



Transmitted via e-mail

September 12, 2011

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

Dear Mr. Cowin:

**Final Report—Butte County Water and Resource Conservation Department,
Proposition 50 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Butte County Water and Resource Conservation Department's (County) Proposition 50 grant agreements 4600007656 and 4600007903 for the period March 20, 2007 through October 1, 2010.

The enclosed report is for your information and use. The County's response to the report observations are incorporated into this final report. The County agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving the effectiveness and efficiency of its operations.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of the County's staff. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, at (916) 322-2985.

Sincerely,

Original signed by Rick Sierra for:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Ms. Katherine Kishaba, Deputy Director, Business Operations, Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, Department of Water Resources
Ms. Perla Netto-Brown, Controller, Department of Water Resources
Ms. Tracie Billington, Chief, Special Projects Section, Department of Water Resources
Ms. Sara Denzler, Chief, Riverine Ecosystem Section, Environmental Restoration and Enhancement, Department of Water Resources
Mr. Joseph Yun, Chief, IRWM Planning Grant Section, Financial Assistance Branch Department of Water Resources
Mr. Eric Koch, Chief, Flood SAFE Program Management Office, Division of Flood Management, Department of Water Resources
Mr. Dave Mraz, Principal Engineer, Delta Levees and Environmental Engineering, Department of Water Resources
Mr. George Wylie, Engineer, Financial Assistance Branch, Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary, 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. Paul Gosselin, Director, Butte County Water and Resource Conservation Department
Ms. Vickie Newlin, Assistant Director, Butte County Water and Resource Conservation Department

AUDIT REPORT

Butte County Water and Resource Conservation Department Proposition 50 Bond Program Grant Agreements 4600007656 and 4600007903



Diversion structure on Little Butte Creek
Source: Paradise Irrigation District

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

MEMBERS OF THE TEAM

Susan M. Botkin, CGFM
Manager

Zachary Stacy
Supervisor

Staff
Mindy Patterson

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

You can contact our office at:

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. The bond proceeds provide funds for grants and loans to assist in meeting safe drinking water standards; acquisition, restoration, protection, and development of river parkways; and coastal watershed and wetland protection.

The Department of Water Resources (DWR) is one of many state departments that administer Proposition 50 programs. The mission of DWR is to manage the water resources of California in cooperation with other agencies, and to protect, restore, and enhance natural and human environments.

DWR awarded Butte County Water and Resource Conservation Department (County) the following two Proposition 50 grants:

- **4600007656**—Butte County Integrated Regional Water Management project. Scope of work includes the Tuscan Aquifer and Paradise Irrigation District (PID) projects. The Tuscan Aquifer project (Project 1) includes identifying the potential yield and geological make-up of the Lower Tuscan Formation aquifer system and includes monitoring well installation and public outreach and education. This project is ongoing.

The PID project (Project 2) includes the final design, permitting, and construction of a water diversion structure and low-pressure pipeline to deliver gravity-fed water to the PID treatment plant. This project is complete.

- **4600007903**—Watershed Modeling and Education Project. Scope of work includes developing a watershed model and implementing a public outreach plan. This project is complete.

Both grants fund studies to improve knowledge of local water resources and watersheds.

Butte County's Water and Resource Conservation Department was formed on July 1, 1999, following many years implementing programs to protect the County's water resources. The priorities come from the 2005 Butte County Integrated Water Resource Plan that includes administering water resource management programs, groundwater conservation ordinance, groundwater monitoring programs, drought management plans, and basin management objectives. The plan also includes managing the State Water Project allocation, increasing agricultural and urban water use efficiency, informing and educating the public about water, addressing sustainability of local water resources, coordinating regional watershed management, and enhancing a multi-county cooperative outreach effort.¹

¹ Source: Butte County Water and Resource Conservation Department website www.buttecounty.net.

SCOPE

In response to the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted an audit of the following County Proposition 50 grants:

| <u>Grant Agreements</u> | <u>Audit Period</u> | <u>Awarded</u> |
|-------------------------|---|----------------|
| 4600007656 | March 20, 2007 through October 1, 2010 ² | \$2,889,800 |
| 4600007903 | December 1, 2007 through June 30, 2010 | \$ 531,691 |

The audit's objective was to determine whether the County's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations. Finally, no assessment was performed on the reasonableness or the conservation value of the projects completed.

County management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. DWR and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether the County's grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the grant-related internal controls.
- Examined the grant files at the County and DWR.
- Reviewed the County's accounting records, vendor invoices, and consultant contracts.
- Determined whether County expenditures were:
 - Allowable
 - Grant related
 - Incurred within the grant period
 - Supported by accounting records
 - Properly recorded
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Performed procedures to assess the monitoring and reporting practices of the County.
- Reviewed documentation to support matching funds for grant 4600007656.
- Performed a site visit to the PID project.

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 bond funds. The audit was conducted from March 2011 through June 2011.

