



DEPARTMENT OF  
**FINANCE**

EDMUND G. BROWN JR. • GOVERNOR

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Transmitted via e-mail

September 12, 2014

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

Dear Mr. Howard:

**Final Report—Farmington Water Company, Proposition 50 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Farmington Water Company's grant SRF10CX201, 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 Farmington Water Company did not provide a written response. This report will be placed on our website.

We appreciate the assistance and cooperation of the Farmington Water Company. If you have any questions regarding this report, please contact Cheryl McCormick, Assistant Chief, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board  
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. 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  
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. Leslie Strojan, President, Farmington Water Company  
Ms. Mary Anne Strojan, Manager/Secretary-Treasurer, Farmington Water Company  
Mr. Reid Johnson, Project Manager, Nolte Associates

# AUDIT REPORT

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## Farmington Water Company Proposition 50 Bond Program Grant Agreement SRF10CX201



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

## **MEMBERS OF THE TEAM**

Cheryl L. McCormick, CPA  
Assistant Chief

Alma Ramirez, CPA  
Supervisor

Staff  
Cristine Chan

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

You can contact our office at:

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(916) 322-2985

# BACKGROUND, SCOPE AND METHODOLOGY

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## **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 finance a variety of resource programs.

Farmington Water Company (Farmington) was awarded a \$2,519,200 Proposition 50 grant from the California Department of Public Health (CDPH)<sup>1</sup> to replace its water system. Established in 1963 and incorporated in California, Farmington is a small community water system with 84 service connections serving approximately 270 people. The 42 year old water system suffered from an aging infrastructure and outdated technology and was experiencing chronic bacteriological contamination. The bacteria levels exceeded the MCL requirement as described in the California Code of Regulations. To bring the water system into compliance, Farmington constructed two new water wells and interconnected the wells and storage tanks of 75,000 gallons each, with a backbone distribution line of 2,800 lineal feet.<sup>2</sup>

Farmington also received a \$629,800 grant from the United States Department of Agriculture to assist in the replacement of its water system. This grant was used to acquire water rights, and fund engineering and design activities, environmental and labor compliance, permits, and abandonment activities pertaining to the existing wells. We did not audit this grant.

## **SCOPE**

In accordance with the Department of Finance's bond oversight responsibilities, we audited the Proposition 50 grant agreement SRF10CX201 for the period April 29, 2010 through February 28, 2013.

The audit objectives were to determine whether Farmington'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.

Farmington's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CDPH and the California Natural Resources Agency were responsible for the state-level administration of the bond program.

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<sup>1</sup> Chapter 35, Statutes of 2014 transferred the Drinking Water Programs from CDPH to the State Water Resources Control Board.

<sup>2</sup> Excerpts from grant agreement SRF10CX201.

## **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:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed Farmington's accounting records, vendor invoices, and payroll and timekeeping records.
- 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 the grant agreement and supporting documentation.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit 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 audit 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 agreement requirements. Additionally, the grant deliverables were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

**Schedule of Claimed and Questioned Amounts**

<b>Grant Agreement SRF10CX201</b>		
<b>Task</b>	<b>Claimed<sup>3</sup></b>	<b>Questioned</b>
Well Drilling Project	\$ 165,994	\$ 0
Well Site Schedule A Project	948,376	0
Water Distribution Schedule B Project	882,822	0
Contingency/Project Completion	101,017	99,893
Construction Management and Project Documentation	420,989	104,940
<b>Total Expenditures</b>	<b>\$ 2,519,198</b>	<b>\$ 204,833</b>

**Observation 1: Questioned Costs**

Costs totaling \$204,833 stemming from a contractor default are questioned as follows:

- \$116,786 is ineligible because the expenditures pertain to litigation and dispute resolution activities performed by the construction management company. These activities are outside the scope of the grant agreement. Of this amount, \$104,940 was claimed and reimbursed under the Construction Management and Project Documentation line item and \$11,846 misclassified as Contingency/Project Completion costs.
- \$88,047 of Contingency/Project Completion costs are questioned due to a lack of sufficient supporting documentation. Because a clear audit trail did not exist, the eligibility of costs claimed could not be determined. At the time of default, the contractor submitted a progress payment report that identified the project as 96 percent complete with \$46,615 unexpended contract funds. Documentation supporting an evaluation/inspection of the contractor’s work in comparison to the final progress payment report was not provided by Farmington Water Company (Farmington). Although a Contract Change Order totaling \$90,512 was prepared, this document was not agreed-to nor approved by all relevant parties; did not reconcile to the contractor’s final progress payment report; and did not separately identify uncompleted project tasks from unacceptable project work. Further, the \$88,047 project completion costs claimed by Farmington were not detailed by task performed and therefore, could not be readily linked to the Contract Change Order.

<sup>3</sup> Farmington Water Company was awarded \$2,519,200 and claimed \$2,519,198.

We note that Farmington did not pursue completion of work or reimbursement of costs from the defaulted contractor's Performance Bond, which guaranteed the satisfactory completion of the project.

Grant agreement Section 1 states that Farmington is solely responsible for the project, and for all persons or entities engaged in such work, including contractors and subcontractors. Article A-9 further specifies that Farmington shall be solely responsible for resolution of any and all disputes arising out of or related to its contracts for construction of the project, including but not limited to bid disputes and payment disputes with contractors and subcontractors.

Grant agreement Article A-8 (g) states that while Farmington may use its own employees for grant activities under certain circumstances, Farmington is required to establish accounts and maintain records which reasonably document all employee hours and costs charged to the grant and the associated tasks performed by each employee.

**Recommendations:**

- A. Remit \$204,833 to the State Water Resources Control Board (SWRCB). SWRCB will make the final determination regarding the disposition of the questioned costs.
- B. Develop appropriate claim preparation and review procedures that assure only eligible project costs are claimed for reimbursement.
- C. Ensure a clear audit trail is maintained for all claimed expenditures. The audit trail should facilitate the tracing of expenditures claimed on payment requests to accounting records and supporting source documents. Bridging documents may need to be developed to reconcile accounting system and support document information with the payment request.