



Transmitted via e-mail

September 18, 2013

Mr. Mark Cowin, Director  
California Department of Water Resources  
P.O. Box 942836  
Sacramento, CA 94236-0001

Dear Mr. Cowin:

**Final Report—Bethel Island Municipal Improvement District, Propositions 50, 84 and 1E Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of Bethel Island Municipal Improvement District's (District) grants 4600004065, 4600004560, 4600007580, 4600008517, 4600008814, and 4600009176.

The District's response to the report observations are incorporated into this final report. The District agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program.

The draft report was issued August 5, 2013 and the Department of Water Resources' response required further analysis. As a result of our analysis, changes were made to the Schedules of Claimed Amounts to provide further clarification. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Susan Botkin, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources  
Ms. Tracie Billington, Chief, Financial Assistance Branch, Division of Integrated Regional Water Management, California Department of Water Resources  
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources  
Mr. Dave Mraz, Chief, Delta Levees Program, California Department of Water Resources  
Mr. Jeffery Ingles, Chief Auditor, 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  
Mr. Anthony Berzinas, Board President, Bethel Island Municipal Improvement District  
Ms. Julie Hugel, Interim District Manager, Bethel Island Municipal Improvement District

Bethel Island Municipal Improvement District  
Proposition 50, 84 and 1E Bond Program  
Grant Agreements 4600004065, 4600004560, 4600007580,  
4600008517, 4600008814 and 4600009176



Bethel Island Municipal Improvement District Project # 4600004560 Levee Repairs

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

## **MEMBERS OF THE TEAM**

Jennifer Whitaker  
Manager

Rich Hebert  
Supervisor

Staff  
Kweku Atta-Mensah

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

You can contact our office at:

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# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), for \$3.44 billion. In addition, California voters also approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), for \$5.4 billion; and the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E), for \$4.09 billion. The bond proceeds finance a variety of resource programs.

The Bethel Island Municipal Improvement District (District) is a Special District chartered by the State Legislature in 1960 to succeed Reclamation District No.1619 that was created in 1913.

The District received the following Proposition 50, 84 and 1E grants from the California Department of Water Resources (DWR):

*Engineering, Geotechnical Studies, Evaluations and Planning* (Grant 4600004065)—Proposition 50 grant totaling \$164,250 to prepare a statement of work; land, hydrographic, aerial, and bathymetric studies; and design plans and specifications. A General Fund amendment to the agreement added \$200,000 to the project bringing the total grant amount to \$364,250.

*Levee Repairs Due to January Storms* (Grant 4600004560)—Proposition 50 grant totaling \$350,000 for damage repair. This includes restoration of damaged “riprap” resulting from heavy rains, high tides, and extremely high winds occurring in December 2005 and January 2006, with subsequent wave wash, erosion, and seepage problems on the perimeters of levees along the Piper, Taylor, and Sand Mound Sloughs.

*Levee Work on Phase I and II, Stations 22 to 124* (Grant 4600007580)—Proposition 50 grant totaling \$420,000 for clearing and grubbing levee slopes and ditches; placing approximately 27,000 cubic yards of landside slope and crown fill; installing an all-weather road surface; and performing construction staking, geotechnical oversight, and inspection activities.

*Delta Levee Maintenance Subventions Program for Year 2007-2008* (Grant 4600008517)—Proposition 84 grant totaling \$156,375 for maintenance and repair of levee roads at various locations; engineering services; levee vegetation and rodent control; levee shaping at various locations; minor waterside rock replacement; and removal of levee encroachments near stations 320 and 500.

*Delta Levee Maintenance Subventions Program for Year 2008-2009* (Grant 4600008814)—Proposition 84 grant totaling \$418,875 for maintenance and repair of levee roads at various locations; engineering services; levee vegetation and rodent control; levee shaping at various locations; minor waterside rock replacement; and removal of levee debris.

*Delta Levee Maintenance Subventions Program for Year 2009-2010 (Grant 4600009176)*— Proposition 1E grant totaling \$418,875 for maintenance and repair of levee roads at various locations; engineering services; levee vegetation and rodent control; levee shaping at various locations; minor waterside rock replacement; and removal of levee debris.

