



Transmitted via e-mail

December 5, 2012

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

Dear Mr. Howard:

Final Report—Mariposa County Proposition 40 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Mariposa County's (County) grant 06-364-550-0 for the period October 2, 2006 through December 31, 2010.

The enclosed report is for your information and use. The County's response to the report observations 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 County. If you have any questions regarding this report, please contact Jennifer Whitaker, Manager, or Beliz Chappuie, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Leslie Laudon, Manager, Division of Finance and Local Assistance, State Water Resources Control Board
Ms. Christine Gordon, Operations Manager, Division of Financial Assistance, State Water Resources Control Board
Ms. Monica Torres, Fiscal Unit Manager, State Water Resources Control Board
Ms. Marilyn Rogers, Program Analyst, Division of Financial Assistance, State Water Resources Control Board
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. Peter Rei, Director, Department of Public Works, Mariposa County
Ms. Barbara Carrier, Assistant Director of Support Services, Department of Public Works, Mariposa County
Mr. Luis Mercado, Accountant II, Department of Public Works, Mariposa County

AUDIT REPORT

Mariposa County Proposition 40 Bond Program Grant Agreement 06-364-550-0



Don Pedro Wastewater Treatment Facility

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

MEMBERS OF THE TEAM

Jennifer Whitaker
Manager

Beliz Chappuie, CPA
Supervisor

Staff
Steve Backlund

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, METHODOLOGY AND RESULTS

BACKGROUND

California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The \$2.6 billion in bond proceeds finance a variety of resource programs.

The County of Mariposa (County) received a \$1.98 million Small Community Wastewater Grant (SCWG) from the State Water Resources Control Board (SWRCB) to construct a wastewater facility near Lake Don Pedro. The SCWG program provides grants to small communities for the planning, design, and construction of publicly-owned wastewater treatment and collection facilities in order to correct public health and water quality problems.¹

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 06-364-550-0 for the period October 2, 2006 through December 31, 2010.

The audit objectives were to determine whether the County'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.

The County's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. SWRCB is responsible for the state-level administration of the bond program.

METHODOLOGY

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

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the County's accounting records, subcontractor agreements, and subcontractor invoices.
- 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.

¹ <http://www.mariposacounty.org>.

- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Conducted a site visit to verify project existence.
- Evaluated whether a sample of grant deliverables required by the grant agreement were met.

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.

RESULTS

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

Except as noted below, the grant expenditures claimed were in compliance with the requirements of the grant agreement, and grant deliverables were completed as required. The Schedule of Claimed Amounts is presented in Table 1.

Table 1: Schedule of Claimed Amounts

Grant Agreement 06-364-550-0	
Task	Claimed
Construction:	
Pump Station No. 7	\$ 162,321
Water and Force Main	212,696
Furnish and Install Treatment Plant	1,196,416
Furnish and Install Central Building	391,808
Sheeting, Shoring, and Bracing	16,792
Total Expenditures	\$1,980,033

Observation 1: The Contract Bidding Process Can Be Improved

The County did not document the justification for accepting the sole bidder to construct the wastewater treatment facility. The County placed an Advertisement for Bids with the local Mariposa newspaper, but only one bid was received from a company based in Montana. The County staff informed Finance that the contractor had performed other projects for the County in the past and had worked with the outside consultant hired for grant management. However, without seeking additional bids or documenting the justification for selection, the County cannot ensure that it received the best value for the construction project.

The State Contract Manual, section 5.10B, and the Public Contract Code, section 10340, states if three bids are not received, the agency will prepare a complete explanation as to why less than three bids were received; provide a justification as to the reasonableness of the price; provide the names and addresses of the firms, or individuals specifically notified of the contracting opportunity; and retain the documentation in the agency's contract file.

Recommendation:

The County should document the justification for receiving and accepting only one bid to ensure it receives the best value for the construction project.

Observation 2: Non-Compliance with Grant Requirements

The County hired an outside consultant to manage the pre-planning and construction of the wastewater treatment facility. The same consultant was named in the grant agreement as the contact person for SWRCB to direct all inquiries. By naming the consultant hired to manage the pre-planning and construction of the grant project as the main contact person, the County risked giving the consultant the opportunity to influence project business decisions in a way that might lead to improper gain or benefit to himself.

