



Transmitted via e-mail

April 7, 2016

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—Santa Margarita Water District, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Santa Margarita Water District's (District) grant 4600009581, issued by the California Department of Water Resources.

The enclosed report is for your information and use. Because there were no audit findings 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 Jon Chapple, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Carl Torgersen, 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. Charley Wilson, Board President, Santa Margarita Water District
Mr. Dan Ferons, General Manager, Santa Margarita Water District
Mr. Don Bunts, Chief Engineer, Santa Margarita Water District

Santa Margarita Water District
Proposition 1E Bond Program
Grant Agreement 4600009581



Gobernadora Multipurpose Basin Project
Source: Santa Margarita Water District

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

MEMBERS OF THE TEAM

Jon G. Chapple, CPA
Manager

Angie Williams
Supervisor

Staff
Dennis W. Solheim, CPA

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE, METHODOLOGY AND RESULTS

BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E). The \$4.09 billion in bond proceeds finance a variety of natural resource programs.

The Santa Margarita Water District (District) serves as the second largest retail water agency in Orange County. The District's mission is to provide its customers with quality water and wastewater service, maximizing human, environmental, and financial resources, to help guide South Orange County's water and wastewater needs into the next century.¹

The District received a \$5 million grant from the California Department of Water Resources (DWR) to assist in financing the development of the Gobernadora Multipurpose Basin. The project is estimated to cost in excess of \$29 million and includes construction of two detention basins which will treat urban run-off and reduce downstream flooding. The project also includes a regional trail and a collection system to capture and harvest drainage flows for recycled water use in the existing Portola Reservoir.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600009581 for the period February 6, 2014 through December 30, 2015.²

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.

¹ Source: <http://www.smwd.com/about-us>

² An interim audit was conducted since the final project completion report was being reviewed by DWR at the time of our site visit in March 2016.

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:

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the District's accounting records and vendor invoices.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- 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 reviewing progress reports, the District's bid process and operations and start-up plan, project site plans, the project notice of completion, engineers' performance plan certifications, and conducting a site visit to verify existence of specific physical project components.

In conducting our audit, we obtained an understanding of the District's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Based on the procedures performed, the grant expenditures claimed complied with the grant agreement requirements. Additionally, the grant deliverables available for review at the time of our site visit in March 2016 were completed as specified in the grant agreement. The Schedule of Claimed Amounts is presented below.

Schedule of Claimed Amounts

Grant Agreement 4600009581	
Task	Claimed
Construction	\$ 4,700,000
Construction Administration	300,000
Total Grant Funds	\$ 5,000,000
Match Funds	\$ 12,968,592
Total Project Expenditures	\$ 17,968,592