**SCOPE**

In accordance with the Department of Finance’s bond oversight responsibilities, we conducted performance audits of the following grants that funded the projects and activities noted above:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Award</u>
4600004065	May 18, 2005 through December 31, 2008	\$ 364,250 <sup>1</sup>
4600004560	February 10, 2006 through June 1, 2006	\$ 350,000
4600007580	June 5, 2006 through September 30, 2008	\$ 420,000
4600008517	July 1, 2007 through June 30, 2008	\$ 156,375
4600008814	July 1, 2008 through June 30, 2009	\$ 418,875
4600009176	July 1, 2009 through June 30, 2010	\$ 418,875

The audit objectives were to determine whether the District’s grant expenditures complied with applicable laws, regulations, and 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.

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

**METHODOLOGY:**

To determine whether 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, grant agreements, and applicable policies and procedures.
- Reviewed a sample of grant expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Determined if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Performed site visits to verify project existence and grant deliverables.

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

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<sup>1</sup> Includes \$164,250 from Proposition 50 and \$200,000 from the State General Fund.

The results of the audits are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Based on the procedures performed, the grant expenditures claimed were in compliance with the requirements of the grant agreements, and grant deliverables were completed as required. Recommendations for fiscal improvements are noted below.

The Schedules of Claimed amounts for each grant are presented in Table 1.

**Table 1: Schedules of Claimed Amounts**

<b>Grant Agreement 4600004065 Engineering and Geotechnical Studies, Evaluations, and Planning For the Period May 18, 2005 through December 31, 2008</b>	
<b>Category</b>	<b>Claimed<sup>2</sup></b>
Civil Engineering, Design, and Surveying	\$ 142,435
Geotechnical Engineering, Design, & Analysis	120,418
Total Expenditures	\$ 262,853

<b>Grant Agreement 4600004560 Levee Repairs Due to January Storms For the Period February 10, 2006 through June 1, 2006</b>	
<b>Category</b>	<b>Claimed<sup>3</sup></b>
Rock Replacement	\$ 328,325
Levee Inspection	5,260
Rodent Control	936
Shaping Levee	4,487
Repair Patrol Roads	1,068
Vegetation Control	1,789
Engineering, Geotechnical Surveys	7,245
Equipment Rental	890
Total Expenditures	\$ 350,000

<sup>2</sup> The District was reimbursed up to 75 percent of total project cost. The District was awarded \$364,250 but claimed only \$262,853.

<sup>3</sup> The District was reimbursed up to 75 percent of total project cost.

<b>Grant Agreement 4600007580</b> <b>Levee Work on Phases I &amp; II, Stations 22 to 124</b> <b>For the Period June 5, 2006 through September 30, 2008</b>	
<b>Category</b>	<b>Claimed<sup>4</sup></b>
Rock Replacement	\$ 2,621
Levee Inspection	7,677
Vegetation Control	3,565
Shaping Levee	386,047
Engineering, Geotechnical Surveys	15,075
Total Expenditures	\$ 414,985

<b>Grant Agreement 4600008517</b> <b>Delta Levee Maintenance Subventions Program for Year 2007-2008</b> <b>For the Period July 1, 2007 through June 30, 2008</b>	
<b>Category</b>	<b>Claimed<sup>5</sup></b>
Grant Reimbursed	\$ 148,193
Cost Share <sup>6</sup>	60,898
Total Project Expenditures	\$ 209,091

<b>Grant Agreement 4600008814</b> <b>Delta Levee Maintenance Subventions Program for Year 2008-2009</b> <b>For the Period July 1, 2008 through June 30, 2009</b>	
<b>Category</b>	<b>Claimed<sup>7</sup></b>
Grant Reimbursed	\$ 150,267
Cost Share	61,589
Total Project Expenditures	\$ 211,856

<b>Grant Agreement 4600009176</b> <b>Delta Levee Maintenance Subventions Program for Year 2009-2010</b> <b>For the Period July 1, 2009 through June 30, 2010</b>	
<b>Category</b>	<b>Claimed<sup>8</sup></b>
Grant Reimbursed	\$ 130,932
Cost Share	55,095
Total Project Expenditures	\$ 186,027

<sup>4</sup> The District was reimbursed up to 75 percent of total project cost. The District was awarded \$420,000 but claimed only \$414,985.

<sup>5</sup> The District was awarded \$156,375, but claimed only \$148,193.

<sup>6</sup> Cost share is the District portion of total project cost. It consists of \$1,000 per levee mile plus 25 percent of remaining eligible expenditures.

<sup>7</sup> The District was awarded \$418,875, but claimed only \$150,267.

<sup>8</sup> The District was awarded \$418,875, but claimed only \$130,932.

