



Transmitted via e-mail

August 8, 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—Regional Water Authority, Propositions 13 and 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the following Regional Water Authority (Authority) grants awarded by the California Department of Water Resources:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Award</u>
4600002513	September 23, 2003 through December 31, 2008	\$21,671,697
4600004501	January 3, 2006 through December 31, 2009	\$ 500,000
4600007651	January 18, 2007 through June 29, 2010	\$25,000,000
4600007849	February 11, 2008 through December 31, 2010	\$ 1,120,000

The enclosed report is for your information and use. The Authority's response to the report observation is incorporated into this final report. The Authority agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving its grant programs. This report will be placed on our website.

We appreciate the assistance and cooperation of the Authority. If you have any questions regarding this report, please contact Diana Antony, Manager, or Lisa Negri, 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
Mr. Jeff Ingles, Chief Auditor, California Department of Water Resources
Ms. Tracie Billington, Chief, Financial Assistance Branch, Division of Integrated Regional Water Management, California Department of Water Resources
Mr. Mohammad Alemi, Chief, Water Use and Efficiency Branch, Division of Statewide Integrated Water Management, California Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency
Mr. John Woodling, Executive Director, Regional Water Authority
Mr. Robert Swartz, Senior Project Manager, Regional Water Authority
Ms. Nancy Marrier, Finance and Administrative Services Officer, Regional Water Authority

AUDIT REPORT

Regional Water Authority Propositions 13 and 50 Bond Programs Grant Agreements 4600002513, 4600004501, 4600007651 and 4600007849



Woodcreek North Aquifer Storage and Recovery Well Project
Source: City of Roseville

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Lisa Negri
Supervisor

Staff
Michael Barr

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 AND METHODOLOGY

BACKGROUND

In March 2000 and November of 2002, California voters passed two bond measures totaling \$5.41 billion. The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13) was passed on the March 2000 ballot. The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) was passed on the November 2002 ballot. These propositions authorized the sale of bonds to finance a variety of water programs.

The Regional Water Authority (Authority) is a joint powers authority that serves and represents the interests of 22 water providers in the greater Sacramento, Placer, El Dorado, and Yolo County regions. Authority members include cities, water districts, mutual water companies, investor owned water utilities, and community services districts. The Authority's primary mission is to help its members protect and enhance the reliability, availability, affordability, and quality of water resources. Authority programs are primarily subscription-based and are developed to meet the needs of member agencies.¹

The Authority received the following four grants from the California Department of Water Resources (DWR):

- *Groundwater Storage* (Grant 4600002513)—To construct 12 project components of the American River Basin Regional Conjunctive Use Program, to facilitate a groundwater banking and surface water exchange program integrating operation of Folsom Lake and the groundwater basin underlying the Authority's boundaries. The Authority subgranted funds to six local government agencies to construct the project components.
- *Integrated Regional Water Management Plans (IRWMP)* (Grant 4600004501)—To develop or update an IRWMP. The IRWMP is a comprehensive planning document prepared on a region-wide scale that not only plans for, but ensures implementation of, priority water resources projects and programs.
- *IRWMP Implementation* (Grant 4600007651)—To construct 14 project components associated with the American River Basin IRWMP. The Authority subgranted funds to 13 local government agencies to construct the project components.
- *Regional Toilet Replacement Program (RTRP)* (Grant 4600007849)—To accelerate water savings by offering rebates to replace 12,000 fixtures for residential and commercial sectors in a two-year period. The Authority subgranted funds to local government agencies to implement and manage the program.

¹ Regional Water Authority website: <http://www.rwah2o.org/rwa/about/overview/>

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>	<u>Award</u>
4600002513	September 23, 2003 through December 31, 2008	\$21,671,697
4600004501	January 3, 2006 through December 31, 2009	\$ 500,000
4600007651	January 18, 2007 through June 29, 2010 ²	\$25,000,000
4600007849	February 11, 2008 through December 31, 2010	\$ 1,120,000

The audit objectives were to determine whether the Authority'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 Authority's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR and the 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 goals and objectives/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 contracts, 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.

² An interim audit was conducted on grant 4600007651, as the grant term ends in December 2014.

