



Clearlake Oaks County Water District

Proposition 1 Bond Program
Grant Agreement D17-040101

Report No. 24-3940-001
December 2023

Team Members

Cheryl L. McCormick, CPA, Chief
Rebecca G. McAllister, CPA, Assistant Chief
Marilyn Standing Horse, CPA, Assistant Chief
Zachary Stacy, Manager
Edwina L. Troupe, CPA, Supervisor
Kerri Nelson, CPA, Lead
Praney Nand

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

You can contact our office at:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985



December 22, 2023

Eileen Sobeck, Executive Director
California State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Final Report—Clearlake Oaks County Water District, Proposition 1 Grant Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Clearlake Oaks County Water District's grant D17-04010, issued by the California State Water Resources Control Board (SWRCB).

The enclosed report is for your information and use. The District's response to the report findings and our evaluation of the response are incorporated into this final report. The attachment noted in the District's response was removed for brevity. This report will be placed on our website.

If you have any questions regarding this report, please contact Zachary Stacy, Manager, or Edwina Troupe, Supervisor, at (916) 322-2985.

Sincerely,

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

cc: On following page

cc: Jonathan Bishop, Chief Deputy Director, California State Water Resources Control Board
Joe Karkoski, Deputy Director, California State Water Resources Control Board
David Maurer, Section Manager, Program/Division/Fiscal Support, Division of Financial Assistance, California State Water Resources Control Board
Stephanie White, Staff Services Manager I, Program Support Unit, Division of Financial Assistance, California State Water Resources Control Board
Seresa Hartwell, Program Support Analyst, Division of Financial Assistance, California State Water Resources Control Board
Christine Gordon, Assistant Deputy Director, Admin/OpCert Branch, Division of Financial Assistance, California State Water Resources Control Board
Josh Ziese, Chief, Admin/OpCert Branch, Division of Financial Assistance, California State Water Resources Control Board
Lance Reese, Section Manager, Admin/OpCert Branch, Division of Financial Assistance, California State Water Resources Control Board
Dianna Mann, General Manager, Clearlake Oaks County Water District
Stanley Archacki, Board of Directors President, Clearlake Oaks 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.¹

As part of the Clean Water State Revolving Fund (CWSRF) and Small Community Grant Fund (SCGF) programs, the California State Water Resources Control Board (SWRCB) awarded the Clearlake Oaks County Water District \$5,450,000 in Proposition 1 grant funds for the Wastewater Infrastructure Rehabilitation Project. Under federal and state law, the CWSRF program provides low-cost financing for eligible projects to restore and maintain water quality in the state.² The SCGF program helps small, disadvantaged communities that cannot afford a loan or similar financing move forward with water quality improvements.³

The grant provided funding to address the District's sewer collection system deficiencies. Specifically, the Project was intended to correct the excessive infiltration and inflow entering the collection system and operational problems with lift stations.⁴ A grant amendment was executed to redistribute budget line items, and extend the construction and agreement end dates. The Project is complete.

The District is an independent public agency established in 1949 under Water Code section 30000 with its own independent, elected Board of Directors. Its mission is to provide safe, high-quality drinking water to the community while maintaining a standard of excellence in customer service and environmental conservation.⁵

SCOPE

In accordance with our bond oversight responsibilities, the California Department of Finance, Office of State Audits and Evaluations, audited Grant Agreement D17-04010 for the period October 6, 2017 through August 11, 2021.

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

1. Claimed grant expenditures were in compliance with the grant agreement requirements.

¹ Excerpt obtained from <https://bondaccountability.resources.ca.gov/p1.aspx>.

² Excerpts obtained from:

https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/dwsrf_policy/final_policy_1219.pdf.

³ Excerpt from the CWSRF Intended Use Plan for fiscal year 2017-18.

⁴ Excerpt from Grant Agreement D17-04010.

⁵ Excerpt obtained from <https://www.clocwd.org/>.

