



Transmitted via e-mail

May 2, 2016

Mr. David Bunn, Director  
California Department of Conservation  
801 K Street, MS24-01  
Sacramento, CA 95814

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

Mr. Ken Pimlott, Director  
California Department of Forestry and Fire Protection  
P.O. Box 944246  
Sacramento, CA 94244-2460

**Final Report—City of Escondido, Proposition 1E and 84 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the City of Escondido's (City) grants 4600009575, 8CA11915, and 3014-612, issued by the California Department of Water Resources, the California Department of Forestry and Fire Protection, and the California Department of Conservation, respectively.

The enclosed report is for your information and use. The City's response to the report findings are incorporated into this final report. The City agreed with our findings 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 City. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. John Lowrie, Assistant Director, Division of Land Resource Protection, California  
Department of Conservation  
Mr. David Thesell, Deputy Chief, California Department of Conservation  
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  
Ms. Janet Barentson, Chief Deputy Director, California Department of Forestry and Fire  
Protection  
Ms. Windy Bouldin, Chief, Office of Program Accountability, California Department of  
Forestry and Fire Protection  
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. Graham Mitchell, City Manager, City of Escondido  
Ms. Edid Molina, Finance Manager, City of Escondido

City of Escondido  
Propositions 1E and 84 Bond Programs  
Grant Agreements 4600009575, 8CA11915, and 3014-612



Title: Lake Wohlford  
Source: City of Escondido

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

## **MEMBERS OF THE TEAM**

Jon G. Chapple, CPA  
Manager

Rebecca McAllister, CPA  
Supervisor

Staff  
Jedediah Thompson

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), for \$4.09 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The City of Escondido (City) received the following grants:

- **Lake Wohlford Dam Replacement Project (Grant 4600009575)**—\$14.9 million awarded by the California Department of Water Resources (DWR) under Proposition 1E to assist in the financing of the Lake Wohlford dam replacement project. The project is estimated to cost in excess of \$30 million and will assist in the construction and implementation of a new roller-compacted concrete dam to replace the existing Lake Wohlford structure.
- **Urban Forest Public Tree Inventory (Grant 8CA11915)**—\$141,803 awarded by the California Department of Forestry and Fire Protection (CalFire) under Proposition 84 with the main objective to inventory all public trees managed by the City.
- **Updated Area Plans for a Combined South Escondido Boulevard/South Quince Street Target Area (Grant 3014-612)**—\$172,754 awarded by the California Department of Conservation (DOC) under Proposition 84 to promote equity, increase infill and compact development, and strengthen the economy for the South Escondido Boulevard and South Quince Street areas.

## 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> <sup>1</sup>
4600009575	March 1, 2009 through March 31, 2014
8CA11915	May 31, 2012 through March 30, 2014
3014-612	January 7, 2015 through September 30, 2015

The audit objectives were to determine whether the City’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.

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<sup>1</sup> An interim audit was conducted on grants 4600009575 and 3014-612 because the grant terms end May 1, 2018 and January 7, 2018, respectively.

The City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR, CalFire, DOC, and the California 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 deliverables were completed, we performed the following procedures:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the City's accounting records, vendor invoices, and bank statements.
- 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 agreements.
- Evaluated whether a sample of grant deliverables were met by reviewing quarterly progress reports, technical reports, and project reports.

In conducting our audits, we obtained an understanding of the City'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 audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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.

Except as noted below, the grant expenditures claimed complied with the grant requirements and the grant deliverables available for inspection at the time of our site visit in January 2016 were completed as specified in the grant agreements. The Schedules of Claimed Amounts are presented below:

### Schedules of Claimed and Questioned Amounts

<b>California Department of Water Resources (DWR) Grant 4600009575</b>	
<b>Task</b>	<b>Claimed<sup>1</sup></b>
Direct Project Administration	\$ 29,439
Planning/Design/Engineering/Environment	2,179,307
Other Costs	18,935
<b>Total Project Expenditures</b>	<b>\$ 2,227,681</b>

<b>California Department of Forestry and Fire Protection (CalFire) Grant 8CA11915</b>		
<b>Task</b>	<b>Claimed<sup>2</sup></b>	<b>Questioned</b>
Materials and Supplies	\$ 1,854	\$ 0
General	105,890	0
<b>Total Grant Funds</b>	<b>\$ 107,744</b>	<b>\$ 0</b>
Match Funds	51,964	51,964
<b>Total Project Expenditures</b>	<b>\$ 159,708</b>	<b>\$ 51,964</b>

<b>California Department of Conservation (DOC) Grant 3014-612</b>	
<b>Task</b>	<b>Claimed<sup>3</sup></b>
Consultants	\$ 29,894
<b>Total Project Expenditures</b>	<b>\$ 29,894</b>

<sup>1</sup> DWR awarded \$14.9 million and the City has claimed \$2.2 million as of March 2014.

<sup>2</sup> CalFire awarded \$141,803 and the City claimed \$107,744.

<sup>3</sup> DOC awarded \$172,754 and the City has claimed \$29,894 as of September 2015.

### Observation 1: Unsupported Matching Expenditures

The City of Escondido (City) claimed \$51,964 of matching expenses for CalFire grant 8CA11915 that were unsupported. Specifically, the City could not provide timesheets or other payroll documents supporting personnel costs claimed as match expenditures. City staff stated that match expenditures claimed were estimated and not based on actual costs incurred. Therefore, the City is not able to substantiate the personal costs are grant-related, allowable, incurred within the grant periods, supported by accounting records, and properly recorded.

