



March 16, 2010

Ms. Susan Sims, Chief Deputy Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Ms. Sims:

Final Report—San Diego County Water Authority Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the San Diego County Water Authority's (SDCWA) grant agreement 4600003105 for the period March 30, 2004 through June 30, 2009.

The enclosed report is for your information and use. The draft report was issued January 15, 2010 and SDCWA's response required further analysis. As a result of our analysis, changes were made to the Results Section to provide further clarification. Specifically:

- Questioned amounts in Observation 1 have been reduced to \$15,730.
- Observation 2 has been removed.
- Draft Observation 3 is now Observation 2 in this final report.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of SDCWA. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. William J. Rose, Water Conservation Program Executive, San Diego County Water Authority
Mr. Carlos Michelon, Principal Water Resource Specialist, San Diego County Water Authority
Ms. Mayda Portillo, Senior Water Resource Specialist, San Diego County Water Authority
Ms. Leanne Wade, Controller, San Diego County Water Authority
Ms. Perla Netto-Brown, Controller, California Department of Water Resources
Mr. Jim Libonati, Deputy Director, California Department of Water Resources
Ms. Tracie Billington, Chief, Special Projects Sections, California Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, California Department of Water Resources
Mr. Eric Koch, Chief, FloodSAFE Program Management Office, Division of Flood Management, California Department of Water Resources
Mr. Eric Hong, Supervising Engineer, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Mr. Pat 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

A GRANT AUDIT

San Diego County Water Authority
Proposition 13 Bond Program
Grant Agreement 4600003105



Source: San Diego County Water Authority, Kearny Mesa Office

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

103860002

December 2009

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Rick Cervantes, CPA
Supervisor

Staff
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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 March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), which authorized the State of California to sell \$1.97 billion in general obligation bonds. The bond proceeds provide funds for safe drinking water, water quality, flood protection, and water reliability programs. Proposition 13 also provides funding for the protection, restoration, and interpretation of California's diverse cultural influences.

The California Department of Water Resources (DWR) is one of many state departments that administer Proposition 13 programs and award funds in the form of grants. One of DWR's programs—the Urban Water Conservation Program—provides funding to local public agencies and incorporated mutual water companies to finance feasible, cost-effective urban water conservation projects improving water use efficiency.

The DWR awarded the San Diego County Water Authority (SDCWA) a \$1.125 million Proposition 13 grant for their Commercial Landscape Incentive Program. The goal of the Commercial Landscape Incentive Program is to provide financial incentives to owners of commercial, industrial, and institutional properties and common areas of multi-family sites to upgrade irrigation systems. Improved irrigation promotes water conservation.

The SDCWA was formed in 1944 and operates under the County Water Authority Act. As a water wholesaler, the SDCWA's mission is to provide a safe and reliable supply of water to its 24 member agencies in the San Diego region. These agencies are represented through the SDCWA board of directors. The SDCWA is a member of the Metropolitan Water District of Southern California and has supplied up to 90 percent of San Diego County's water since its formation.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted a grant audit of the SDCWA's Proposition 13 grant agreement 4600003105 for the period March 30, 2004 through June 30, 2009.

The audit objective was to determine whether the SDCWA's grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

SDCWA management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. The DWR along with the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by the DWR, the grant agreements, and applicable policies and procedures.
- Reviewed SDCWA's accounting records, vendor invoices, pay warrants, 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.

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 bond funds. The audit was conducted from July 2009 through December 2009.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the San Diego County Water Authority’s (SDCWA) expenditures were in compliance with applicable laws, regulations, and grant requirements. In addition, SDCWA met the matching funds requirement. The Schedule of Claimed, Audited, and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed, Audited, and Questioned Amounts

Grant Agreement 4600003105 For the Period March 30, 2004 through June 30, 2009			
Category	Claimed	Audited	Questioned
Equipment Purchases/Rebates	\$ 1,115,160	\$ 1,099,430	\$ 15,730

Observation 1: Questioned Expenditures Claimed For Reimbursement

SDCWA claimed and was paid \$15,730 in ineligible inspection and landscape area measurement¹ (LAM) expenditures. The grant agreement's Statement of Work (Exhibit B) and Budget (Exhibit C) specifically states eligible expenditures consist of irrigation hardware and equipment. In addition, Exhibit C defines inspection² as construction administration costs.

On December 5, 2006, Amendment #1 was executed and allowed LAM and inspection expenditures to be claimed. However, we identified and questioned LAM and inspection expenditures incurred prior to the Amendment’s effective start date. Questioned amounts were calculated as follows:

Ineligible inspections and LAM expenditures	\$ 16,000
General Ledger Errors (refer to Observation 2)	<u>(270)</u>
Total Questioned Amounts	<u>\$ 15,730</u>

Recommendation:

Obtain reimbursement from SDCWA for the \$15,730 in questioned costs. DWR will make the final determination regarding resolution of this observation.

¹ Landscape Area Measurements, as defined in the SDCWA and the sub-contractor agreement, are completed by measuring the irrigated landscape of installation sites or collecting information from reliable as-builts based on visual inspections of each site. The sub-contractor also collects data, sometimes by visual estimation, of percent turf, percent tress/shrubs/groundcover, and percent slope of each site.

² Inspections, as defined in the SDCWA and sub-contractor agreement, are completed by sub-contractor inspectors. After proposed changes are implemented, inspectors verify that all items submitted in the proposal have been installed, collect receipts, and have the customer sign a hold harmless agreement.

