



Transmitted via e-mail

November 18, 2013

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

Dear Mr. Howard:

Final Report—Santa Ana Watershed Project Authority, Propositions 13 and 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Santa Ana Watershed Project Authority's (SAWPA) grant agreement 07-543-550-0 issued by the State Water Resources Control Board (Control Board) for the period July 1, 2007 through March 30, 2010.

The enclosed report is for your information and use. SAWPA's response to the draft report observation and our evaluation of the response have been incorporated into this final report. The report will be placed on our website.

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

Sincerely,

Original signed by:

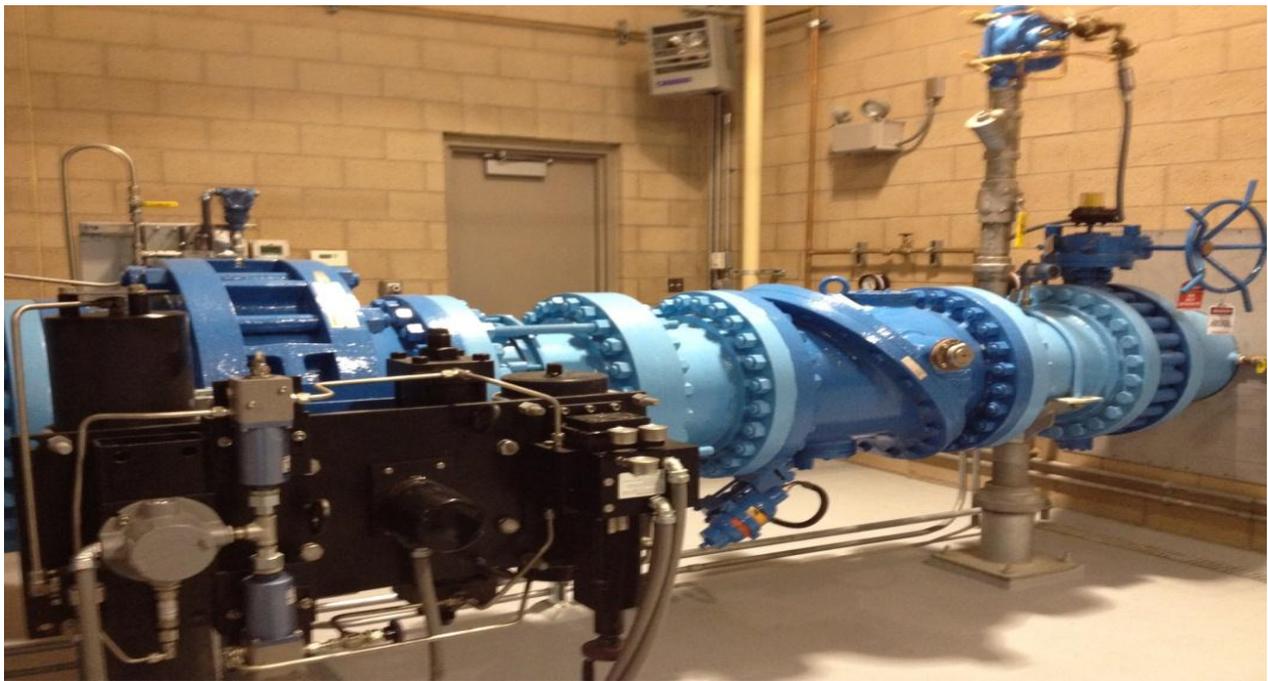
Richard R. Sierra, CPA
Acting Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Leslie Laudon, Manager, Division of Financial Assistance, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Mr. Erik Ekdahl, Program Manager, Integrated Regional Water Management Grants, 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
Ms. Celeste Cantú, General Manager, Santa Ana Watershed Project Authority
Mr. Rich Haller, Executive Manager, Engineering and Operations, Santa Ana Watershed Project Authority
Ms. Karen Williams, Chief Financial Officer, Santa Ana Watershed Project Authority

AUDIT REPORT

Santa Ana Watershed Project Authority Propositions 13 and 50 Bond Programs Grant Agreement 07-543-550-0



Central Feeder Project

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Jon G. Chapple, CPA
Supervisor

Staff
Patty Roth

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

You can contact our office at:

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Office of State Audits and Evaluations
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BACKGROUND, SCOPE and METHODOLOGY

BACKGROUND

California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000 (Proposition 13), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) for \$1.97 billion and \$3.44 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The Santa Ana Watershed Project Authority's (SAWPA) mission is to plan and build facilities to protect the water quality of the Santa Ana River Watershed. The State Water Resources Control Board (SWRCB) awarded SAWPA a \$4,707,613 grant from Propositions 13 and 50 to construct the remainder of the Central Feeder Project. The project's purpose was to improve water supply reliability, basin water banking, and water conservation and efficiency.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 07-543-550-0 for the period July 1, 2007 through March 30, 2010.