2. Grant deliverables were completed as required in the grant agreement.

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

Schedule of Claimed Amounts

Cost Category	Claimed ⁶
Construction	\$ 5,066,219
Change Order Contingency	240,833
Construction Management	506,530
Allowances	704,122
Total Claimed Expenditures	\$ 6,517,704
Less SWRCB Adjustments	\$ 1,067,704
Total Adjusted Claimed Expenditures	\$ 5,450,000

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 grant 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 grant and respective bond program and identified relevant criteria by interviewing SWRCB, District, and project consultant personnel, and reviewing the grant agreement and amendment, Policy for Implementing the Clean Water State Revolving Fund (CWSRF Policy), District 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 project accounting, procurement, reimbursement request preparation, review and approval of project expenditures, change orders, and project monitoring. Our assessment included conducting interviews with District and project consultant personnel, observing processes, and testing transactions related to construction and consultant expenditures, contract procurement, and project deliverables.

Additionally, we assessed the reliability of data for vendor history reports from the District's accounting system, QuickBooks. To assess the reliability of reports generated by the QuickBooks system, we interviewed District personnel, reviewed information process flows, traced transactions to source documents, and reviewed system controls. We determined the data were sufficiently reliable to address the audit objectives.

⁶ The District claimed \$6,517,704 as of August 2021; however, the District was only reimbursed \$5,450,000, the amount awarded by SWRCB.

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.

Table of Methodologies

Audit Objective	Methods
<p>Objective 1: To determine whether the District's claimed grant expenditures were in compliance with the grant agreement requirements.</p>	<ul style="list-style-type: none"> • Selected items from the significant and/or high-risk cost categories to verify compliance with grant agreement requirements. Specifically, we selected expenditures from the Construction, Change Order Contingency, and Construction Management cost categories. • Determined if selected expenditures were allowable, grant-related, incurred within the grant period, and supported by accounting records, by reviewing the grant agreement and amendment, the District's invoices, canceled checks, construction/consultant contracts, rate sheets, change orders, consultant meeting minutes, and progress reports, and comparing to relevant criteria. • Evaluated whether other revenue sources existed and whether they were used to reimburse expenditures claimed under the grant agreement by interviewing District personnel and reviewing the District's vendor history reports, vendor invoices, reimbursement checks, and reimbursement requests to identify possible duplicate payments. • Determined whether the District complied with procurement requirements as follows: <ul style="list-style-type: none"> ○ Selected one construction contractor for each of the three project phases and interviewed District personnel, reviewed bid advertisements/notices inviting bids, instructions to bidders, bid packages, time-stamped documents, bid results, District staff reports, Board of Directors resolutions, and the executed construction contracts, and compared to relevant criteria. ○ Selected one engineering/consulting firm and interviewed District personnel, reviewed proposals, Board of Directors meeting minutes, and the engineering/consultant executed contracts, and compared to relevant criteria.

Audit Objective	Methods
<p>Objective 2: To determine whether the grant deliverables were completed as required in the grant agreement.</p>	<ul style="list-style-type: none"> • Based on our review of the project deliverables identified in the grant agreement, we selected project deliverables deemed significant to achieving the grant's purpose. Specifically, we reviewed the following: <ul style="list-style-type: none"> ○ Addition of new parallel Lift Station No. 7 pump station force-main ○ Lift Station No. 7 replacement - New submersible lift station ○ Lift Station No. 2 upgrades - New pumps, valves and controls ○ Lift Station Nos. 3, 4, 5, 6, 8, 9 improvements - New pumps, valves and controls ○ Headworks (minor modifications)- Connect force main and bypass valving ○ Secondary Effluent Pump station improvements - Includes new pumps and controls ○ Infiltration/inflow rehabilitation, including pipeline slip lining, grouting and replacements • Determined whether selected project deliverables were completed as required by conducting a site visit, and reviewing project drawings, photos, status reports, consultant presentation, and SWRCB's notice of construction completion. • Determined whether Status and Project Completion Reports were completed as required by reviewing the reports' content and comparing them to relevant 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 grant expenditures, excluding any SWRCB adjustments, complied with the grant agreement requirements, except as described in Finding 1. Additionally, we obtained reasonable assurance the grant deliverables were completed as required in the grant agreement, except as described in Finding 2.

