



Transmitted via e-mail

November 22, 2016

Mr. John Donnelly, Executive Director
Wildlife Conservation Board
1700 9th Street, 4th Floor
Sacramento, CA 95811

Dear Mr. Donnelly:

Final Report—Grenada Irrigation District, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Grenada Irrigation District's (District) grant WC-1051TC, issued by the Wildlife Conservation Board.

The enclosed report is for your information and use. The District's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

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

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Peter Perrine, Assistant Executive Director, Wildlife Conservation 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. Rod Dowse, Chair, Grenada Irrigation District
Mr. Glen Rizzardo, Board Member, Grenada Irrigation District

Grenada Irrigation District
Proposition 1E Bond Program
Grant Agreement WC-1051TC



Grenada Irrigation District Water Intake and Fish Screen on the Shasta River

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

MEMBERS OF THE TEAM

Jon G. Chapple, CPA
Manager

Angie Williams
Supervisor

Staff
Dennis W. Solheim, CPA

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, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E). The \$4.09 billion in bond proceeds finance a variety of natural resource programs.

Grenada Irrigation District (District) is a special district governed by a Board of Directors appointed by the County of Siskiyou. The District received a \$1.5 million grant from the Wildlife Conservation Board (WCB) to assist in financing the Shasta River Fish Passage Project. The purpose of the grant is to remove a fish barrier by installing a pumping station and fish screen to create a natural fishway, which will restore the stream channel to conditions similar to a natural channel.¹ A combination of state and federal grants were used to complete this \$4 million project.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant WC-1051TC for the period June 13, 2011 through April 14, 2014.

The audit objectives were to determine whether the 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.

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. WCB 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, we performed the following procedures:

- Examined the grant files, grant agreement, program guidelines, and applicable policies and procedures.
- Reviewed the District's accounting records, subcontractor agreement, vendor invoices, and payment reports.

¹ Source: Grant agreement WC-1051TC, Exhibit D.

- 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 District's final report and conducting a site visit to verify existence of specific project components.

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

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.

Except as noted below, the grant expenditures claimed complied with the grant 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

Grant Agreement WC-1051TC		
Task	Claimed ¹	Questioned
Personnel	\$ 5,930	\$ 0
Equipment	325,000	0
Materials and Supplies	406,640	0
Contractual	577,790	0
Project Administration and Other	98,516	96,920
Total Project Expenditures	\$ 1,413,876	\$ 96,920

Finding 1: Unsupported Administration Expenditures

The Grenada Irrigation District (District) claimed \$96,920 of unsupported administrative expenditures. Specifically, the District claimed a rate of 7.37 percent for administrative costs but was unable to provide documentation supporting the costs or an allocation methodology to demonstrate how the costs were distributed to the grant project.

Although the grant agreement allowed for project administrative expenditures, the costs claimed should be based on actual documented expenditures incurred and distributed to the project proportional to the relative benefits received. Grant Agreement, section 7.4, requires the District to maintain financial accounts, documents, and records, and the accounting information must accurately reflect fiscal transactions so the total costs of the project can be readily determined.

Recommendations:

- A. Remit \$96,920 to the Wildlife Conservation Board for unsupported project administration costs.
- B. For current and future projects, ensure administrative expenditures are based on actual costs incurred and documented by a cost allocation methodology.

¹ WCB awarded \$1,500,000 and the District claimed \$1,413,876.

GRENADA IRRIGATION DISTRICT
PO BOX 307
GRENADA, CA 96038
gidwater@gmail.com

October 19, 2016

Jennifer Whitaker, Chief
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

RE: Grenada Irrigation District Response to Draft Report from Department of Finance

GID (Grenada Irrigation District) is in receipt of your draft report dated September 19, 2016. This response is being provided within the granted time extension GID requested. GID's response is broken into two sections: [Response to Draft Report Conclusions](#) and [Proposal for Resolution](#).

