



Alleghany County Water District

Proposition 1 Bond Program
Agreements D15-02031 and D17-02013

Report No. 22-3940-036
July 2022

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

You can contact our office at:

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July 6, 2022

Eileen Sobeck, Executive Director
California State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812

Final Report—Alleghany County Water District, Proposition 1 Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Alleghany County Water District's (District) grants D15-02031 and D17-02013, issued by the California State Water Resources Control Board.

The enclosed report is for your information and use. The District's response to the report findings is incorporated into this final report. The District agreed with our findings. We appreciate the District's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

If you have any questions regarding this report, please contact Sherry Ma, Manager, or Kylie Oltmann Supervisor, at (916) 322-2985.

Sincerely,

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

cc: Jonathan Bishop, Chief Deputy Director, California State Water Resources Control Board
Joe Karkoski, Assistant Deputy Director, California State Water Resources Control Board
Michelle Taylor, Fiscal Unit Manager, California State Water Resources Control Board
Debbie Cheung, Staff Services Manager I, Grants Administration Unit, Division of Financial Assistance, California State Water Resources Control Board
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Rae Bell Arbogast, General Manager, Alleghany County Water District
Bryan Cash, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Amanda Martin, Deputy Assistant Secretary, California Natural Resources Agency
Andrea Scharffer, Deputy Assistant Secretary for Bonds and Grants, California Natural Resources Agency

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1). The \$7.545 billion in bond proceeds fund projects and activities involving ecosystems and watershed protection and restoration; water supply infrastructure, including surface and groundwater storage; and drinking water protection.

The California State Water Resources Control Board (SWRCB) awarded the Alleghany County Water District (District) \$1.42 million of Proposition 1 funds through the Drinking Water State Revolving Fund (DWSRF) program. The DWSRF program assists public water systems in financing the cost of drinking water infrastructure projects needed to achieve or maintain compliance with Safe Drinking Water Act requirements.¹ The funding assisted with the District's Planning and Engineering Analysis for Renovations of the Storage Tank and Water Resources Project and the Storage Tank Replacement Construction Project. These funds were provided through the following two agreements:

- **Agreement D15-02031**—\$500,000 awarded for the agreement period March 1, 2015 through March 1, 2057, to address inadequate filtration and treatment of surface water. This includes (1) drilling up to three test wells; (2) collecting and analyzing water samples; (3) performing pumping tests to locate a groundwater source that can provide the community with sufficient, potable water; (4) performing necessary engineering and environmental work to connect the new water source(s); and (5) designing work necessary to replace the water system's aging tank.² Four amendments were executed which include (1) extending agreement term dates, project completion dates, final disbursement request dates, and planning schedule dates; (2) increasing project funds from \$300,000 to \$500,000; (3) adjusting budget expenditure categories; and (4) changing the agreement from a loan to a grant. The project is complete.
- **Agreement D17-02013**—\$920,000 awarded for the agreement period April 13, 2017 through March 1, 2059, to (1) replace an existing 150,000 gallon water storage tank, (2) install a Supervisory Control and Data Acquisition System (SCADA), (3) install two temporary tanks, and (4) perform necessary appurtenances and upgrades.³ Three amendments were executed which include (1) increasing project funds from \$700,000 to \$920,000; (2) extending agreement term dates, construction completion dates, and final disbursement request dates; (3) adjusting budget expenditure categories; and (4) expanding the scope of work to include SCADA, appurtenances, and upgrades. The project is complete.

¹ Excerpts obtained from https://www.waterboards.ca.gov/drinking_water/services/funding/SRF.html.

² Excerpts obtained from <https://bondaccountability.resources.ca.gov/Project.aspx?ProjectPK=14207&PropositionPK=48>.

³ Excerpts obtained from Agreement D17-02013.