FINDINGS AND RECOMMENDATIONS

Finding 1: Improvements Needed for Procuring Professional Services

The District was unable to demonstrate whether it procured professional services based on demonstrated competence and qualifications pursuant to a fair and competitive process. Specifically, the District did not solicit proposals for professional engineering and construction management, nor did it sufficiently document whether the professional services contractor had the necessary qualifications to complete the project.

The District's Grant Financial Management Policy and Procedures incorporates the federal requirement option to use competitive proposal procedures for qualifications-based procurement of professional services. According to the District, it chose a non-competitive procurement method because the services could only be provided from a single source due to the firm's unique knowledge of the District's needs and past completed District projects. While the District's Board of Directors executed the contract for professional services in accordance with its Grant Financial Management Policy and Procedures, the District's policies do not incorporate all the procurement procedures required by the grant agreement and CWSRF Policy.

Section 4.5 of the grant agreement states that the recipient shall comply with all applicable federal and state laws, rules, guidelines, regulations, and requirements. Government Code section 4526 requires local agency heads to select private engineering or construction management firms based on the demonstrated competence and professional qualifications necessary for the satisfactory performance of the services required. Further, Government Code section 4529.12 states all architectural and engineering services shall be procured pursuant to a fair, competitive selection process. CWSRF Policy requires applicants using professional service providers to base service provider engagements on demonstrated competence and qualifications and requires applicants to comply with all state laws.

Contract administrative laws exist to protect the public from misuse or waste of public funds, provide qualified service organizations with fair opportunity, stimulate competition, and help eliminate favoritism, fraud, and abuse in selecting firms for service. Additionally, securing professional services without confirmation of competence and qualifications increases the risk that public 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, document, and implement additional procurement procedures for professional services to solicit, evaluate, and select candidates based on demonstrated competence and professional qualifications to ensure a fair and competitive process. In the future, if a previously contracted firm is eligible to complete new professional service activities, perform and document a re-evaluation of the firm's competence and professional qualifications.
- B. Ensure procurement requirements are followed and maintain documents to support the rationale for selecting a particular candidate for professional services.

Finding 2: Reporting Requirements Not Met

The District's quarterly Status Reports submitted to SWRCB did not include its compliance with environmental requirements or a complete description of change orders, and the District did not submit a Project Completion Report. The District stated it was unaware of the grant reporting requirements. Additionally, SWRCB processed the District's final disbursement request even though a Project Completion Report had not been submitted.

Section 2.15 (a) of the grant agreement amendment and CWSRF Policy requires the submission of quarterly Status Reports that contain certain information, including a description of compliance with environmental requirements and a listing of change orders including amount, description of work, and change in contract amount and schedule.

Section 2.15 (b) of the grant agreement amendment and CWSRF Policy requires the submission of a Project Completion Report that contains certain information, on or before the due date established at the time of final project inspection. If a Project Completion Report is not timely submitted, SWRCB may not process pending or future applications for new financial assistance, withhold disbursements under the agreement or other agreements, and begin administrative proceedings. CWSRF Policy further states that the final disbursement request will not be processed until the Project Completion Report is submitted.

Without the satisfactory completion of quarterly Status Reports or the submittal of a Project Completion Report, SWRCB cannot effectively monitor the project status or evaluate whether the Project's purpose was met.

Recommendations:

- A. Work with SWRCB to determine whether a Project Completion Report should be submitted retroactively.
- B. Develop and implement processes to ensure all grant reporting requirements are met.



Clearlake Oaks County Water District

P.O. Box 709 / 12952 East Highway 20
Clearlake Oaks, CA 95423
Office: (707) 998-3322 Fax: (707) 998-1245
Website: www.clocwd.org

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814

RE: Clearlake Oaks County Water District
Proposition 1 Bond Program
Grant Agreement D17-04010
Report No: 24-3940-001

Department of Finance,

First, I would like to express my appreciation to the team members, especially Edwina Troupe, Kerri Nelson, and Praney Nand for their professionalism and thoroughness.

