs. However, aside from a revised Final Project Cost Summary, no additional documents were provided for our review and we did not audit the Final Project Cost Summary. Therefore, our observation remains unchanged. We will defer to the State Water Resources Control Board regarding the final resolution of the questioned costs.