



Transmitted via e-mail

May 6, 2013

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

Dear Mr. Howard:

Final Report—Big Bear Municipal Water District, Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Big Bear Municipal Water District's (District) grant 04-204-558 issued by the State Water Resources Control Board.

The enclosed report is for your information and use. The District'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 District. If you have any questions regarding this report, please contact Diana Antony, Manager, or Lisa Negri, 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. Monica Torres, Fiscal Unit Manager, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, 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. Scott Heule, General Manager, Big Bear Municipal Water District
Ms. Carrie Shirreffs, Senior Accountant, Big Bear Municipal Water District

AUDIT REPORT

Big Bear Municipal Water District Proposition 13 Bond Program Grant Agreement 04-204-558



Big Bear Lake
Source: Big Bear Municipal Water District website

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Lisa Negri
Supervisor

Staff
Randy McClendon

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 Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13). The \$1.97 billion of bond proceeds provide grants to finance a variety of natural resource programs.

The Big Bear Municipal Water District (District) received a \$2.3 million grant from the State Water Resources Control Board (Board) to remove sediment from Big Bear Lake; eradicate invasive, non-native species; and complete various environmental surveys. The District's mission is to stabilize the level of Big Bear Lake for recreation and wildlife.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 04-204-558 for the period March 7, 2005 through March 1, 2008.

The audit objectives were to determine whether the District'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 District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board and the 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:

- 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 grantee's accounting records, canceled checks, payroll documents, 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.

- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- 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.

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 and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 04-204-558		
Category	Claimed	Questioned
Personnel Services	\$ 171,830	
Operating Expenses	19,500	
Equipment Acquisitions	40,000	
Professional and Consulting Services	2,061,304	
Total Grant Funds	\$ 2,292,634	\$ 47,197

Observation 1: Unsupported Expenditures Claimed for Reimbursement

The District claimed and was reimbursed for \$47,197 in unsupported expenditures. Specifically, the District’s accounting records supported \$2,245,437 of the \$2,292,634 total claimed amount. The District could not provide an explanation for the difference. In addition, the District did not track project expenditures by budget category. As a result, the questioned amount could not be attributed to a specific budget category in the table above. Exhibit C, section 25 of the grant agreement requires the grantee to establish an accounting system that adequately depicts total project costs.

Recommendations:

- A. Remit \$47,197 to the Board for unsupported expenditures. The Board will determine the final disposition of the questioned costs.
- B. Ensure accounting records support all claimed expenditures and track grant expenditures by budget category to provide a clear audit trail.



Big Bear Municipal Water District

Lake Management

Board of Directors

Todd Murphy - Division 1
Mary Ann Lewis - Division 2
Skip Suhay - Division 3
John Eminger - Division 4
Vince Smith - Division 5

March 5, 2013

Department of Finance
Office of State Audits and Evaluations
Attention Diana Antony, CPA, Manager
915 L. Street, 6th Floor
Sacramento, CA 95814

Subject: Audit of Big Bear Municipal Water District Proposition 13 Bond Program Grant Agreement
04-204-558

Dear Ms. Antony,

This District is in receipt of the draft audit report of February 2013 for the above referenced Proposition 13 Bond Program grant. The auditors conclude that "The District claimed and was reimbursed for \$47,197 in unsupported expenditures. Specifically, the District's accounting records supported \$2,245,437 of the \$2,292,634 total claimed amount. The District could not provide an explanation for the difference." Records supporting the expenses for equipment purchases, consultant fees and other vendor expenses were easily justified. However, District staff efforts in support of consultant tasks such as routine field work to collect samples, installation of remote equipment and deploying automated equipment were not credited during the audit. It is the intent of this letter to document legitimate District expenses generated by District staff work that supported the grant funded program.

The attached spreadsheet tabulates \$79,300 of District staff costs expended specifically in support of the Proposition 13 grant. The work of the hired consultants and other experts could not have been completed without District staff providing the support during inspection tours, equipment location scouting and installation, weekly or monthly inspections and monitoring and basic data collection.

The District respectfully requests that the subject draft audit report be amended to credit the District for the \$47,197 in previously unsupported expenditures in light of this new information. We are grateful for every consideration.

Sincerely,

Original Signed by...

Scott Heule
General Manager

(spreadsheet attached)

**Big Bear MWD Staff Support Expenses Associated with Proposition 13 Bond Grant
Grant Agreement 04-204-558**

Work Product Description by Subitem #	Average Fully Burdened Hourly Cost to District	Hours	Total Cost to District
2.1.1 Purchase and install and maintain a high elevation weather station	\$60	72	\$4,320
2.1.3.1 Install stream flow monitoring and sampling equipment	\$55	160	\$8,800
2.2.2 Conduct recreational beneficial use survey for major tributaries - cameras/video surveillance	\$60	38	\$2,280
2.2.3 Conduct channel stability and condition survey for major tributaries	\$60	84	\$5,040
2.3.1 Conduct Lake and Tributary water quality, sediment and flow monitoring - tributaries	\$55	244	\$13,420
2.4 Source Identificaiton Studies - Atmospheric Deposition Monitoring	\$60	16	\$960
2.4.1 Conduct source survey monitoring - visual creek flows	\$64	695	\$44,480
Total			\$79,300

EVALUATION OF RESPONSE

We reviewed the Big Bear Municipal Water District's (District) response to our draft report and provide the following comments:

The District provided information to explain the questioned costs. Specifically, the District claims staff time was used to support grant project activities. However, the District's accounting records for the grant did not include additional labor costs and staff timesheets were not provided to support hours charged to the grant project.

Because the District provided no additional source documentation to support the questioned costs, our observation and recommendations remain unchanged. However, the State Water Resources Control Board will make the final determination regarding the disposition of these costs.