



Transmitted via e-mail

January 17, 2014

Mr. Mark Cowin, Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Mr. Cowin:

Final Report—Deer Creek Irrigation District, Proposition 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Deer Creek Irrigation District's (DCID) grant agreement 4600004200 for the period April 27, 2006 through December 31, 2011.

The enclosed report is for your information and use. The California Department of Water Resources' response to the report observation is incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of DCID. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or John Ponce, Supervisor, 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
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. John Edson, President, Deer Creek Irrigation District
Mr. Tim O'Laughlin, Founding Partner, O'Laughlin & Paris, LLP
Mr. Grant Davids, President/Principal Engineer, Davids Engineering, Inc.

AUDIT REPORT

Deer Creek Irrigation District Proposition 50 Bond Program Grant Agreement 4600004200



The "Y" and North Main Spill Structures, Vina, CA

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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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

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

Deer Creek Irrigation District (DCID), a California special district, received a \$453,035 Proposition 50 grant from the California Department of Water Resources (DWR) under the 2004 Water Use Efficiency Program. The goals of the grant were to:

- Construct appropriate, cost-effective water use efficiency improvements to better manage and control Deer Creek water diversion and distribution systems.
- Develop operations criteria and practices, based on sound science and appropriate monitoring, that contribute to improvement of Deer Creek fish transportation issues.

DCID was required to 1) replace the main canal "Y" structure, 2) replace the main canal diversion gates, 3) install a Supervisory Control and Data Acquisition (SCADA) System and automate the main canal diversion gates, and 4) train the district water manager in the use of the SCADA system.

Due to DCID's limited resources, O'Laughlin & Paris, LLP, was retained to serve as a liaison between DCID and DWR. O'Laughlin & Paris provided specialized counsel in the area of water rights and resources and served as the liaison for all grant-related matters between DCID and Davids Engineering, Inc., who provided all project management and professional engineering services for this grant.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600004200 for the period April 27, 2006 through December 31, 2011.

The audit objectives were to determine whether DCID'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. Further, we did not assess the reasonableness of the construction costs, the derived benefit of the improved structures, or the processes implemented.

DCID and its representatives are 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, 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 DCID's accounting records, including, but not limited to, reimbursement warrants, invoices, consultant/subcontractor invoices, and all supporting documentation.
- Selected a sample of claimed expenditures and determined whether they were eligible, accurate, supported, paid, and incurred within the grant period.
- 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 conducting a site visit to verify existence of the structures and system, reviewing supporting documentation (accounting records and reports), and interviewing key personnel.

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 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 audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

The grant expenditures claimed complied with the grant agreement requirements. Except as noted below, the grant deliverables were completed as specified in the grant agreement. The Schedule of Claimed Amounts is presented in Table 1.

Table 1: Schedule of Claimed Amounts

Grant Agreement 4600004200	
Tasks	Claimed¹
1. Establish Easements & ROW	\$ 8,000
2. Prepare Final Design, Specifications & Contract Documents	26,000
3. Conduct Project Bidding	3,000
4. Construct Structures	71,829
5. Procure and Install SCADA Equipment	2,242 ²
6. Provide Engineering Services During Construction	12,988
7. Provide SCADA Training and Troubleshooting	-
8. Project Monitoring & Assessment	14,482
9. Community Outreach & Involvement	3,984
10. Environment Permitting	13,079
11. Provide Project Management & Administration	38,174
Total Grant Funds	\$ 193,778

Observation 1: Intended Outcome of the Project Not Met

DCID completed tasks related to the construction of water use efficiency improvements to better manage and control its water diversion and distribution systems; however, other critical grant tasks were not completed. Although DWR was aware DCID decided to forego the installation of the SCADA system, the grant agreement was not amended to acknowledge the change in scope.

The final report stated DCID's decision to forego the SCADA system was due to resource constraints. Currently, DCID continues to operate the improved irrigation system in the same manner as it did prior to this project. With the new improvements, water flow can be more precisely controlled and divided. Although the new improvements lend to more precise control and diversion of water, the installation of a monitoring system (such as the SCADA system) was

¹ DWR awarded \$453,035; however, DCID only claimed \$193,778.

² Per the final report, approximately one percent of the budget for the SCADA improvements (Tasks 5 and 7) was expended as part of the process to select and award a contract to a SCADA professional. Ultimately, the SCADA improvements were not implemented due to resource constraints.

critical to obtain real-time data regarding flows, water levels, and spillage and provide DCID the ability to remotely control diversions accordingly.

Absent the SCADA system, post-project monitoring cannot occur to support the five required annual benefit/cost reports, which was a provision in the grant agreement. As a result, DWR cannot accurately determine the true benefit and realize the overall intended outcome of this project. Below is a comparison of the expected and audited results of each goal:

Table 2: Comparison of Expected Results vs. Audited Results

Goals	Expected Results	Audited Results
1. Construct appropriate, cost-effective water use efficiency improvements to provide the ability to better manage and control Deer Creek water diversion and distribution systems.	A. Replace the main canal "Y" structure.	A. Replaced the main canal "Y" structure.
2. Develop operations criteria and practices, based on sound science and appropriate monitoring that contribute to improvement of Deer Creek fish transportation issues, on a cooperative, voluntary basis.	B. Install a SCADA system and replace/automate the main canal diversion gates.	B. Did not install a SCADA system or replace the main canal diversion gates.

Recommendation:

DWR and DCID should work cooperatively to find a solution to complete the unfinished tasks to fully meet the intent of the grant agreement, or amend the original grant agreement to reflect the change in scope. DWR will make the final determination on the actions needed regarding the unmet goals.

The California Department of Water Resources (DWR) provided the following response:

After completion of the first part of the project (replacement of the main canal “Y” structure), DCID expressed its inability to complete the second part of the project (installation of SCADA and gate automation) due to financial and resource constraints. DWR recognized DCID’s inability to proceed due to DCID’s resource constraints and the state’s mandated “Stop Work” order, which affected the project for two years starting January 2009. By mutual informal agreement, DWR and DCID decided to terminate the project. DCID then submitted a final report explaining the aforementioned. The final report covered the completed portion of the project and included an explanation for the reason to forgo the remaining tasks.

Since the contract has now been terminated, DWR is reluctant to expend staff resources amending the scope at this time. However, if and when DCID’s financial situation and resources allow it, and contingent upon the continued availability of Proposition 50 grant funding, DWR will consider an amendment of DCID’s agreement for a time extension to allow the completion of the unfinished tasks so as to fully meet the intent of the original grant agreement.