The District is located in Sierra County and was incorporated as a county water district on March 8, 1939. The District is governed by a five-member board elected to serve four-year terms. The District's mission is to provide safe, reliable, and affordable water service to all District customers and provide water resources for fire suppression.⁴

SCOPE

In accordance with our bond oversight responsibilities, the California Department of Finance, Office of State Audits and Evaluations, audited the following agreements:

<u>Agreement</u>	<u>Audit Period</u>
D15-02031	March 1, 2015 through March 2, 2021
D17-02013	April 13, 2017 through May 22, 2020

The audit objectives were to determine whether the District's:

1. Claimed expenditures were in compliance with the agreements' requirements.
2. Project deliverables were completed as required in the agreements.

The District submitted claims for reimbursement detailing its expenditures by cost category as follows:

Schedule of Claimed Amounts

Agreement D15-02031	
Cost Category	Claimed⁵
Engineering and Design	\$ 210,450
Hydrogeologist Study and Geotechnical Report	56,964
Surveys and Easements	12,684
Environmental Review – California Environmental Quality Act (CEQA)/National Environmental Policy Act (NEPA)	500
Test Well Drilling and Testing	146,787
Driven Pipes	45,061
CEQA Contingency	9,040
Planning/Design Project Contingency	11,418
Administration/Legal	8,435
Total Claimed Expenditures	\$ 501,339
Less SWRCB Adjustments	\$1,355
Total Adjusted Claimed Expenditures	\$ 499,984

⁴ Excerpts obtained from <https://www.alleghanywater.org/our-mission>.

⁵ SWRCB awarded \$500,000 and the District claimed \$501,339, as of June 2020.

Agreement D17-02013	
Cost Category	Claimed⁶
BRCO Constructors, Incorporated	\$ 573,950
Aqua Sierra Controls, Incorporated	17,574
Pre-Purchase Equipment	27,421
Pacific Gas and Electric	3,158
Contingency	133,141
Allowance	157,170
Total Claimed Expenditures	\$ 912,414
Less SWRCB Adjustments	\$ 822
Total Adjusted Claimed Expenditures	\$ 911,592

Upon receipt, SWRCB reviewed the claims and made adjustments for ineligible costs. Our audit did not include an evaluation of the validity of adjustments, including ineligible costs, identified by SWRCB.

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and agreement requirements. SWRCB and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

METHODOLOGY

To plan the audit, we gained an understanding of the projects and respective bond program and identified relevant criteria, by interviewing SWRCB and District staff. In addition, we reviewed the agreements and associated amendments, SWRCB Intended Use Plans, the District's applicable policies and procedures, and applicable state laws and regulations.

We conducted a risk assessment, including evaluating whether the District's key internal controls significant to our audit objectives were properly designed, implemented, and operating effectively. Key internal controls evaluated focused on processes related to the review and approval of project expenditures, procurement, requests for disbursement preparation, and project monitoring. Our assessment included conducting interviews with the District and project management staff, observing processes, and testing transactions related to consultant and construction expenditures, contract procurement, and project deliverables. 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 determined verification of the reliability of data from the District's accounting system, QuickBooks, was not necessary because other sufficient evidence was available to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

⁶ SWRCB awarded \$920,000 and the District claimed \$912,414, as of May 2020.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the District's claimed expenditures were in compliance with the agreements' requirements.</p>	<ul style="list-style-type: none"> • Selected items from the significant and/or high-risk expenditure categories to verify compliance with agreement requirements. Specifically, we selected the most quantitatively significant expenditures as follows: <ul style="list-style-type: none"> ○ For Agreement D15-02031, expenditures from the Engineering and Design, Hydrogeologist Study and Geotechnical Report, and Test Well Drilling and Testing categories were selected from two requests for disbursements. From those requests for disbursements, a total of six consultant invoices were selected for testing. ○ For Agreement D17-02013, expenditures from the BRCO Constructors, Incorporated, Contingency, and Allowance categories were selected from three requests for disbursements. From those requests for disbursements, a total of six contractor and consultant invoices, including any related change orders, were selected for testing. • Determined whether selected expenditures were allowable, agreement-related, incurred within the agreement periods, and supported by reviewing the District's requests for disbursements, bank statements, construction and consultant contracts and invoices, and contract change order requests, and comparing to relevant criteria. • Evaluated whether other revenue sources existed and whether they were used to reimburse expenditures claimed under the agreements. Specifically, we interviewed key staff to confirm other funding sources and performed analytical procedures to ensure consultant and contractor invoices were not billed more than once. • Determined whether the District complied with procurement requirements by interviewing District staff, reviewing bid advertisements, Engineer's Construction Cost Estimates, Bid Sheets, Bid Results, and Notice of Awards, and comparing to relevant sections of the California Government Code and Public Contract Code.