The audit objectives were to determine whether SAWPA'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.

SAWPA's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. SWRCB is 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:

- 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 SAWPA's accounting records, contracts, vendor invoices and payment requests.

- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation, including the Certification of Project Completion, and conducting a site visit to verify project existence.

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 that the evidence obtained provides a reasonable basis for our findings 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 were in compliance with the requirements of the grant agreement and grant deliverables were completed as required. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 07-543-550-0		
Category	Claimed	Questioned
Grant Funds		
Construction (Contracted Services)	\$ 4,707,613	\$ 13,893
Match Funds*		
Construction (Contracted Services)	45,296,099	
Total Project Expenditures	\$ 50,003,712	\$ 13,893

* Claimed amount exceeded budgeted amount of \$43,938,611.

Observation 1: Non-Compliance with Grant Agreement

Our audit revealed several instances of noncompliance with the grant agreement. Specifically:

- SAWPA claimed reimbursement for \$13,893 of ineligible and unsupported travel expenditures, including out-of-state travel expenses and unsupported per diem allowances. Exhibit C, Section 39, of the grant agreement states no travel outside the State of California shall be reimbursed unless prior written authorization is obtained from the Grant Manager. SAWPA was unable to provide authorization for these costs. Additionally, SWRCB grant guidelines require receipts and supporting documentation relating to claimed travel expenses.
- Of the 19 monthly progress reports due during the grant period, only three were submitted. Additionally, reimbursed and match expenditures were not reported as incurred. Exhibit B, Section E.2, of the grant agreement requires the grantee to submit monthly progress reports. An invoice is also required, reflecting charges for work completed during the reporting period covered by the progress report.
- SAWPA did not purchase the crane to facilitate maintenance as required in the grant agreement. However, the crane was reported as being on site in a progress report submitted to SWRCB. According to SAWPA, the decision was

made to rent a crane as needed instead of purchasing. Exhibit C, Section 26.b, of the grant agreement requires the grantee to promptly notify SWRCB of events or proposed changes that could affect the scope, budget, or work performed.

- The grant was used to fund change orders throughout the project. According to SAWPA, the contractor and SAWPA agreed to reconcile costs at project completion once final costs were determined. However, SAWPA was unable to provide a final accounting of the project expenditures. Lacking this information, we were unable to determine if there were any credits due to the state. Additionally, we were unable to perform procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds. Exhibit C, Section 31, of the grant agreement requires the grantee to establish separate accounts which adequately depict income and amounts expended for the project, as well as final total costs for the project.

Recommendations:

- A. For future grants, SAWPA should ensure the terms of the grant agreement and guidelines are followed, and adequate approval and supporting documentation exists for all claimed expenditures. Additionally, SAWPA should timely submit progress reports and invoices, and obtain grantor approval for changes in scope, budget or work performed.
- B. SAWPA should provide SWRCB a final accounting of the project and ensure all credits due to the state are reimbursed to SWRCB.
- C. SWRCB will make the final determination regarding disposition of the \$13,893 of ineligible and unsupported travel expenditures.

RESPONSE



Santa Ana Watershed Project Authority

One Water One Watershed

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October 31, 2013

Richard R. Sierra, CPA
Acting Chief, Office of State Audits and Evaluations
State Water Resources Control Board
915 L Street
Sacramento, CA 95814-3706

Philip L. Anthony
Commission
Chair

**Subject: Response to Draft Report – Santa Ana Watershed Project Authority,
Propositions 13 and 50 Grant Audit**

Celeste Cantú
General
Manager

Dear Mr. Sierra:

Orange
County
Water
District

SAWPA appreciates the opportunity to respond to the draft audit Observations and Recommendations. The Central Feeder Project is an important water supply project for the Inland Empire Region of San Bernardino County. The project has been operable since May, 2008 and delivers water to The Metropolitan Water District of Southern California. The total project cost was \$50,003,712 and the grant amount was \$4,707,613 or 9.41% of the total project cost.

Western
Municipal
Water District

Responses to Observation and Recommendations:

Eastern
Municipal
Water
District

Travel Expenses – travel performed for the project was an important part of the construction quality control/quality assurance process. The project engineer or representative traveled to various locations to observe the quality and performance testing of completed equipment manufactured for the project. Prior approval of the out of state travel was not obtained; however, the expenses were approved and paid for by the SWRCB. SAWPA would be agreeable to replacing these expenses with other project expenses that were not reimbursed by the grant. Total match funds exceeded the amount indicated in the grant agreement by \$1,357,488. SAWPA is putting procedures into place to ensure all grant agreement requirements are transferred to all project contracts for design and construction, and that the procedures are satisfactorily completed and documented.