Response to Draft Report Conclusions:

Background: As presented to Department of Finance (DOF) staff, Dennis Solheim, but not captured in DOF's Draft Report, a background building up to this point is necessary to understand GID's response to draft conclusions. GID is a small irrigation district composed of two part time employees and a volunteer board. The District generates no additional funding beyond irrigation payments by the district users, as is the case with many small special districts.

Since the mid-1990's GID was made aware that it's diversion structure which diverts irrigation water from the Shasta River did not meet fish passage criteria and it was in fact a barrier for fish passage during irrigation season (4/1/-9/31 of each year). The barrier prevented access for fish to much of the premier cold water habitat located in the Shasta River watershed and was specifically identified in CDFW's Coho Recovery Plan (2004). Coho salmon are listed as Threatened under California and Federal Endangered Species Acts. Beginning in 2007, GID worked with CDFW and NOAA to develop a fish compliant passage and screening project to allow year round fish passage primarily for Threatened Coho Salmon.

CDFW funded surveys and an agency approved engineered design to reconfigure GID's diversion method which was completed in 2009. The project was expected to cost nearly \$4 million dollars which would require grant funds to implement the project. GID sought local resource groups including Shasta Valley Resource Conservation District to sponsor the project as GID did not have a history of administering grants. GID also conferred with other potential sponsor but could not find an entity that was willing to administer the project and seek the necessary grant funds.

GID held numerous meetings with potential funding sources including CDFW, NOAA, USFWS and WCB about how to implement the critical project which was lacking an entity to sponsor, seek funds and administer the project. With approval of involved agencies, GID Board made the decision to seek funds and administer implementation of the project. GID sought accounting and legal professionals and worked with agency personnel to develop a framework and process for administering funds. After submitting 11 grants over 14 months, GID had encumbered sufficient funding to implement the project through four funding sources. GID continued to meet with professionals and agencies to refine scopes and budgets until all line items and scopes were properly integrated into a master implementation plan.

In all cases, administrative funds were discussed in detail. Administrative funds are defined by CDFW as costs incurred to a project that could not be recovered in other budget categories or line items.

Indirect Charges or administrative funds are by clarified by CDFW FRGP as:

*Indirect charges (previously called administrative overhead) should be applied only to projected administrative costs that cannot be recovered in other budget categories. Indirect charges are **limited** to 20% of amount requested from this PSN. Costs for subcontractors and purchase of equipment cannot be included in the calculation of indirect charges. Any amount over 20% will not be funded but can be used as cost share. Indirect charges include but are not limited to: utilities, offices space rental, phone, and copying which are directly related to completion of the proposed project. Workers compensation insurance is considered part of doing business and should be included in the Administrative Overhead total; it cannot be listed in a separate line item.*

Administrative costs for the project were mutually (GID and agency representation) determined to be approximately 8% for this project which was deemed appropriate due to the complexity of four matching grant sources and varied permitting and reporting requirements. The lower administrative value of 8 % (compared to 20%) was determined by the size of the project and thought to aid in its competitiveness. Specific to WCB a flat rate value of, 7.37% was placed on each invoice. GID's proposals included flat rate percentages for recovering administrative costs. The administrative percentage was based on all other invoiced costs including Personnel, Sub-contractors, Equipment and Materials.

WCB withholds 10% of each invoice as retention until the project is completed. When the project and reporting was completed, the retention was paid. Because the retention percentage (10%) was greater than the administrative rate (7.37%), GID was losing 2.63% of each invoice during the duration of the project. GID was aware this would be the case, further eliminating its ability to pay for administrative

help. The GID Board, staff, district users and contractors agreed to donate time to cover administrative responsibilities, recognizing the donated time would be reimbursed to the District through retention when the project was complete.

Invoices were developed by GID sub-contractors who specifically charged GID for budgetary administrative services. GID presented these costs to DOF and is not aware why those administrative costs were not accepted by DOF. GID Board and staff reviewed all invoices and conducted much of the other administrative roles, including reporting, contract development, permitting, agency coordination, keeping district users apprised of and conducting operational changes as a result of the project. GID's general funds covered additional administrative costs during the duration of the active project which were also provided to DOF.

