



OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

THE BUREAU OF RECLAMATION'S COOPERATIVE AGREEMENT No. RI6AC00087 WITH THE PANOCHÉ DRAINAGE DISTRICT

This is a revised version of the report prepared for public release.



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INSPECTOR GENERAL
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Memorandum

JUL 12 2018

To: Brenda Burman
Commissioner, Bureau of Reclamation

From: Mary L. Kendall 
Deputy Inspector General

Subject: Final Audit Report – The Bureau of Reclamation’s Cooperative Agreement No. R16AC00087 With the Panoche Drainage District Report No. 2017-WR-048

At the request of the Bureau of Reclamation (USBR), we audited Cooperative Agreement No. R16AC00087 between the USBR and the Panoche Drainage District.¹ This agreement was awarded under the statutory authority of the San Luis Act of 1960 (Pub. L. No. 86-488 § 5) to fund operation and maintenance of the San Luis Demonstration Treatment Plant (Demo-Plant) located in the San Luis Unit of California’s Central Valley Project. The purpose of the Demo-Plant is to remove salts and selenium from agricultural drain water in the San Joaquin River Water Quality Improvement Project area. The period of performance for this agreement is June 14, 2016, through December 31, 2018.

The USBR awarded the cooperative agreement on June 14, 2016, for \$4.2 million. The agreement was modified three times, and at the time of our audit, amounted to \$4.38 million. As of October 10, 2017, the USBR had paid \$1.23 million to the District. We audited \$772,974 in costs claimed by the District for the period June 14, 2016, through May 4, 2017, and questioned \$213,891, detailed in the “Results of Audit” section of this report.

This is the second in a series of reports about the Demo-Plant. On November 27, 2017, we issued a management advisory about funding changes and preliminary audit findings and made three recommendations to increase the USBR’s oversight of the cooperative agreement. We anticipate the third report will focus on the USBR’s involvement and management of the Demo-Plant.

Background

The San Luis Act of 1960 requires the USBR to provide drainage services² to water districts in the San Luis Unit of the Central Valley Project. The USBR initially attempted to provide drainage services through the San Luis Drain, but it was shut down in 1985 due to the

¹ The Panoche Drainage District is a subentity of the Panoche Water District, so we use the term District interchangeably throughout the report to reference either entity.

² Needed because the area’s soil condition causes irrigation water to settle near the surface, resulting in high levels of salts remaining near crop root zones, which reduces crop productivity.

negative effects on wildlife at Kesterson Reservoir in the San Luis National Wildlife Refuge. Shortly afterward, as recourse for losing adequate drainage services, water districts began filing Federal lawsuits. In a 2000 lawsuit, the U.S. Court of Appeals for the Ninth Circuit reconfirmed the USBR's obligation to provide drainage services under the San Luis Act of 1960, but allowed the USBR to determine the method.

In 2007, the USBR signed a record of decision on the San Luis Drainage Feature Re-evaluation Environmental Impact Statement. This document identifies various solutions for drainage through such methods as land retirement, evaporation ponds, and water treatment. The estimated cost to address the selected methods exceeded the USBR's appropriation amount, so the USBR decided to take some action to provide drainage services while it pursued legislative changes to its drainage service obligations. We were told that building the Demo-Plant in the District service area was part of that action and also a way to visibly demonstrate to the U.S. Court of Appeals that the USBR was making progress in providing drainage services, while also allowing the USBR to try various water treatment processes to make the San Luis Unit's water more usable. The USBR included the Demo-Plant in its action plan to the U.S. Court of Appeals, thus becoming part of the USBR's official efforts to comply with the San Luis Act of 1960.

In 2012, the USBR awarded a construction contract for the Demo-Plant. As part of this contract, the Demo-Plant was supposed to operate at a level sufficient to evaluate the water quality and determine which treatment process provided the greatest benefit. The Demo-Plant was completed in 2014, but did not operate properly due to faulty design. To continue showing progress to the U.S. Court of Appeals, in accordance with its action plan, the USBR moved to get the Demo-Plant staffed and operating. When the initial attempt to put an operation and maintenance service contract in place failed, the USBR hurried to get a cooperative agreement in place.

On June 14, 2016, the USBR awarded Cooperative Agreement No. R16AC00087 to the District for \$4.2 million, which was later increased to \$4.38 million. Almost immediately after being awarded the cooperative agreement, the District contracted the responsibilities for administering the agreement to Summers Engineering, Inc., and most of the staffing and operation responsibilities to AECOM. As of October 10, 2017, the cooperative agreement had been modified three times, with the third modification putting the District on agency review³ for payment disbursement following a January 2017 California State Controller's report. This January 2017 report identified numerous deficiencies related to possible violations of State government code and penal code and weaknesses in the District's accounting and administrative controls system.

Objective

The objective of this audit was to determine whether the costs claimed under the cooperative agreement were allowable under applicable Federal laws and regulations, allocable to the agreement, incurred in accordance with its terms and conditions, and reasonable and supported. Attachment 1 provides our audit scope and methodology.

³An agency review is when the USBR reviews and approves costs prior to payment.