Audit Objective	Methods
<p>Objective 2: To determine whether the project deliverables were completed as required in the agreements.</p>	<ul style="list-style-type: none"> • Based on our review of the deliverables identified in the agreements, we selected deliverables deemed significant to achieving the agreements' purposes and verified they were completed as required. • For Agreement D15-02031, deliverables were grouped into 10 categories, which contained a total of 40 tasks. Within six categories, we selected nine tasks and verified task completion by reviewing appropriate memorandums, drawings, before and after site photographs of test wells, SWRCB's Notice of Project Completion, the District engineer's Certificate of Project and Substantial Completion Report, and surveys. Specifically, we reviewed the following categories and tasks: <ul style="list-style-type: none"> ○ Hydrogeological Study: Summary of findings and recommendations in a technical memorandum. ○ Geotechnical Study: Summary of findings and recommendations in a technical memorandum. ○ Test Wells Specifications, Drawings, and Costs Estimates: Preliminary specifications and drawings for drilling and analysis of up to three wells. ○ Construction Easements, Utility Easements, and Site Surveys: <ul style="list-style-type: none"> ▪ Survey up to three well/facility sites. ▪ Survey water tank site and prepare topo map. ▪ Prepare plats and legal descriptions for temporary construction easements, utility easements, and well site purchase options, as needed. ○ Test Well Drilling and Analysis: Summary of test well observations, water quality data, pump test results, production well alternatives, and recommendations in a technical memorandum. ○ Alternative evaluations: <ul style="list-style-type: none"> ▪ Evaluate all feasible alternatives. ▪ Prepare preliminary drawings showing proposed facility locations. • For Agreement D17-02013, verified deliverables were completed by reviewing SWRCB's Final Inspection Report containing photos of the 150,000 gallon water tank with gooseneck vents, SCADA, two temporary tanks, and appurtenances and upgrades such as a fire hydrant, fencing, electric pole, and electrical upgrades that included a light switch and outlet; reviewing before and after photos of the old and replacement tanks through Google Earth; and SWRCB's Notice of Project Completion and Funding Inspection Reports, and the District engineer's Final Inspection Report. • Determined whether reporting requirements were met for both projects by reviewing the Project Completion Reports and comparing to the agreements' project completion reporting criteria.

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.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the claimed expenditures, excluding any SWRCB adjustments, complied with the agreements' requirements. However, we identified an area where the District could improve its administration management practices, as noted in Finding 1. Additionally, the District did not complete all the project deliverables required in the agreements, as described in Finding 2.

FINDINGS AND RECOMMENDATIONS

Finding 1: Improvement Needed for Professional Services Procurement

The District contracted with two professional services firms to provide construction management and/or engineering services for the projects; however, the District did not provide evidence that the selection was based on demonstrated competence and qualifications, as required. The District stated the engineering firm providing construction management and engineering services was selected by soliciting and obtaining recommendations from surrounding districts, and reviewing the recommended firms' resumes and credentials. The District was not aware of the legal requirements relating to the procurement of professional services. The District's review of only one candidate's qualifications omitted the evaluation of other potential candidates. Further, the engineering firm hired to perform hydrogeology and geotechnical studies was selected through an informal bid process. And while the District stated the evaluation to support the candidate selection was performed, including the review of resumes and discussing potential candidate qualifications, the evaluation was not documented as the District was managing other priorities. Additionally, the District does not have documented policies or procedures for the procurement of professional services.