GID did not have sufficient funds to hire staff or sub-contracted professionals to address administrative requirements of the project. Alternatively, as developed with the team of agency staff advising GID, the GID Board accepted the administrative role by volunteering several thousand hours during development and administration of this project. GID did include their volunteered hours as a reimbursable cost for GID within the 7.37% administrative cost. GID did not submit or accurately account for all volunteered hours as it was assumed within the agreed upon flat percentage rate. However, GID has record of significant hourly contribution by Board, staff, district users and contractors.

Unfortunately, the conclusion of DOF eliminates small underfunded districts like GID from competing for grants UNLESS they ask for administrative funds greater than the retention or have a significant capitol in hand. GID's summary opinion is as follows:

- DOF definition of justifying administrative costs is different than funding sources.
- GID demonstrated administrative capability by having no other questions on any other line item in the schedule within the DOF's Draft Audit.
- GID presented DOF with numerous direct administrative costs but this report fails to justify why they were not accepted.
- As a result of implementing this project, GID administered numerous permitting revisions, contract amendments, terminated district deliveries to allow for construction, set up and maintained separate accounts and made multiple operation concessions that reduced the district ability to deliver water to users, which limits its income potential. The administrative burden of this project was considerable yet accounting, permitting, reporting and coordination was conducted flawlessly as evident by all funding sources having NO outstanding conditions at project conclusion. All four budgets balanced with funding source accounting. DOF's conclusion that no evidence of administration occurred neglects the immense effort and burden GID successfully under took and which was accepted by all funding sources.
- If GID were notified it was presenting its administrative values improperly, it would have revised its reporting and invoicing process immediately. Being notified by the State of California that the

district must repay \$96,920 of the \$98,516 administrative reimbursement when budgetary oversight was provided by the State of California is difficult for the District to understand. Especially since it is very evident the project was fully administered and implemented.

Proposal for Resolution:

Beyond dispute, it is evident that GID administered the project wholly and completely. GID may not have kept record of all administrative costs within the appropriate accounts folders (WCB Account versus General Account). GID may not have tallied all the numerous volunteer hours conducted by the Board, staff, district users and contractors and attached the information to each invoice. At first notice GID would have revised administrative accounting and justification, but GID was reimbursed in full by WCB for each invoice at an administrative rate of 7.37% and assumed it was reporting properly.

GID has spoken with WCB and requests an opportunity to meet with WCB staff and review all of GID's administrative costs including, invoices for administrative sub-contractors, administrative costs, administrative staff time and volunteered administrative time. GID will then present its findings to DOF and present any other potential resolution developed with WCB. We specifically seek a response from DOF approving this approach within the next 10 days. GID will meet with WCB within 30 days from that time and submit a proposal for resolution within 45 days. We look forward to your response and finding resolution to this issue.

Thank You,



Original signed by Rod Dowse

EVALUATION OF RESPONSE

The Grenada Irrigation District's (District) response to the draft report has been reviewed and incorporated into the final report. In evaluating the District's response, we provide the following comments:

Finding 1: Unsupported Administration Expenditures

The District disagrees with the finding that administrative expenditures were not supported. The District stated in their response that invoices were developed by District sub-contractors who specifically charged for budgetary administrative services. The District presented these costs during the audit and is not aware why those administrative costs were not accepted. We are aware the main subcontractor assessed an administrative charge and those costs were not questioned.

Further, the District stated that they did not submit or accurately account for all volunteered hours as it was assumed within the agreed upon flat percentage rate. Without adequately documenting these hours, the District does not have support for volunteer hours claimed as administrative costs. Thus, the \$96,920 was questioned.

We acknowledge the District incurred indirect costs during the grant project. However, without a supported indirect cost allocation methodology, the District is unable to demonstrate how the costs were distributed to this grant or any of the other grants being administered during the same period.

Since no additional documentation was provided with the District's response, the finding and recommendations will remain unchanged.