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 are 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 4600002513	
Category	Claimed
Land Purchase Easement	\$ 298,991
Planning/Design/Engineering	1,168,207
Materials/Installation	17,151,680
Structures	111,480
Equipment Purchases/Rentals	17,089
Environmental Mitigation/Enhancement	20,803
Construction Administration and Overhead	722,767
Legal and License Fees	41,552
Other	4,371
Retention	2,134,757
Total	\$ 21,671,697

Grant Agreement 4600004501	
Category	Claimed
Develop a Water Accounting Framework	\$ 179,400
Refine Existing Sacramento County IGSM. Phase 1: Model Data Development and Refinement	161,076
Prepare and Adopt IRWMP	146,284
Monthly Invoices and Quarterly Reports	13,240
Total	\$ 500,000

Grant Agreement 4600007651	
Category	Claimed
Construction/Implementation	\$ 18,278,629
Total	\$ 18,278,629

Grant Agreement 4600007849	
Category	Claimed*
Incentives	\$ 1,103,353
Reporting	20,000
Total	\$ 1,123,353

*Claimed amount exceeded total grant award of \$1,120,000; however, grantee was only reimbursed up to grant award amount.

Observation 1: Subcontracting Improvements Are Needed

The Authority provided grant funds to local government agencies who subsequently subcontracted with a variety of entities to perform the grant project tasks. Based on our review of sampled projects, the following non-compliance issues were noted:

- *Consulting Projects Not Competitively Bid*—Based on a review of 34 subcontracts, 7 contracts totaling \$3.9 million were not competitively bid as required. Some local agencies used sole source contracts without obtaining DWR's approval. Grant 2513, section A-6(d), states that any contract in excess of \$20,000 shall be competitively bid to assure contract award to the lowest bidder, unless prior written approval by the state is received.
- *Supporting Documents Not Retained*—The Authority did not notify the local government agencies that supporting documentation must be kept for three years from the end of the project completion date, as required by the grant agreements. The project completion date refers to the overall Authority project, not the individual local government agency projects. As a result, 3 of 5 local government agencies did not retain adequate supporting documentation of expenditures. No costs were questioned because other documents were available to determine costs were allowable and reasonable.

Recommendations:

- A. Ensure all applicable grant contracting requirements are followed.
- B. Include selected terms and conditions from the grant agreement between DWR and the Authority in the contracts between the Authority and local government agencies.
- C. Require subcontractors/subgrantees to maintain supporting expenditure documentation for the required number of years.
- D. Monitor the local government agencies to verify compliance with grant agreement terms and conditions.



July 25, 2012

Pam Tobin, Chair
Pauline Rocucci, Vice
Chair

Members

California American Water
Carmichael Water District
Citrus Heights Water District
Del Paso Manor Water District
El Dorado Irrigation District
Elk Grove Water District
Fair Oaks Water District
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Fruitridge Vista Water
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Golden State Water Company
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Orange Vale Water Company
Placer County Water Agency
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Rio Linda / Elverta Community
Water District
Sacramento, City of
Sacramento County Water
Agency
Sacramento Suburban Water
District
San Juan Water District
West Sacramento, City of
Woodland-Davis Clean Water
Agency

Associates

El Dorado County Water
Agency
Sacramento Municipal Utility
District
Sacramento Regional County
Sanitation District

David Botelho, CPA
Chief, Office of State Audits and Evaluation
915 L Street
Sacramento, CA 95814-3706

**Re: Draft Report - Regional Water Authority, Propositions 13 and 50
Grant Audits**

Dear Mr. Botelho:

We appreciate the opportunity to comment on Department of Finance's draft audit report of the Regional Water Authority (RWA). RWA wants to compliment your Department staff's level of professionalism during the audit.

RWA concurs with the observations and has taken steps to correct noted deficiencies with respect to the monitoring and management of sub-grantees. Specifically, all future contracts between RWA and sub-grantees will include a section on selected terms and conditions to be followed by sub-grantees and a full copy of the agreement between the funding agency and RWA. Additionally, RWA has clarified that the length of records retention is relative to the completion of the entirety of projects as opposed to an individual project receiving a grant award. Finally, RWA is developing a tracking spreadsheet tool to monitor compliance of sub-grantees with grant terms and conditions.

Please feel free to contact me at 916-967-7692 if you have any questions.

Sincerely,

Original signed by:

John K. Woodling
Executive Director