Observation 2: Inadequate Record Keeping

SDCWA's general ledger did not agree with the reimbursed claims submitted to DWR. Specifically, we identified the following errors:

- Eligible expenditures were not claimed for reimbursement.
- Ineligible expenditures were posted to the general ledger.
- Excess retention costs were submitted for reimbursement.
- Incorrect subcontractor invoice numbers were found in the general ledger.

As stated in the grant agreement, the grantee shall keep complete and accurate records of grant funds. An inaccurate general ledger increases the risk for errors and reduces SDCWA's ability to monitor grant fund expenditures for compliance with the grant agreement.

Recommendations:

SDCWA should develop and implement procedures to ensure the accounting transactions posted to the general ledger for each grant are accurate. In addition, expenditures claimed for reimbursement should be reconciled with the general ledger prior to submitting claims to the DWR.



San Diego County Water Authority

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February 24, 2010

MEMBER AGENCIES

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

Helix Water District

Lakeside Water District

Olivenhain
Municipal Water District

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Santa Fe Irrigation District

South Bay Irrigation District

Vallecitos Water District

Valley Center
Municipal Water District

Vista Irrigation District

Yuima
Municipal Water District

**OTHER
REPRESENTATIVE**

County of San Diego

Mr. David Botelho, Chief, Office of State Audits and Evaluations
Department of Finance
Office of State Audits and Evaluations
300 Capital Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

**Response – Department of Finance Office of State Audits and Evaluations
Proposition 13 Grant Audit**

The San Diego County Water Authority has enclosed its response to the draft report for the audit of grant agreement 4600003105 for the period May 30, 2004 to June 30, 2009.

If you have any questions regarding this response or need further assistance; please contact me at (858) 522-6679.

Sincerely,

Original signed by:

Leanne B. Wade, CPA
Controller

Enclosure

SDCWA Responses to Audit Recommendations
Performed by Office of State Audits and Evaluations Department of Finance
Proposition 13 Bond Program (#4600003105)

Recommendation #1

Reimburse the DWR \$32,300 for the questioned costs. The DWR should make the final determination regarding allowability of the \$54,460 in inspection costs.

Response:

Water Authority staff contacted the Department of Water Resources (DWR) representatives on January 28th and February 4th, and a written response from DWR was received on February 18th. DWR's written response confirmed the \$32,300 to be a valid cost as originally billed; therefore no reimbursement is necessary. Additionally, DWR made the determination that the \$54,460 in inspection costs is also fully allowable as originally billed.

Recommendation #2

The SDCWA should collaboratively work with the DWR to resolve the remaining matching cost requirement. The questioned costs of \$32,300 noted in Observation 1 could satisfy a portion of the remaining matching cost requirement. These expenditures are eligible as construction administration matching costs.

Response:

Water Authority staff contacted DWR representatives on January 28th and February 4th, and a written response from DWR was received on February 18th. DWR determined that the Water Authority has satisfied all matching cost requirements. DWR does not concur with the auditor's findings regarding the ineligibility of the \$32,300 (see the Response to Recommendation #1 above). Therefore, reimbursement of any funds and any further accounting of the recommended reimbursement as a local matching cost are not applicable based on DWR's determination.

Recommendation #3

The SDCWA should develop and implement procedures to ensure the accounting transactions posted to the general ledger for each grant are accurate. In addition, expenditures claimed for reimbursement should be reconciled with the general ledger prior to submitting claims to the DWR.

Response:

After an analysis of grant-related processes, the Water Authority has decided to restructure the grant management and administration functions throughout the organization. This includes the creation of two positions (Grant Administrator and Grant Analyst), the establishment of a Grant Review Committee, and the development of a standardized grant resource manual with defined roles and responsibilities for grant management and administration. Staff hired into the new positions will coordinate all grant-related workflow and will work closely with applicable project managers and the Accounting Section. New procedures will ensure that grant expenditures are analyzed for accuracy and grant compliance; and that costs are reconciled to the general ledger and the project costing module prior to submitting requests for reimbursement to the grantor.

EVALUATION OF RESPONSE

The Department of Finance (Finance) reviewed the San Diego County Water Authority's (SDCWA) response, dated February 24, 2010, to our draft audit report. We acknowledge SDCWA's willingness to implement the recommendations and take corrective action to reduce record keeping errors. For Observation 1, we provide the following comments:

Finance requested guidance from the California Department of Water Resources (DWR) regarding its position about expenditure eligibility and required match requirements. As a result, our draft report stated questioned amounts totaling \$32,300 (Observation 1) and an unmet construction administration match requirement totaling \$42,360 (Observation 2).

After issuance of our draft report, DWR provided us additional information about the amounts in question. After further analysis, the questioned amounts were reduced to \$15,730, and Observation 2 titled *Matching Cost Requirement for Construction Administration Not Met* was deleted. Observation 3 of the draft report is now Observation 2 in the final report.

On December 5, 2006, Amendment #1 was executed and allowed for certain expenditures to be claimed. As stated in our report, eligible expenditures prior to the amendment were irrigation hardware and equipment. Therefore, inspections and LAM expenditures incurred prior to December 5, 2006 are considered ineligible for reimbursement. We recommend SDCWA reimburse DWR \$15,730; however, DWR will make the final determination regarding resolution of these questioned amounts.