## **Observation 1: District Does Not Have a Written Agreement for Engineering Services**

The District could not provide evidence of a written contract with the engineering firm it hired as District Engineer to provide consultation, direction, and supervision of levee maintenance and rehabilitation, including special projects. Without a written contract that clearly defines the scope of work, allowable and unallowable costs, a current fee schedule, and final deliverable, there is an increased risk that expenditures are not in compliance with program requirements and state fiscal policies, and final deliverables are not completed as intended.

DWR's Delta Levees Maintenance Subventions Program Manual (October 2008 Version), Article 4.9, states the District's contracting procedures shall be in conformance with state law.

The grant agreements state: "The local agency shall be responsible for compliance with competitive bidding, contract administration laws, and applicable labor laws. The local agency shall maintain records relating to the costs and quantities of labor and materials used, purchased, or contracted for and these must be available for ten years after the work has been completed."

### **Recommendations:**

- A. Execute contracts with all subcontractors and consultants performing state-funded services that clearly define the scope of work, allowable and unallowable costs, current fee schedule, and deliverables.
- B. Retain original signed contracts and any subsequent amendments.

## **Observation 2: Fiscal Controls Need Improvement**

We identified the following weaknesses in the District's fiscal controls:

- Vendor invoices with no indication of District management review or approval.
- Duplications, errors, and charges unrelated to the projects and grants were claimed for reimbursement.
- Ineligible overtime charges.
- Charges for work performed outside the Work Agreement.

The District was not overpaid for these errors by DWR because they were caught during DWR's review process; however, it is imperative to maintain accurate records and have a review process in place to mitigate the risk of ineligible expenses or duplicate payments.

The grant agreements require the District to maintain complete and accurate records of its actual project costs, and to seek reimbursements only for eligible project costs. The grant agreements also allow for reimbursement of costs incurred only within the grant period.

### **Recommendation:**

Develop and implement review and approval processes to ensure expenditures reported to DWR are eligible, incurred, supported, and mathematically correct.



**Bethel Island Municipal Improvement District**

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August 15, 2013

Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814

**Re: Draft Report – Bethel Island Municipal Improvement District, Propositions 50, 84 and 1E Grant Audits**

To Whom It May Concern:

The Bethel Island Municipal Improvement District (BIMID) has received the above referenced draft report. District staff and management has reviewed the draft report and is in agreement with the results.

The District offers the following comments regarding the two recommendations contained in the draft report.

**Recommendation: Execute contracts will all subcontractors and consultants performing state-funded services that clearly define the scope of work, allowable and unallowable costs, current fee schedule, and deliverables.**

Comment: The District currently considers all proposals for subcontractor work and authorizes the acceptance and execution of contracts with chosen subcontractors at regularly scheduled board meetings.

**Recommendation: Retain original signed contracts and any subsequent amendments.**

Comment: The District's Records Retention Schedule, which was adopted on December 13, 2007, indicates that all agreements and contracts for non-infrastructure activities will be retained for ten years past completion of the contract, which will allow for review during state audits.

**Recommendation: Develop and implement review and approval processes to ensure expenditures reported to DWR are eligible, incurred, supported, and mathematically correct.**

Comment: It is the goal of the District and each staff member to produce the highest quality of reporting for all revenues received. All invoices are currently reviewed and approved by the District Manager for completeness and accuracy. Additionally, invoices from subcontractors and consultants are reviewed and approved by the Board President. Expenditures are classed according to specific project identification to allow for accurate reporting to DWR.

Sincerely,

/s/

Anthony Berzinas  
Board President

/s/

Julie Hugel  
Interim District Manager

## EVALUATION OF RESPONSE

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The District's response to the report observations are incorporated into this final report. The District agreed with our observations and we appreciate its willingness to implement corrective actions.

The Department of Water Resources (DWR) also provided a response to the report. Because DWR only suggested corrections to specific award and expenditure numbers, its response is not included in this final report.

We reviewed DWR's response and provide the following comment:

DWR suggested we revise claimed expenditures presented in the Schedules of Claimed Amounts for the three subvention grants (4600008517, 4600008814, and 4600009176) to reflect the final claim for each budgetary line item. While we agree that presenting the total project cost is more informational, we believe that distinguishing between expenditures paid through grant funds and District-paid expenditures (cost share) presents a more complete picture of the projects. Therefore, we have revised the Schedules of Claimed Amounts to reflect both grant reimbursed expenditures and cost share.

DWR also suggested we change the award amounts for each subvention grant (noted in the Scope section) to reflect the actual amount reimbursed. However, we believe the award for each project or subvention is the approved maximum allowable state expenditures of bond funds stipulated in the grant agreement. The actual amounts reimbursed are shown in the Schedules of Claimed Amounts.