



Transmitted via e-mail

September 19, 2012

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—Inland Empire Utilities Agency, Propositions 13 and 50 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Inland Empire Utilities Agency's (IEUA) grants E90020, 4600004086, 4600004113, and 4600004224.

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 the IEUA. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources  
Ms. Tracie Billington, Chief, Financial Assistance Branch, California Department of Water Resources  
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources  
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Christina Valencia, Chief Financial Officer, Inland Empire Utilities Agency  
Mr. Jason Gu, Grants Administrator, Inland Empire Utilities Agency

# AUDIT REPORT

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## Inland Empire Utilities Agency Propositions 13 & 50 Bond Programs Grant Agreements E90020, 4600004086, 4600004113, and 4600004224



RP-1 South Zone Pump Stations  
Source: Inland Empire Utilities Agency

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

## **MEMBERS OF THE TEAM**

Susan Botkin, CGFM  
Manager

Angie Williams  
Supervisor

Staff  
Alex Balandra

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

California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50) for \$1.97 billion and \$3.44 billion, respectively. The bond proceeds finance a variety of resource programs.

The California Department of Water Resources (DWR) awarded the following Proposition 13 and 50 grants to the Inland Empire Utilities Agency (IEUA):

- *Groundwater Storage Project* (grant agreement E90020)—Proposition 13 grant totaling \$15,500,000 to build the RP-4 Reservoir, Pump Station, and Pipeline Projects.
- *Groundwater Studies* (grant agreement 4600004086)—Proposition 50 grant totaling \$250,000 to conduct groundwater studies and carry out groundwater monitoring and management activities.
- *Water Desalination Project* (grant agreement 4600004113)—Proposition 50 grant totaling \$2,800,000 to assist in financing a water desalination project to provide clean drinking water.
- *Multi-Family Ultra Low Flush Toilet Direct-Install Program* (grant agreement 4600004224)—Proposition 50 grant totaling \$1,650,133 to market, distribute, and install ultra low flush toilets.

## SCOPE

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

Grant Agreements	Audit Period
E90020	January 24, 2005 through December 31, 2010
4600004086	June 1, 2005 through December 31, 2008
4600004113	April 13, 2006 through July 28, 2011 <sup>1</sup>
4600004224	April 24, 2006 through October 6, 2011 <sup>2</sup>

The audit objectives were to determine whether the IEUA's grant expenditures 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, no assessment was performed on the reasonableness or the conservation value of the projects completed.

<sup>1</sup> The agreement term is April 13, 2006 through June 30, 2012. However the project was completed, all funds were spent, and a final report was sent to DWR on July 28, 2011. DWR has not yet performed its close-out procedures.

<sup>2</sup> An interim audit was performed. The grant period ends December 31, 2012.

The IEUA 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 programs.

## **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, grant agreements, and applicable policies and procedures.
- Reviewed the grantee's accounting records including vendor invoices.
- 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 required by the grant agreement were met.
- Reviewed documentation provided for matching funds.

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 audit procedures performed, the grant expenditures claimed were in compliance with the requirements of the grant agreements, and grant deliverables were completed as required. The Schedules of Claimed Amounts are presented in Table 1.

**Table 1: Schedules of Claimed Amounts**

<b>Grant Agreement E90020</b>	
<b>Category</b>	<b>Claimed</b>
<b>Phase 1</b>	
Edison Avenue Pipeline	\$ 8,524,379
Wineville Pipeline Extension	81,125
Grove Avenue Pipeline	1,644,496
<b>Total Phase 1</b>	<b>10,250,000</b>
<b>Phase 2</b>	
Monitoring Wells, Lysimeters, Recycled Water Connections	946,670
SCADA System Expansion	131,348
New MWB Turnout/Pipeline to 8th Street Basin	1,791,301
MWD Turnout Expansions	1,342,747
Berm Heighten and Harden	1,037,934
<b>Total Phase 2</b>	<b>5,250,000</b>
Total Grant Expenditures	15,500,000
Total Match Expenditures	16,737,684
Total Project Expenditures	\$ 32,237,684

<b>Grant Agreement 4600004086</b>	
<b>Category</b>	<b>Claimed</b>
Construct Monitoring Wells	\$ 212,596
Sample Wells in Monitoring Program	37,404
Total Grant Expenditures	250,000
Total Match Expenditures	935,585
Total Project Expenditures	\$ 1,185,585

<b>Grant Agreement 4600004113</b>	
<b>Category</b>	<b>Claimed</b>
Construction	\$ 2,800,000
Total Grant Expenditures	2,800,000
Total Match Expenditures	5,119,879
Total Project Expenditures	\$ 7,919,879

<b>Grant Agreement 4600004224</b>	
<b>Category</b>	<b>Claimed</b>
Materials/Installation/Implementation	\$ 1,310,219
Total Grant Expenditures	1,310,219
Total Match Expenditures	2,102,188
Total Project Expenditures	\$ 3,412,407