² An interim audit was conducted on grant 4600007656, as the grant period ends December 31, 2012.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, the Butte County Water and Resource Conservation Department's (County) expenditures were in compliance with applicable laws, regulations, and grant requirements. The County, which was required to provide matching funds equal to \$2,615,393 for grant agreement 4600007656, met the match requirements. The Schedules of Claimed and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed and Questioned Amounts

| Grant Agreement 4600007656 For the Period March 20, 2007 through October 1, 2010¹ | | |
|---|--------------------|-------------------|
| Category | Claimed | Questioned |
| Tuscan Aquifer/Paradise Irrigation District | \$1,233,324 | \$ 0 |
| Total Expenditures | \$1,233,324 | \$ 0 |

| Grant Agreement 4600007903 For the Period December 1, 2007 through June 30, 2010 | | |
|---|------------------|-------------------|
| Category | Claimed | Questioned |
| Watershed Modeling and Education Project | \$531,691 | \$ 0 |
| Total Expenditures | \$531,691 | \$ 0 |

Observation 1: Inadequate Timekeeping and Vendor Invoice Approval Procedures

We noted the following conditions requiring management's attention:

- The County billed personnel costs to the Department of Water Resources (DWR) based on estimates, instead of actual costs. Grant agreement 4600007903, Exhibit C, C-6, and grant agreement 4600007656, Exhibit D, D-1, state the grantee will account for the money disbursed on grant activities separately from all other grantee funds. Additionally, the agreements state the grantee shall keep complete and accurate records on grant expenditures. Without accurate and complete records of actual grant costs, the County cannot ensure claimed costs are grant-related, supported, and allowable.

¹ An interim audit was conducted on grant 4600007656, as the grant period ends December 31, 2012.

Because actual personnel costs were unavailable, Finance performed alternative procedures to assess the reasonableness of personnel hours claimed for reimbursement. Specifically, we:

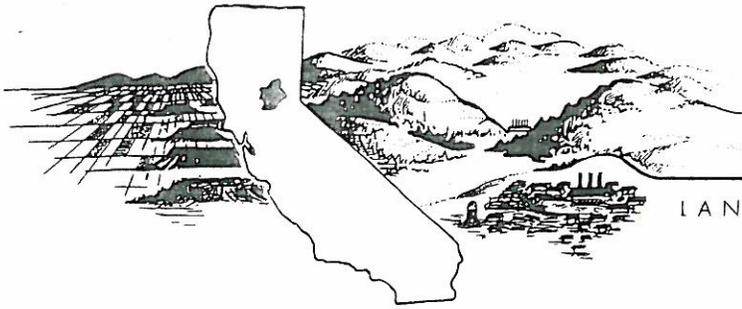
- Reviewed a sample of calendars and day planners, monthly and quarterly grant reports, and interviewed staff to assess that grant related activities were accomplished.
- Determined the number of available business hours and calculated the percentage of hours charged to the grant.
- Compared the percentage of hours charged to the grant to the work accomplished during the billing period for reasonableness.

Based on the alternative procedures performed, the personnel costs charged to DWR appeared reasonable. Therefore, we did not question these costs.

- The County does not maintain written evidence of vendor invoice approval. Instead, verbal approval is provided by the County's staff responsible for approving vendor invoices. Preferred accounting practices require that vendor invoices be approved in writing. Not requiring written evidence of vendor invoice approval increases the risk that project disbursements may be excessive, unauthorized, or improper.

Recommendations:

- Implement a time-reporting system to track actual hours specifically spent on grant activities.
- Implement a written vendor invoice approval system to provide evidence that vendor invoices have been reviewed and approved for payment.



Butte County

LAND OF NATURAL WEALTH AND BEAUTY

July 8, 2011

WATER AND RESOURCE CONSERVATION
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PAUL GOSSELIN
Director

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

Dear Mr. Botelho:

Re: Draft Report – Butte County Water and Resource Conservation Department,
Proposition 50 Grant Audit

On July 5, 2011, we received the draft Proposition 50 Grant Audit report. We appreciate the time, effort and thoroughness of the audit. In particular, Zach Stacy and Mindy Patterson conducted the audit with the utmost professionalism. The report and recommendations are greatly appreciated and will be given full consideration.

Overall, we do not have major comments or questions on the draft audit report. We do have two changes to the text on page 1. The sentence that reads, “Both grant fund studies to improve knowledge of control and management of California watersheds” should be changed to “Both grant fund studies to improve knowledge of local water resources and watersheds.” The second to last line on page 1, the phrase “supporting solutions to potential future water shortages” should be changed to “addressing sustainability of local water resources. .

Thank you for the opportunity to review and comment on the draft audit report. If you have any questions please do not hesitate to contact me at (530)538-4343.

Sincerely,

Original signed by:

Paul Gosselin, Director

Cc: Vickie Newlin, Assistant Director