San
Bernardino
Valley
Municipal
Water
District

Monthly Progress Reports – the grant agreement was received on March 17, 2008. The agreement covered the period July 1, 2007 through March 30, 2010. Because the agreement was received nine months after the start of the agreement period, the SWRCB project manager agreed that a single report covering that period would be acceptable. In March 2008, the project was reported to be 95% complete. Actual operation began in May 2008. The project was reported 100% complete in September 2008. After construction completion, submittal of monthly reports was suspended. SAWPA recognizes that monthly reports and invoices were not provided for every month of the contract period. For future contracts, SAWPA will ensure that documentation is created to clarify any agreed upon changes to recurring monthly/quarterly reporting and invoicing. Further, SAWPA is putting procedures into place to ensure all grant agreement requirements are completed.

Inland
Empire
Utilities
Agency

Overhead Crane – during design, it was noted that a hoist and/or forklift could be used to move smaller equipment items and materials. While the floor area of the pump station had to be increased slightly to allow for hoist and fork lift clearances, the additional structural features required to support the overhead crane were removed. Since the project costs were higher than originally estimated, it was particularly important to reduce costs while maintaining the original functional capabilities. The net effect of relying on portable material handling equipment rather than an

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overhead crane was a reduction in the construction cost overrun to \$1,357,488. As the overhead crane was not provided it should have been removed from the project description. As noted, the equivalent capability was provided; there was no reduction in the capability of the Central Feeder project. For future projects where the details have not yet been fully completed, SAWPA will recommend functional descriptions be included in the agreement scope of work rather than detailing an exact solution. Further, SAWPA is putting into place procedures to ensure all grant agreement scope of work requirements are addressed.

Potential Change Orders (PCOs) – during construction PCOs were prepared to define changed project scopes of work and construction costs. These changes resulted from unknown field conditions such as utilities interfering with the installation of the 78-inch diameter, 3.3 mile long pipeline, or enhancements to the pump station design. Based on the changed scope of work and cost estimate, a Field Directive was issued directing the contractor to proceed with the additional scope of work. This work would then be completed on a time and materials basis with a not-to-exceed amount. The Constructing Agency resolved the final construction contract change order by agreeing to a global settlement of all issues. As such, a detailed itemization was not included in the contract but was supported by itemized cost estimates prepared by the contractor and reviewed by the constructing agency.

As a result of the Department of Finance audit, SAWPA and its constructing agencies are implementing changes to the management of grant agreements. During preparation of any contract with a constructing agency, grant agreement requirements will be reviewed. SAWPA will then work with the agency to conduct a similar review with all contractors hired by the constructing agency. These reviews will ensure inclusion and understanding of all grant agreement requirements. Compliance with these requirements will be checked quarterly as the quarterly reports are prepared for the grant management agency in accordance with the grant requirements and the procedures established by SAWPA for grant administration.

Sincerely,

Original Signed by:

Richard E. Haller, P. E.
Executive Manager of Engineering and Operations

EVALUATION OF RESPONSE

We reviewed the Santa Ana Watershed Project Authority's (SAWPA) response dated October 31, 2013. SAWPA provided information in response to each instance of noncompliance with the grant agreement. Specifically, SAWPA agreed that prior approval of out-of-state travel was not obtained, and that monthly reports and invoices were not provided for every month of the contact period. SAWPA is implementing procedures to ensure these requirements are met for future grants. We acknowledge SAWPA's willingness to implement our recommendations.

SAWPA also provided additional information relating to the overhead crane and potential change orders (PCOs). Specifically, SAWPA acknowledges the overhead crane was not purchased, and that it should have been removed from the project description. While the response notes the equivalent capability was provided, and there was no reduction in the capability of the Central Feeder project, SAWPA does acknowledge it is implementing procedures to ensure grant agreement scope of work requirements are addressed.

Regarding the PCOs, SAWPA notes in its response that "The Constructing Agency resolved the final construction contract change order by agreeing to a global settlement of all issues." Our audit observation noted we were unable to obtain a final accounting of project expenditures, and thus we were unable to determine if any credits were due to the state. During our audit, we were not provided information relating to any global settlement of PCO issues. As such, our recommendation that SAWPA should provide the State Water Resources Control Board a final accounting of the project and ensure all credits due to the state are reimbursed remains unchanged.