



Transmitted via e-mail

November 5, 2015

Mr. Thomas Howard, Executive Director  
State Water Resources Control Board  
1001 I Street, 25<sup>th</sup> Floor  
Sacramento, CA 95814

Dear Mr. Howard:

**Final Report—Aerial Acres Mutual Water Company, Proposition 84 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Aerial Acres Mutual Water Company's (Aerial Acres) grants 84-10C29 and 84-12C118, 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.

The enclosed report is for your information and use. Because there were no audit observations requiring a response, we are issuing the report as final. This report will be placed on our website.

We appreciate the assistance and cooperation of Aerial Acres. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mary Camacho, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. Darrin Polhemus, Deputy Director, Division of Financial Assistance, State Water Resources Control Board  
Mr. James Maughan, Assistant Deputy Director, Loans and Grants Branch, State Water Resources Control Board  
Mr. Lance Reese, Loan/Grant Administration Manager, State Water Resources Control Board  
Ms. Jennifer Taylor, Branch Chief, Budgets Section, State Water Resources Control Board  
Ms. Kim Gossen, Fiscal Unit Manager, Administration and Fiscal Section, State Water Resources Control Board  
Mr. Josh Ziese, Supervisor, Loans and Grants Section, State Water Resources Control Board  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Mr. Delton Matlock, President, Aerial Acres Mutual Water Company  
Mr. Dave Warner, Senior Community Development Specialist, Self-Help Enterprises

Aerial Acres Mutual Water Company  
Proposition 84 Bond Program  
Grant Agreements 84-10C29 and 84-12C118



Aerial Acres Water Treatment Facility, North Edwards, California

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Mary Camacho, CPA  
Supervisor

Staff  
Carlos Carrazco

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, METHODOLOGY AND RESULTS

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## 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. Proposition 84 added Division 43, Chapter 2, section 75022, to the Public Resources Code, authorizing the Legislature to appropriate up to \$180 million to the California Department of Public Health (CDPH) for small community drinking water system infrastructure improvements.

CDPH administered the program that provided grants to finance feasibility studies and to meet eligibility requirements for construction of public water systems to meet safe drinking water standards. 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 (Board).

Aerial Acres Mutual Water Company (Aerial Acres) is a small incorporated mutual water company established in 1981. It is located in Kern County approximately six miles north of North Edwards and services an area of about 100 acres and a population of approximately 130 people. Aerial Acres is governed by a five member board.

CDPH awarded Aerial Acres the following Small Communities Infrastructure Improvement program grants:

- **Grant 84-10C29**—\$188,373 to fund a feasibility study and engineering designs for a water treatment and storage facility.
- **Grant 84-12C118**—\$2,552,695 to construct additional wells, a water treatment facility, and a water storage facility 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>
84-10C29	October 29, 2010 through November 30, 2012
84-12C118	May 21, 2013 through April 30, 2015 <sup>1</sup>

The audit objectives were to determine whether Aerial Acres’ 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 as the grant period ends May 21, 2016.

Aerial Acres' management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board 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 as required, we performed the following procedures:

- Examined the grant files, grant agreements, applicable laws, regulations, policies, and procedures.
- Interviewed key personnel to obtain an understanding of Aerial Acres' and its consultant's grant management processes.
- Selected a sample of claimed expenditures to determine whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Reviewed Aerial Acres' accounting records, vendor invoices, and other relevant expenditure documentation.
- 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 feasibility studies, design plans, and other relevant documentation Aerial Acres submitted to CDPH. In addition, we conducted a site visit to verify existence of the water treatment facility funded by grant agreement 84-12C118.

In conducting our audits, we obtained an understanding of Aerial Acres' 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 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.

## **RESULTS**

Based on the procedures performed, the grant expenditures claimed complied with the grant requirements. Additionally, the grant deliverables available for inspection in September 2015 were completed as specified in the grant agreement. The Schedules of Claimed Amounts are presented on the next page.

### Schedules of Claimed Amounts

<b>Grant Agreement 84-10C29</b>	
<b>Task</b>	<b>Claimed<sup>2</sup></b>
Preliminary Engineering Report	\$ 2,397
Topographical Survey and Potholing of Well Site	4,100
Geotechnical Investigation	3,200
Pilot Study Design and Report	46,639
CEQA and NEPA Documents	21,255
Topographical Map	5,880
Treatment Plant Site Plans	26,370
Technical Specification and Bid Documentation	6,000
Water Well Design	18,030
Water Storage Tank Design	20,640
<b>Total Grant Funds</b>	<b>\$154,511</b>

<b>Grant Agreement 84-12C118</b>	
<b>Task</b>	<b>Claimed<sup>3</sup></b>
Construction	\$1,925,226
Engineering	304,944
Labor Compliance Monitoring	12,672
Legal, Administration and Pre-Construction Survey	9,127
Bid Advertisement	690
<b>Total Grant Funds</b>	<b>\$2,252,659</b>

<sup>2</sup> CDPH awarded \$188,373 and Aerial Acres claimed \$154,511.

<sup>3</sup> CDPH awarded \$2,552,695 and Aerial Acres claimed \$2,252,659 as of April 30, 2015.