



Transmitted via e-mail

September 18, 2012

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

Dear Mr. Cowin:

Final Report—Northern California Joint Exercise of Powers, Proposition 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the following Northern California Joint Exercise of Powers' (NCJEP) grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Award</u>
4600004500	January 2, 2006 through April 30, 2009	\$ 499,980
4600007655	March 20, 2007 through March 31, 2011	\$9,610,200

The enclosed report is for your information and use. The NCJEP's response to the report observation and our evaluation of the response are incorporated into this final report. The observation in our report is intended to assist management in improving the effectiveness and efficiency of its operations. This report will be placed on our website.

We appreciate the assistance and cooperation of the NCJEP. If you have any questions regarding this report, please contact Diana Antony, Manager, or Chikako Takagi-Galamba, 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: 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
Ms. Tracie Billington, Chief, Financial Assistance Branch, Division of Integrated Regional Water Management, California Department of Water Resources
Mr. Jeff Ingles, Chief Auditor, California Department of Water Resources
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Mr. Steve Danna, Chairman, Northern California Joint Exercise of Powers
Mr. David J. Guy, President, Northern California Water Association

Northern California Joint Exercise of Powers
Proposition 50 Bond Program
Grant Agreements 4600004500 and 4600007655



Source: Northern California Joint Exercise of Powers

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

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 provide funds for grants and loans to assist in meeting safe drinking water standards; acquisition, restoration, protection, and development of river parkways; and coastal watershed and wetland protection.

The Northern California Joint Exercise of Powers (NCJEP) was formed in 2002 with six public water resources management districts in the Sacramento Valley, and was expanded in 2006 to include eighteen districts. NCJEP was established for the purpose of providing a mechanism for the development and implementation of water supply development projects in the Sacramento Valley. NCJEP designated the Northern California Water Association (NCWA) as the grant administrator. *(Source: Northern California Joint Exercise of Powers Administrator)*

NCJEP received the following Proposition 50 grants from the California Department of Water Resources (DWR) to assist in planning and implementing projects associated with the Sacramento Valley Integrated Regional Water Management Plan:

- *Grant 4600004500* (Planning Grant)—\$499,980 to develop an Integrated Regional Water Management Plan (IRWMP).
- *Grant 4600007655* (Implementation Grant)—\$9,610,200 to assist financing of projects in 11 Sacramento Valley districts primarily for groundwater production, water quality enhancement, and canal automation.

SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>
4600004500	January 2, 2006 through April 30, 2009
4600007655	March 20, 2007 through March 31, 2011 ¹

The audit objectives were to determine whether grant expenditures claimed were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

NCJEP management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR is responsible for the state-level administration of the bond program.

¹ An interim audit was conducted on grant 4600007655, as the grant term ends May 31, 2013.

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 and obtained an understanding of the grant-related internal controls.
- Performed site visits of selected water resource districts (sub-grantees) and conducted interviews of key district staff responsible for project management and monitoring.
- Examined the grant files maintained by DWR and NCJEP, the grant agreements, and applicable policies and procedures.
- Reviewed the accounting records and 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.
- Evaluated whether a sample of grant deliverables required by the grant agreements were met.

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.

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 were in compliance with the requirements of the grant agreements. The Schedules of Claimed Amounts are presented in Table 1.

Table 1: Schedules of Claimed Amounts

Grant Agreement 4600004500 (Planning Grant)	
Category	Claimed⁽¹⁾
Expand Participation in the Planning Process	\$ 12,072
Public Meetings	7,634
Prepare Draft IRWMP	345,033
Review draft IRWMP by Participating Agencies	58,040
Public Draft of IRWMP	8,582
Project Team Prepares Final IRWMP	38,896
Project Management	28,577
Total Expenditures	\$498,834

(1) The grantee was awarded \$499,980 but only claimed \$498,834.

Grant Agreement 4600007655 (Implementation Grant)	
Category	Claimed⁽²⁾
Project 1. Browns Valley Irrigation District Water Quality Enhancement	\$ 19,971
Project 2. Anderson Cottonwood Irrigation District Groundwater Production Element	280,607
Project 3. Feather Water District Groundwater Production Element	94,118
Project 4. Glenn Colusa Irrigation District Groundwater Production Element	74,987
Project 5. Natomas Mutual Water Company Groundwater Production Element	11,614
Project 6. Sutter Mutual Water Company Groundwater Production Element, Phase 1	61,131
Project 7. Meridian Farms Groundwater Production Element	37,329
Project 8. Pelger Mutual Water Company Groundwater Production Element	48,409
Project 9. Reclamation District 108 Groundwater Production Element	92,242
Project 10. River Garden Farms Groundwater Production Element	72,480
Project 11. Butte Water District Canal Automation	33,707
Total Expenditures	\$826,595

(2) The grantee was awarded \$9,610,200. The claimed figures reflect amounts claimed through March 31, 2011.

Observation 1: Noncompliance with Grant Contracting Requirements

As the grantee, the Northern California Joint Exercise of Powers (NCJEP) did not comply with all grant contracting requirements. NCJEP's grant administrator, Northern California Water Association (NCWA), did not competitively bid the contract with its engineering and consulting firm and was unable to provide documentation of an approved exemption. Additionally, NCWA's contract with the engineering and consulting firm allows the firm to retain ownership of the work product rather than placing work produced in the public domain. The firm is the primary consultant to NCWA for both grants. Failure to comply with grant requirements could jeopardize the state's ability to maximize the use and accountability of bond funds.

The Grant Agreements, Exhibit D, requires the grantee to comply with all applicable laws and regulations regarding securing competitive bids and undertaking competitive negotiations in the grantee's contracts with other entities for acquisition of goods or services and construction of public works with funds provided by the state. The agreements further require data rights acquired with grant funds to be in the public domain.

Recommendation:

Ensure compliance with all applicable contracting laws and data right requirements in accordance with the grant agreements.

August 23, 2012

The Northern California Water Association (NCWA), on behalf of the Northern California Joint Exercise of Powers, appreciates receiving your June 25, 2012 Draft Report. With respect to Observation 1:
Noncompliance with Grant Contracting Requirements:

- 1) There was an exchange of e-mails between NCWA and the Department of Water Resources (that apparently were not found) regarding the rationale for the sole source contract to perform work on the planning and implementation grants. You can be sure there was never an intent to circumvent state laws or regulations. In this case, there was ongoing work and the experience of the firm and the work it had previously conducted for the projects made it an important and obvious selection. In all subsequent grant arrangements, NCWA has competitively bid contracts per the requirements.
- 2) We have and will relinquish to the state and thus the public domain all ownership of any work product produced with the bond funding.

I hope this provides some clarification to the Draft Report. If you have any questions, or if I can provide any additional assistance, please call me or Todd Manley at (916) 442-8333.

Sincerely,

Original signed by:

David J. Guy
President
Northern California Water Association
(916) 442-8333

EVALUATION OF RESPONSE

We reviewed the Northern California Water Association's (NCWA) response, dated August 23, 2012 to our draft audit report. NCWA is the Northern California Joint Exercise of Powers' grant administrator. For Observation 1, we provide the following comments:

Observation 1: Noncompliance with Grant Contracting Requirements

The NCWA stated there was an exchange of correspondence between the NCWA and the Department of Water Resources regarding the sole source contract; however, no additional documents were provided for our review. Therefore, our recommendation remains as reported.