



Transmitted via e-mail

November 21, 2014

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Dear Mr. Howard:

Final Report—Arvin Community Services District, Proposition 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Arvin Community Services District's (District) grants 10C16, 11C82, 10C05, and 11C61 issued by the California Department of Public Health (CDPH). On July 1, 2014, pursuant to Chapter 35, Statutes of 2014, the Drinking Water Programs were transferred from CDPH to the State Water Resources Control Board. This change is reflected throughout the final report.

The enclosed report is for your information and use. The District's response to the report observation is incorporated into this final report. The District agreed with our observation and we appreciate its willingness to implement corrective actions. 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 Frances Parmelee, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Leslie Laudon, Manager, Division of Financial Assistance, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board
Ms. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board
Mr. Josh Ziese, Loans and Grants Section, Division of Financial Assistance, State Water Resources Control Board
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Jude Urueta, Board President, Arvin Community Services District
Mr. Fernando Pantoja, General Manager, Arvin Community Services District

Arvin Community Services District
Proposition 84 Bond Program
Grant Agreements 10C16, 11C82, 10C05, and 11C61



Arvin Community Services District-Kooner Test Well Drill Rig Phase 1

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Robert Scott, MSA, CPA, CGMA
Supervisor

Staff
Kweku Atta-Mensah

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

California voters approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$5.4 billion. The bond proceeds finance a variety of natural resource programs.

The Arvin Community Services District (District) received four grants from the California Department of Public Health (CDPH)¹ for the following projects:²

- **Grant 10C16:** \$175,608 for phase one of the New Wells and Arsenic Treatment project. The project included engineering design for the selected project alternative to meet safe drinking water standards.
- **Grant 11C82:** \$323,824 for phase two of the New Wells and Arsenic Treatment project. The project included locating, designing, and implementing test well sites, feasibility studies, and designing production wells.
- **Grant 10C05:** \$19,004 for the construction of a pipeline joining the Edmundson Acres Mutual Water Company and Arvin Community Services District Consolidation project.
- **Grant 11C61:** \$465,240 for the Sonshine Properties project. The project included feasibility studies and engineering design for the selected project alternative to meet safe drinking water standards.

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>
10C16	October 4, 2010 through April 14, 2012
11C82	July 12, 2012 through December 31, 2013 ³
10C05	November 7, 2006 through September 9, 2012
11C61	January 23, 2012 through March 26, 2014

¹ Chapter 35, Statutes of 2014 transferred the Drinking Water Programs from CDPH to the State Water Resources Control Board (SWRCB).

² Excerpts from the respective grant agreements.

³ An interim audit was conducted on grant 11C82 because audit fieldwork was performed prior to the grant end date of May 31, 2014.

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. SWRCB and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

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 agreements, and District policies and procedures.
- Reviewed the District's accounting records, subcontractor and consultant invoices, bank statements, and cancelled checks.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, and supported by accounting records.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreements.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation.

In conducting our audits, we obtained an understanding of the District's internal controls, including any information systems controls, as they relate to and 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 the conduct of our audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations 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 complied with the grant requirements. For grant agreement 11C82, some of the deliverables, such as design production wells and final reports were still in progress at the time of our site visit. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Grant Agreement 10C16		
Task Description	Claimed	Questioned
Locate Test Well Sites	\$ 6,593	\$ 0
Design Test Well Program	10,610	
Implement Well Testing	158,363	
Easement	42	
Total Grant Funds	\$ 175,608	\$ 0

Grant Agreement 11C82		
Task Description	Claimed ¹	Questioned
Locate Test Well Sites	\$ 1,261	\$ 0
Design Test Well Program	3,643	
Implement Well Testing	128,415	
Feasibility Study Report	5,834	
Easement	1,116	
Design Production Wells	110,609	
Total Grant Funds	\$ 250,878	\$ 0

Grant Agreement 10C05		
Task Description	Claimed ²	Questioned
CEQA	\$ 635	\$ 635
Engineering	7,684	1,341
Legal	2,607	
Total Grant Funds	\$ 10,926	\$ 1,976

¹ The California Department of Public Health (CDPH) awarded \$323,824 and the Arvin Community Services District (District) claimed \$250,878 as of December 31, 2013.

² CDPH awarded \$19,004 and the District claimed \$10,926.

Grant Agreement 11C61		
Task Description	Claimed³	Questioned
Preparation of Consolidation Agreement	\$ 20,162	\$ 0
Preparation of Consolidation Report	11,727	
Test Well, CEQA, Geotechnical Report, Appraisal	196,326	
Preparation of Project Plans and Specifications	76,352	
Project Management and Administration	12,966	
Labor Compliance	593	
Preliminary Engineering Report and Update	5,000	
Total Grant Funds	\$ 323,126	\$ 0

Observation 1: Claimed Expenditures Not Adequately Supported

For grant 10C05, the District claimed \$1,976 for various tasks, but could not provide evidence (such as cancelled checks, bank statements, or other documents) to support the corresponding expenditures. Therefore, \$1,976 of claimed expenditures is questioned.

Grant Agreement 10C05, Article A-6, section (a-3), states that each claim shall contain supporting or back-up documents for all charges on the statement. In addition, Article A-10 (b) requires the District to maintain and make available accurate records of all its costs, disbursements, and receipts, with respect to its activities under the Agreement.

Recommendations:

- A. Remit \$1,976 to the State Water Resources Control Board (SWRCB). SWRCB will make the final determination regarding the disposition of the questioned costs.
- B. For future grants, the District should implement procedures to ensure claimed expenditures are adequately supported and in compliance with the grant agreements.

³ CDPH awarded \$465,240 and the District claimed \$323,126.

ARVIN COMMUNITY SERVICES DISTRICT

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October 21, 2014

VIA EMAIL TO: OSAEReports@dof.ca.gov

State of California Department of Finance
Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

RE: Arvin Community Services District Response to Draft Audit Report dated October 9, 2014 on Arvin Community Services District's (District) grants 10C16, 11C82, 10C05 and 11C61 issued by the California Department of Public Health.

Dear Mr. Sierra,

I am Fernando Pantoja, General Manager for the District, this letter constitutes the Arvin Community Services District response to the draft report by the Department of Finance concerning its compliance audit of the District's grant agreements with the State of California Department of Water Resources. As requested in your letter, the District has prepared a written response to each observation and recommendation made.

In observation 1, for Grant 10C05, the District claimed \$1,976 for various tasks but could not provide evidence to support the corresponding expenditures. The District is aware that it is required to maintain and make available accurate records of all its costs, disbursements and receipts, with respect to its activities under the Agreement.

In recommendation A, the District is now aware that the District did not submit payment to Self-Help Enterprises in the amount of \$635.00 and Self-Help Enterprises has now taken the position that such payment is not required. The District did, however, submit payment for Engineering costs in the amount of \$1,341 to Hansen Engineering, but due to the time frame given to respond to the draft audit, the District is unable to document such payment at this

time. If additional time cannot be provided, the District will remit payment of the requested amount of \$1,976 to the State Water Resources Control Board.

In recommendation B, the District agrees with this recommendation and has already implemented procedures to ensure all future expenditures are adequately supported and in compliance with the grant agreements.

The Arvin Community Services District appreciated the assistance and cooperation that your staff has provide during the grant compliance audit. If further information is required from the District, please contact the District's General Manager Fernando Pantoja at fpantoja@arvincsd.com.

Sincerely,

Original signed by

Fernando Pantoja

General Manager

Arvin Community Services District