Even though an audit is extremely demanding and time consuming, I will look at this opportunity as a learning experience that will allow the District to perform the tasks set forth by future State funding agreements with more confidence.

The following shall serve as a response from the District to the two findings found by the audit.

Finding 1: Improvements Needed for Procuring Professional Services

With respect to sole sourcing MC Engineering, we would like to emphasize that, in addition to completing the related SWRCB project planning work prior to construction in the amount of \$499,290.00, MC Engineering did take part in a competitive proposal process for an inter-related project at the District's Wastewater Treatment Plant that was funded by USDA for which the prior CLOCWD General Manager received multiple proposals from other firms. Because the USDA work was directly related to the SWRCB funded project, it was verbally discussed by the District and State that it would be in the best interest of time and money to allow MC Engineering to continue with the SWRCB Project due to the fact the USDA funded project included use of prior technical knowledge concerning the hydraulics at the new lift station 7, the related force main, wet weather peak flow characteristics at the plant, and related operational requirements. The tail end of the USDA funded work at the Wastewater Treatment Plant was in construction concurrent with the SWRCB funded project, thus providing economy of scale for related field services and materials testing. These conditions, combined with the very competitive billing rates provided by the MC Engineering team's planning, design, and construction management, leveraged all inter-related knowledge to streamline the SWRCB project. It should also be noted that this streamlining was considered essential as the

Stanley Archacki
President

Michael Herman
Vice President

Samuel Boucher
Director

James Burton
Director

William McHugh
Director

new force main, in particular, was designed and constructed under **emergency conditions** that proved to be critical due to the recurring flooding and need for the project immediately after construction that were experienced in 2019. In the absence of this “streamlining” the resulting delays could have resulted in extreme water quality violations and discharges to Clear Lake during the 2019 floods where the new forcemain played a critical role.

The District absolutely agrees with the protection of the public from misuse or waste of public funds, to provide a qualified service organization with fair opportunity, stimulate competition, and help eliminate favoritism, fraud, and abuse in selecting firms for service. I would like to reiterate that MC Engineering’s involvement with both projects, along with the completion of the study and USDA work at the WWTP prior to construction, saved thousands of dollars which would have been spent educating a new engineering firm.

Finding 2: Reporting Requirements Not Met

Section 2.15 (a): All change orders were approved by State prior to execution. Not including each change order in the quarterly report was an oversight by the District. Regarding environmental requirements, all approved change orders were on existing equipment or infrastructure and was already covered under the original environmental study.

Section 2.15 (b): The Project Completion Report has been created by MC Engineering in the form of a Powerpoint presentation. I will work with the SWRCB team to ask if they can accept it electronically. In addition to the presentation, regular correspondence was maintained by the Project Engineer throughout construction, and upon completion with our designated State Engineer, Guy Childs. An example of the correspondence between the Engineer and Mr. Childs of the RWQCB provided toward the end of construction is included herewith.

In closing, I would like to reiterate that the District will treat this audit as a learning experience and will diligently work on implementing all the recommendations in future grants.

Sincerely,



Dianna Mann
General Manager
Clearlake Oaks County Water District
d.mann@clocwd.org

The District's response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge the District's willingness to implement our recommendations, and in evaluating the District's response, we provide the following comments:

Finding 1: Improvement Needed for Procuring Professional Services

In their response, the District states that due to the emergency conditions from reoccurring flooding, the District leveraged the professional services contractor's knowledge of the District's prior related projects to reduce delays in addressing extreme water quality violations. The District further states that employing the contractor saved thousands of dollars and had been verbally discussed with SWRCB. However, the District did not sufficiently address all state requirements, as detailed in the finding. Therefore, the finding and recommendations remain unchanged.

Finding 2: Reporting Requirements Not Met

The District agrees with the finding and will work with SWRCB to retroactively submit a Project Completion Report. While the District acknowledged a Project Completion Report was not submitted, they noted regular correspondence occurred between the project engineer and the Central Valley Regional Water Quality Control Board and provided an example. However, since not all reporting requirements were met, the finding and recommendations remain unchanged.