



Transmitted via e-mail

February 14, 2014

Ronald Chapman, MD, MPH, Director
California Department of Public Health
P.O. Box 997377, MS 0500
Sacramento, CA 95899-7377

Dear Dr. Chapman:

Final Report—Desert Water Agency, Proposition 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Desert Water Agency's (DWA) grant 5010A102 issued by the California Department of Public Health.

The enclosed report is for your information and use. Because there were no audit observations or issues requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of DWA. If you have any questions regarding this report, please contact Diana Antony, Manager, or Jon Chapple, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. David Mazzera, Acting Chief, Drinking Water Technical Programs Branch, California Department of Public Health
Mr. William Young, Staff Management Auditor, Internal Audits, California Department of Public Health
Ms. Jean Iacino, Acting Chief, Internal Audits, California Department of Public Health
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. David K. Luker, General Manager, Desert Water Agency
Mr. Martin Krieger, Finance Director, Desert Water Agency
Mr. Steve Johnson, Engineering Supervisor, Desert Water Agency

AUDIT REPORT

Desert Water Agency Proposition 50 Bond Program Grant Agreement 5010A102



City of Cathedral City, Cove Septic Elimination Project

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

MEMBERS OF THE TEAM

Diana Antony, CPA
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Jon G. Chapple, CPA
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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, METHODOLOGY AND RESULTS

BACKGROUND

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50). The \$3.44 billion of bond proceeds finance a variety of natural resource programs.

The Desert Water Agency (DWA) is a public agency that imports water from the State Water Project to create a reliable local water supply for the Palm Springs area. In addition, DWA provides sewer services to parts of the City of Cathedral City (City), recycles water for various recreational uses, and works closely with local, state, and federal officials to protect water resources in the event of a disaster. The California Department of Public Health (DPH) awarded DWA a \$2 million Proposition 50 grant.

The grant assists DWA in financing a portion of the Cathedral City Septic Elimination Project, to eliminate septic tanks in the Cove and Dream Home areas of the City. In accordance with Chapter 700, Statutes of 2001 (AB 358), the use of septic tanks in these areas is prohibited after January 1, 2012. The total cost of the project was approximately \$38 million, including over \$28 million from the Cove Improvement District.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the \$2 million Proposition 50 grant 5010A102 for the period September 10, 2008 through March 14, 2011.

The audit objectives were to determine whether DWA'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.

DWA's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DPH 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:

- 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 DWA's accounting records, vendor invoices, and payment requests.
- 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.
- Conducted site visits to verify project existence.
- Evaluated whether a sample of grant deliverables were met through review of inspection reports, public outreach plans, informational flyers, and meeting minutes.

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.

Based on the procedures performed, 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 5010A102	
Task	Claimed
Construction	\$ 2,000,000
Total Grant Costs	2,000,000
Match Funds	2,011,697
Total Project Costs	\$ 4,011,697