



Transmitted via e-mail

December 19, 2013

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

Dear Mr. Cowin:

**Final Report—East Bay Municipal Utility District, Proposition 13 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the East Bay Municipal Utility District's (EBMUD) grant 4600004578 issued by the California Department of Water Resources.

The enclosed report is for your information and use. EBMUD's response to the report observation is incorporated into this final report. EBMUD agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving its program. This report will be placed on our website.

We appreciate the assistance and cooperation of EBMUD. 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 Diana Antony for:

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

Enclosure

cc: On following page

cc: Ms. Laura King Moon, Chief Deputy Director, California Department of Water Resources  
Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources  
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources  
Mr. Jeff Ingles, Chief Auditor, California Department of Water Resources  
Ms. Tracie Billington, Chief, Financial Assistance Branch, Division of Integrated Regional Water Management, California Department of Water Resources  
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. Alexander R. Coate, General Manager, East Bay Municipal Utility District  
Ms. Rema Randle Jones, Assistant to General Manager, East Bay Municipal Utility District  
Mr. Scott Klein, Controller, East Bay Municipal Utility District  
Mr. Thomas B. Francis, Senior Civil Engineer, East Bay Municipal Utility District  
Ms. Crystal Yee, Accountant III, East Bay Municipal Utility District

# AUDIT REPORT

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## East Bay Municipal Utility District Proposition 13 Bond Program Grant Agreement 4600004578



Bayside Groundwater Project

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Jon G. Chapple, CPA  
Supervisor

Staff  
Patricia Roth  
Lakhwinder Thiara

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, SCOPE AND METHODOLOGY

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## **BACKGROUND**

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13). The \$1.97 billion of bond proceeds finance a variety of natural resource programs.

The East Bay Municipal Utility District (District) provides drinking water for 1.3 million customers in Alameda and Contra Costa counties. The District's mission is to manage its natural resources; provide reliable, high quality water and wastewater services at fair and reasonable rates for the people of the East Bay; and preserve and protect the environment for future generations.

The California Department of Water Resources (DWR) awarded the District a \$2 million Proposition 13 grant to construct conjunctive use facilities to provide up to one million gallons per day of groundwater during drought or emergency events. The grant funding was to assist in financing a portion of a larger project and also required the District to fund in excess of \$10 million towards the project.

## **SCOPE**

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600004578 for the period March 13, 2006 through December 31, 2009.

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. DWR 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 the District's reimbursement claims, accounting records, vendor contracts, and invoices.
- Selected a sample of expenditures to determine whether they 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 agreement.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation and conducting a site visit to verify existence of the facilities.

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 Amounts is presented in Table 1.

**Table 1: Schedule of Claimed Amounts**

<b>Grant Agreement 4600004578</b>	
<b>Task<sup>1</sup></b>	<b>Claimed</b>
Environmental Documents	\$ 53,435
Reporting	6,000
Design	268,234
Permit Acquisition	7,200
Installation/Construction	1,416,114
Contingency <sup>2</sup>	249,017
<b>Total Grant Funds</b>	<b>2,000,000</b>
Match Funds	10,230,318
<b>Total Project Expenditures</b>	<b>\$ 12,230,318</b>

**Observation 1: Non-Compliance with Grant Agreement**

The injection/extraction well site was not housed by a structure as required by the grant agreement. Sub-Task C.6.4 of the grant agreement requires the injection/extraction well site be housed by its own structure approximately 300 square feet by 10 feet high. According to the District, the well site was not housed for several reasons, including (1) the site was not in public view and therefore not a security risk, (2) the well was painted and therefore protected from the elements, and (3) a structure would make it difficult to access the well with a crane. However, the District was unable to provide documentation of DWR notification and approval of this change and whether there was an impact to the final project cost.

**Recommendation:**

DWR should work with the District to determine the ultimate disposition of a housing structure over the well site and any related cost adjustments. Additionally, for future grants, the District should obtain the grantor’s approval for project scope changes.

<sup>1</sup> As noted in the Background Section of this report, this grant funded a portion a larger project (Tasks 3 and 5 through 9).

<sup>2</sup> Contingency was used for project related costs including design and construction.



December 3, 2013

Richard R. Sierra, CPA, Acting Chief  
Office of State Audits and Evaluations  
California Department of Finance  
915 L Street  
Sacramento, CA 95814-3706

Dear Mr. Sierra:

East Bay Municipal Utility District (EBMUD) has completed a review of the draft report prepared by the State of California's Department of Finance, Office of State Audits and Evaluations (DOF) regarding the audit of EBMUD's grant 4600004578 issued by the California Department of Water Resources (DWR). The objectives of the audit were to determine whether EBMUD'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.

Grant expenditures were found to be in compliance, although one observation was noted. The grant agreement noted that a 300 square foot by 10 foot high structure would be constructed to surround the project's injection/extraction well. DOF recommended that EBMUD work with DWR staff to determine the ultimate disposition of the housing structure and identify any cost adjustments.

In the design stage for the project, a determination was made that a structure would be needed to house the electrical and control equipment, but a larger structure was not needed to cover the injection/extraction well itself. Subsequent design drawings, project costs and project grant expenditures included that revision. While project drawings and specifications provided to DWR included the revised approach, specific formal correspondence noting the change was not issued.

On Monday, December 2, 2013, EBMUD contacted Mr. Craig Cross, DWR's assigned grant program manager, to discuss your letter and recommendations. We noted that EBMUD has recent grant management procedures now in place that we believe will eliminate miscommunications of this nature in the future. DWR noted that they too have implemented changes that will better identify these kinds of issues. Both EBMUD and DWR agree that the project's integrity was not compromised by removing the well housing structure and replacing it with a smaller structure to house the controls. The costs developed as part of the grant agreement factored in the smaller equipment housing structure and therefore financial adjustments are not warranted.

Richard R. Sierra, CPA, Acting Chief  
Office of State Audits and Evaluations  
December 3, 2013  
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Should you have any questions about this response to the audit of grant 4600004578,  
please contact Tom Francis, Senior Civil Engineer, at (510) 287-1303.

Sincerely,

Original signed by

Alexander R. Coate  
General Manager

cc: Scott D. Klein, EBMUD  
Richard G. Sykes, EBMUD  
Michael T. Tognolini, EBMUD  
Thomas B. Francis, EBMUD  
Craig Cross, DWR