



Transmitted via e-mail

October 14, 2014

Mr. Charlton H. Bonham, Director  
California Department of Fish and Wildlife  
1416 Ninth Street, 12<sup>th</sup> Floor  
Sacramento, CA 95814

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

Dear Mr. Bonham and Mr. Howard:

**Final Report—Grassland Water District, Proposition 50 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Grassland Water District's (District) grants P0640003 and 04-312-555. These grants were issued by the California Department of Fish and Wildlife and State Water Resources Control Board.

The enclosed report is for your information and use. After review of the draft report, the District chose not to provide a written response. 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

cc: Mr. Gabe Tiffany, Deputy Director, California Department of Fish and Wildlife  
Ms. Lisa Gallegos, Assistant Deputy Director for Administration, California Department of Fish and Wildlife  
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board  
Ms. Leslie Laudon, Manager, Division of Financial Assistance, State Water Resources Control Board  
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board  
Ms. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board  
Mr. Josh Ziese, Loans and Grants Section, Division of Financial Assistance, State Water Resources Control Board  
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. Ric Ortega, General Manager, Grassland Water District

Grassland Water District  
Proposition 50 Bond Program  
Grant Agreements 04-312-555 and P0640003



Water Monitoring Site, Los Banos

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Lisa Negri  
Supervisor

Staff  
Randy Enriquez

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 AND METHODOLOGY

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## BACKGROUND

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

The Grassland Water District (District) comprises approximately 51,537 acres with the majority of this land in wetland habitat. The District's primary function is the delivery of water to the landowners within its boundaries. The canal system for carrying out water deliveries is approximately 110 miles in length and is operated and maintained by the District.<sup>1</sup> The District received the following grants from the California Department of Fish and Wildlife (DFW) and the State Water Resources Control Board (SWRCB):

- **DFW Grant P0640003**—\$149,313 to investigate the impact of altered spring drawdown of managed wetlands on plant productivity and waterbird use. This project investigated the feasibility of developing multi-objective wetland operations, to both maximize wildlife habitat and improve water quality in the Grassland Basin and San Joaquin River.
- **SWRCB Grant 04-312-555**—\$998,029 to provide a pilot implementation program for real-time adaptive salinity management of seasonal wetland drainage. The project evaluated whether making changes to the timing of wetland drawdown in the Grasslands Basin can improve salinity conditions in the lower San Joaquin River during critical periods, and improve compliance with the SWRCB's water quality objectives for salt and boron.

## SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the following grants:

### Grant Agreement

P0640003

04-312-555

### Audit Period

August 1, 2006 through June 30, 2010

May 15, 2005 through June 30, 2011

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. SWRCB, DFW and the California Natural Resources Agency are responsible for the state-level administration of the bond programs.

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<sup>1</sup> Source: <http://gwdwater.org>.

## **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 agreements, and applicable policies and procedures.
- Reviewed the District's reimbursement claims, accounting records, vendor invoices, vendor contracts, cancelled checks, 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 the existence of project equipment.
- Evaluated whether a sample of grant deliverables required by the grant agreements were met.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits 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.

The results of the audits 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 complied with the grant requirements. Additionally, the grant deliverables were completed as specified in the grant agreements. The Schedules of Claimed and Questioned Amounts are presented below.

**Schedules of Claimed and Questioned Amounts**

<b>Grant Agreement P0640003</b>		
<b>Category</b>	<b>Claimed<sup>1</sup></b>	<b>Questioned</b>
Personnel Services	\$ 108,843	-
Overhead Costs	21,768	\$ 21,768
<b>Total Grant Expenditures</b>	<b>\$ 130,611</b>	<b>\$ 21,768</b>

<b>Grant Agreement 04-312-555</b>		
<b>Category</b>	<b>Claimed<sup>2</sup></b>	<b>Questioned</b>
Personnel Services	\$ 169,402	\$ 25,650
Operating Expenses	67,499	-
Equipment	201,598	-
Professional/Consultant Services	421,524	-
<b>Total Grant Expenditures</b>	<b>\$ 860,023</b>	<b>\$ 25,650</b>
Total Match	332,687	4,580
<b>Total Project Expenditures</b>	<b>\$ 1,192,710</b>	<b>\$ 30,230</b>

**Observation 1: Unsupported Overhead Expenditures**

The Grassland Water District (District) claimed overhead expenditures that were unsupported by a reasonable cost allocation methodology. Specifically, the District allocated overhead expenditures based on the annual labor hours for one employee instead of annual hours for all employees. This resulted in claimed overhead costs in excess of actual overhead incurred. When the discrepancy was brought to the District’s attention, they provided a revised methodology and reported additional overhead expenditures. However, the information provided did not include source documents required to substantiate the revised cost allocation methodology. Claimed overhead costs should be based on actual expenditures incurred and distributed to projects proportional to the relative benefits received.

Grant agreement, section 25, requires the grantee to establish an accounting system that adequately depicts final total costs of the project, including both direct and indirect costs.

<sup>1</sup> The grant award was \$149,313; however, the District claimed \$130,611.

<sup>2</sup> The grant award was \$998,029; however, the District claimed \$860,023.

**Recommendations:**

- A. Remit \$21,768 to the California Department of Fish and Wildlife (DFW) and \$25,650 to State Water Resources Control Board (SWRCB) for the unsupported costs. DFW and SWRCB will make the final determination on the appropriate method to recover the questioned costs. SWRCB will determine the effect, if any, of the unsupported match.
- B. Ensure accounting records support all claimed expenditures and provide a clear audit trail.
- C. Develop and implement a documented cost allocation plan to equitably distribute indirect costs to bond programs and projects. Retain documentation of the plan and periodically adjust the plan and accounting records as necessary.

**Observation 2: No Written Agreement for Subcontractor Services**

The District did not have a written contract for the subcontractor hired to provide testing and data analysis. Without a written contract that clearly defines the scope of work, allowable costs, a current fee schedule, and final deliverables, there is an increased risk of non-compliance with program requirements and state fiscal policies, and increased risk of final deliverables not being completed as intended.

Grant agreement, section C.12, requires, at a minimum, the grantee maintain sufficient fiscal controls and accounting procedures to permit tracing of grant funds to a level of expenditures adequate to establish that such funds have not been used in violation of state law or the grant agreement. Additionally, section C.22 states any contractors required by the grantee shall be limited to individuals or firms specifically identified and agreed to during negotiations for the agreement.

**Recommendations:**

- A. Execute written contracts with all subcontractors and consultants performing state-funded services that clearly define the scope of work, allowable and unallowable costs, current fee schedule, and deliverables.
- B. Retain original signed contracts and any subsequent amendments.