Grant agreement 8CA11915, Article 9, requires the grantee to maintain accurate records of all its costs, disbursements, and receipts with respect to its activities under the grant agreement.

#### Recommendations:

- A. Ensure all claimed match expenditures are based on actual costs incurred, adequately supported, and appropriate documentation is maintained.
- B. CalFire will determine the effect, if any, of the unsupported match.

### Observation 2: Noncompliance with Reporting Requirements and Grant Deliverables Not Met

The City did not submit quarterly progress reports as required by DWR grant agreement 4600009575. Specifically, the City has submitted eight quarterly reports, ranging from two to ten months late. The remaining two quarterly reports (due in September and December 2015, respectively) had not been submitted at the time of our site visit in January 2016. The City stated the reports were submitted late as a result of staff turnover.

Additionally, the City has not completed grant deliverables as required by the work plan or schedule for DWR grant 4600009575 and DOC grant 3014-612. Specifically, the City noted it is behind schedule for the DWR and DOC projects, and has not completed the following grant deliverables:

DWR Grant 4600009575		
Deliverable	Due Date	Status As of December 15, 2015 <sup>4</sup>
Final Design	September 19, 2014	90% complete
Environmental Documentation	May 19, 2015	56% complete
Permitting	June 19, 2015	64% complete
Construction/Implementation Contracting	December 7, 2015	Not started
Construction/Implementation Dam Construction	December 7, 2015	Not started <sup>5</sup>

<sup>4</sup> Status based on the City's June 2015 quarterly report, submitted to DWR on December 15, 2015.

<sup>5</sup> The City estimates the construction completion date for the project to be September 27, 2018, which is after the grant end date of May 1, 2018.

DOC Grant 3014-612		
Deliverable	Due Date	Status As of January 2016 <sup>6</sup>
Task 2: Technical Studies		
1. Existing conditions summary report with recommended preliminary solutions	May 31,2015	Not completed
2. Brief White Paper documenting the specific program goals	May 31, 2015	Not completed
3. Brief White Paper documenting the specific programs' methods for measuring success with desired results	May 31, 2015	Not completed

Section 16 of the DWR grant agreement states Quarterly Progress Reports should be submitted to the State in successive three-month increments. Reporting ensures project timelines and grant deliverables are met, project costs do not exceed the budget, and alerts DWR of any problems encountered in the performance of the project.

The DWR Grant Agreement, section 5, states the grantee will expeditiously perform all project work as described in the work plan and in accordance with the project schedule. The DOC Grant Agreement, part IV, section 3, states the grantee shall complete the project in accordance with the grant end date, unless an extension has been formally granted by DOC.

**Recommendations:**

- A. Effectively plan and monitor grant activities to ensure grant deliverables are completed as specified in the grant agreements.
- B. Work collaboratively with DWR and DOC to determine the actions needed to address the completion of deliverables, including requesting formal extensions of time for completion as needed. DWR and DOC will make the final determination on the actions needed regarding the late or unmet deliverables.
- C. Timely submit all quarterly progress reports as required.

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<sup>6</sup> Status is as of our site visit in January 2016.





Joan E. Ryan  
Assistant Director of Finance  
201 North Broadway, Escondido, CA 92025  
Phone: 760-839-4338 Fax: 760-746-0612

April 13, 2016

Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814

Dear Sir or Madam:

**Response to Audit Report – City of Escondido, Proposition 1E and 84 Grant Audits**

This letter is in response to the audit report issued by the Department of Finance, Office of State Audits and Evaluation for the Proposition 1E and 84 grant audits.

The following is a corrective action plan addressing each recommendation included in the audit report:

**Observation 1: Unsupported Matching Expenditures**

We agree with the auditor's comment. Even though the City of Escondido incurred the required matching cost, our record keeping system didn't make the accounting transactions easily identifiable to the specific grant. Therefore, the audit documentation provided to support our matching cost was deemed inadequate audit evidence. Effective immediately, the City of Escondido will track matching cost for grants using a unique program number assigned to the specific grant.

**Observation 2: Noncompliance with Reporting Requirements and Grant Deliverables Not Met**

While the observations are accurate, much of the lateness with submissions is tied to the overall delays in the project itself. The environmental and design processes for the new dam has hit many snags, thus delaying the project and drastically increasing its cost. The increased cost has made financing the project a challenge, which threatens to delay the project even further. The design has had significant oversight from the State of California Division of Safety of Dams (DSOD), Federal Energy Regulatory Commission (FERC) and an Independent Board of Consultants, which was required by FERC. In mid-2015, City staff discussed how the issues are affecting the project schedule with DWR staff. At the time it was decided that a formal schedule

Response to Audit Report  
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change should be done later once the City had a better idea of the actual schedule. City staff will work with DWR to request formal extensions of time for completion for the grant deliverables.

Since July 2015, the City's Utilities Department has had turnover of several key staff involved in the Wohlford Dam Project. This turnover has resulted in delayed quarterly reports. Current City staff are committed to submitting all remaining quarterly reports in a timely manner.

If you have questions concerning this response, please contact Edid Molina, Finance Manager, at (760) 839-4580.

Sincerely,

Original signed by:

Sheryl Bennet,  
Director of Administrative Services

cc: Graham Mitchell, City Manager  
Ed Domingue, Director of Public Works  
Christopher McKinney, Director of Utilities