California Government Code section 4526 requires local agency heads to select private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms for professional services on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required.

Contract administrative state laws exist to protect the public from misuse or waste of public funds, provide qualified service organizations with a fair opportunity, stimulate competition, and help prevent favoritism, fraud, and abuse in selecting firms for service. Additionally, securing professional services without confirmation of competence and qualifications increases the risk that bond funds may not be expended in the most prudent and economical manner, which may impact the quality and/or completion of the project deliverables.

Recommendations:

- A. Develop and implement policies and procedures to solicit, evaluate, and select candidates for professional services based on demonstrated competence and professional qualifications.
- B. Maintain documentation to support the selection of a particular candidate.

Finding 2: Incomplete Planning Project Deliverables

For Agreement D15-02031, the District did not fully complete the Planning, Specification, and Cost Estimates and the CEQA/NEPA Compliance deliverables by March 31, 2021, as required. Specifically, the final construction drawings and specifications, and estimated construction costs were not completed. Further, while the project was eligible for CEQA exemption status, the District did not file the required CEQA Notice of Exemption until September 20, 2021, nearly six months after the deadline. Nevertheless, SWRCB accepted the project as complete based on the depletion of Agreement funds, the understanding that the incomplete deliverables were to be funded through other sources, and the District's submission of the March 2, 2021 Project Completion Report which identified the incomplete deliverables. SWRCB stated the deliverables modifications were agreed upon by both parties; however, SWRCB and the District did not provide written documentation memorializing the agreement. Without written documentation to support approved agreement term modifications, the agreement may not be legally enforceable.

Agreement section 2.10 (c) (1), states prompt notification of any substantial change in the scope of work must be provided and no substantial change in scope of work will be undertaken until written notice of the proposed change has been provided to SWRCB and written approval received. Further, the Agreement's Amendment 4, Attachment A states all milestones must be achieved with relevant deliverables approved by SWRCB and the final invoice submitted prior to March 31, 2021.

Recommendation:

- A. Ensure all Agreement requirements are met and scope of work changes and approvals are documented.



Alleghany County Water District

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July 1, 2022

Kylie L. Ottman, CPA Assistant Chief
California Dept. of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

Response to the findings of Audit report No: 22-3940-036

Dear Ms. Ottman,

This letter is ACWD's formal response to the audit report referenced above. ACWD takes its responsibilities seriously and is pleased that its financial accounting and administrative record keeping was found to be substantially in compliance with the terms of both funding agreements.

Regarding finding number one: ACWD is in the process of drafting a policy and procedure for procurement of professional services for future use. The audit finding is informing the development and adoption of this policy and procedure.

Regarding finding number two: The failure to modify agreement D15-02031 to reflect the fact that the environmental work had to be shuttled to other programs for completion was an oversight on the part of both ACWD and the Dept. of Financial Assistance.

In hindsight, the scope of agreement D15-02031 was too broad for completion within the given budget constraints for planning projects. As of today, the environmental work is still in the process of being completed through Technical Assistance offered by the State Dept. of Financial Assistance's SAFER program.

ACWD is grateful for the assistance that it has and continues to receive via these State sponsored programs. Without such assistance it is unlikely that the district would be able to provide safe and affordable drinking water to the community of Alleghany.

ACWD appreciates the professionalism displayed by you and the other team members: Crystal Venneman and Yeng Xiong throughout the audit. We also appreciate your patience and understanding regarding the fact that our district does not have full-time office staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rae Bell Arbogast".

Rae Bell Arbogast
General Manager