



Transmitted via e-mail

June 17, 2014

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

Dear Mr. Cowin:

Final Report—Eastern Municipal Water District, Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Eastern Municipal Water District's (District) grant 4600004638, issued by the California Department of Water Resources.

The enclosed report is for your information and use. Because there were no audit observations 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 the District. If you have any questions regarding this report, please contact Diana Antony, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

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 L. Billington, Chief, Financial Assistance Branch, 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. Paul D. Jones II, P.E., General Manager, Eastern Municipal Water District
Mr. Brian Powell, Director of Planning, Eastern Municipal Water District
Ms. Lori Robinson, Controller, Eastern Municipal Water District

AUDIT REPORT

Eastern Municipal Water District Proposition 13 Bond Program Grant Agreement 4600004638



Recharge pond within San Jacinto River Recharge Area

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

MEMBERS OF THE TEAM

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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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Office of State Audits and Evaluations
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BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

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.

Eastern Municipal Water District's (District) mission is to deliver value to its customers and the communities it serves by providing safe, reliable, economical and environmentally sustainable water, wastewater and recycled water services. The District serves a population of approximately 758,000 within the cities of Moreno Valley, Perris, Murrieta, Temecula, Hemet, San Jacinto and surrounding unincorporated communities.

The District received a \$5 million Proposition 13 grant from the California Department of Water Resources (DWR) to assist in financing a groundwater storage project which will recharge the San Jacinto groundwater sub-basin. The project's total cost is estimated at \$21.8 million. The entire project consists of pump station modifications, pipelines and recharge basins, extraction and monitoring wells, and extraction well pumps and chlorination equipment.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 4600004638 for the period April 25, 2006 through February 28, 2013.¹

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.

¹ An interim audit was conducted because the grant term ended December 31, 2013 and fieldwork was performed prior to the grant end date.

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the District’s accounting records, vendor invoices, and bank statements.
- 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 a site visit to verify project existence.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations 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 complied with the grant agreement requirements. Because the project was active at the time of our site visit, not all deliverables were completed; however, the District has completed interim deliverables in accordance with the grant agreement. The Schedule of Claimed Amounts is presented below.

Table 1: Schedule of Claimed Amounts

Grant Agreement 4600004638	
Task	Claimed
Extraction Well Drilling	\$ 745,093
Extraction Well Pump and Chlorination Equipment	3,057,836
Pump Station Modifications	1,197,071
Total Grant Costs	5,000,000
Match/Cost Share ²	9,213,592
Total Project Costs	\$ 14,213,592

² The District’s total cost share at project completion is estimated at \$16,797,470.