The Small Community Wastewater Grant Program Guidelines state that “The grantee may hire a consultant to be the grant contact person. However, this person cannot be the grantee’s consultant for the planning, design, or construction management of the grant project, since this would be considered a conflict of interest.”

Recommendation:

The County should comply with all grant requirements and consult with SWRCB on any non-compliance matters.

COUNTY of MARIPOSA



Peter M. Rei
Director

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October 18, 2012

DEPARTMENT OF PUBLIC WORKS

Divisions of:

Administration	Airport
Cemeteries	County Surveyor Design & Engineering
Construction	
Facilities	Parks & Rec.
Roads	Solid Waste
Transportation	Fleet Maintenance

Mr. David Botelho, CPA
Department of Finance
State of California
915 L Street
Sacramento, CA 95814-3706

Re: Confidential Draft of Mariposa County Proposition 40 Grant Audit

Dear Mr. Botelho:

As requested in your October 11, 2012 letter I am providing you Mariposa County's responses to your two Audit observations.

Observation #1: The Contract Bidding Process Can Be Improved

Your concern appears to center on the fact that the County accepted a lone bid on the project and did not seek additional bids. As a result there is concern that the County may not have received the best value for the money spent on the project.

Response to Observation #1:

I agree that the receipt of only one bid is generally not a desirable response to a request for bids. As this project was completed by staff who no longer works for the County and the fact that I was hired as Director in November 2011, I cannot directly answer why that decision was made. I can assure the Department of Finance that during my tenure with Mariposa County we have reviewed and are making extensive changes to the way that our competitive bidding is managed. In any future contracts Mariposa County will strive for bidding packages that will generate multiple bidders if at all possible so as to ensure that the public gets the work done for the lowest possible price.

Observation #2: Non-Compliance with Grant Requirements

Your concern appears to be with the fact that the outside consultant who managed the pre-planning and construction of the project was also the contact person for the SWRCB for all grant agreement issues. It is implicated that this arrangement may result in an opportunity for that person to potentially gain additional compensation or cover up potential mistakes. The conclusion being that these two items would be better handled by two different firms.

Response to Observation #2:

I understand the concern. However, in my 31 years in the civil engineering construction industry, I am aware that it is a very common arrangement to have one firm do both the planning, design and construction management for a project. I have been involved in a large number of projects which have used this arrangement and have not experienced any problems of the type noted in the observation. In fact, I often find that the combined arrangement is actually less expensive and less taxing on limited staff as there is only one entity to coordinate with and one entity to contract with. In an era where both staff and financial resources are limited, the combined arrangement works well assuming due diligence is used to select a capable and experienced firm during the consultant selection process.

Another advantage of this arrangement is the consultant involved is more familiar with the entire project being constructed. There is no need to educate a new consultant which increases efficiency when the construction portion of the project begins. Of course there is a need for proper oversight by agency staff to ensure that all is being handled appropriately.

Thank you for the opportunity to comment on the confidential draft. I look forward to receiving your final audit findings.

Sincerely,

Original Signed By

Peter Rei, PE
Director of Public Works
County of Mariposa

EVALUATION OF RESPONSE

We reviewed the County of Mariposa's (County) response dated October 18, 2012, to the draft audit report. We acknowledge the County's willingness to implement recommendations and efforts to improve grant management procedures. In evaluating the County's response we offer the following comments:

Observation 1: The Contract Bidding Process Can Be Improved

The County agrees with the observation and is implementing procedures to ensure multiple bids are received in order to obtain the lowest possible price for the work.

Observation 2: Non-Compliance with Grant Requirements

Although the County does not disagree with the observation, the County states it is common in the civil engineering construction industry to have one firm do both the planning, design, and construction management for a project. The County further states this arrangement is less expensive and preferable when both staff and financial resources are limited. However, the conflict is related to the consultant also being the grant contact person. Therefore, our observation and recommendation remain as stated in the report.