Results of Audit

Of the \$772,974 in claimed costs for the period June 14, 2016, through May 4, 2017, we identified \$20,077 as unsupported and \$193,814 as unallowable, for a total of \$213,891 in questioned costs. A summary of the claimed, unsupported, unallowable, and total questioned costs by category is shown in Figures 1 and 2. We based our determination of questioned costs on our audit of the District's invoices and supporting documentation. We identified costs as unsupported when documentation was insufficient or when we determined they were excessive or unjustified under the terms of the cooperative agreement or the District's contracts with third-party contractors (Summers Engineering, Inc., and AECOM). We identified costs as unallowable when we determined that they were not allowable under the terms of the cooperative agreement, the District's contracts with third-party contractors, or applicable provisions of the Code of Federal Regulations' uniform grant guidance (2 C.F.R. part 200).

Category Description	Claimed Costs	Unsupported Costs	Unallowable Costs	Total Questioned Costs	Notes
Operator payroll	\$197,639	\$468	\$26,413	\$26,881	1
Admin/support staff payroll	46,407				2
Equipment and materials	84,179	630	382	1,012	3
Travel	6,011	108	5,903	6,011	4
Summers Engineering	26,804		26,804	26,804	5
Supplies and site services	40,187	2,199	1,092	3,291	6
Technical training and related travel	801		801	801	7
AECOM	\$370,946	\$16,672	\$105,092	\$121,764	8 – 10
Total costs	\$772,974	\$20,077	\$193,814	\$213,891	

Figure 1. The District's total claimed, unsupported, and unallowable costs under Cooperative Agreement No. R16AC00087 from June 14, 2016, through May 4, 2017. There are minor number variances in the totals due to rounding.

Notes

1. District Operator Payroll – Unsupported Costs of \$468 and Unallowable Costs of \$26,413

The District claimed \$197,639 in payroll for the Demo-Plant operators. We questioned a total of \$26,881, of which we classified \$468 as unsupported because work hours were incorrectly recorded, and \$26,413 as unallowable because of unapproved leave advances, errors in work hours billed versus work hours recorded, overtime billed more than the amount authorized, and overcharges to wages and fringe benefits.

In addition, we found that the District's employee timecards were consistently missing electronic timestamps and supervisory approvals. For example, on one invoice we found 55 percent of the daily entries on the timecards were missing at least one electronic timestamp, and 88 percent of the handwritten or missing entries did not have documented supervisory approvals. According to a memorandum dated February 15, 2016, the District only required employee timecards to be approved by a supervisor if they were missing electronic timestamps. Even though we noted one of the Demo-Plant operators signing off on another operator's timecards, we did not consider this in compliance with the memorandum. Further, the timecards did not begin to have supervisory signatures until January 2017, almost a year after the memorandum was issued.

2. District Administrative Payroll – Unallowable Costs of \$ [REDACTED]

The District claimed \$46,407 in payroll for two administrative staff. Of this amount, we questioned \$ [REDACTED] for the special projects coordinator's pay billed to the cooperative agreement and the district liaison's portion of pay that exceeded part-time status. We classified these costs as unallowable because the cooperative agreement did not authorize the special projects coordinator position; it only authorized specified administrative positions on a part-time basis. We considered the district liaison position to be permitted on a part-time basis because it seemed to be a reasonable substitute for one of the administrative positions (a finance or personnel manager) authorized in the cooperative agreement.

In addition, we found other aspects of the special projects coordinator and district liaison positions to be questionable. For instance, payroll for these positions was based on annual salary rather than actual hours worked and their timecards did not match the hours claimed. Further, the special projects coordinator did not record time based on actual projects worked. Rather, all of his time was recorded on his timecards as Demo-Plant time even though we were told he worked on other projects.

3. District Equipment and Materials – Unsupported Costs of \$630 and Unallowable Costs of \$382

We questioned \$1,012 of the \$84,179 the District claimed for the purchase of Demo-Plant equipment and materials. Of the amount questioned, we classified \$630 for chemical container deposits as unsupported costs because we were unable to reconcile these deposits with the vendor's records provided to us. In addition, we classified \$382 as unallowable because there was a duplicate charge for a hammer, and chemical container return credits were mistakenly paid instead of credited to the appropriate accounts.

4. District Travel – Unsupported Costs of \$108 and Unallowable Costs of \$5,903

We questioned the entire \$6,011 the District claimed for travel expenses. Of this amount, we classified \$108 for mileage to commute to and from the Demo-Plant in a personal vehicle as unsupported because the receipt provided no supporting documentation. In addition, we classified \$5,903 for mileage to commute to and from the Demo-Plant in a U.S. Government-furnished vehicle as unallowable because mileage for commuting in a

Government-furnished vehicle is not allowed under Federal regulations (2 C.F.R. §§ 200.431(f), 200.445(a)).

5. Summers Engineering – Unallowable Costs of \$26,804

We questioned the entire \$26,804 that the District claimed in consultant fees for Summers Engineering to administer the cooperative agreement. The fees were comprised of salaries, travel, and overhead-related expenses (e.g., mileage, computer time, photocopying, and telephone use). We classified these costs as unallowable because the service agreement between the District and Summers Engineering was not competed as stipulated in the cooperative agreement and as required by procurement standards, including Federal and State regulations (2 C.F.R. §§ 200.317, 200.319, 200.320; and Public Contract Code 10335.5(c)). In addition, a conflict of interest exists between the District and Summers Engineering because the main Summers Engineering consultant charging to the cooperative agreement was also listed in official documents as the District’s agent, meaning that the employee can act on behalf of the District. As the agent of the District, in addition to having personal conflicts of interest with the District, Summers Engineering should have been excluded from participating in the selection, award, and administration of the cooperative agreement (2 C.F.R. §§ 200.318, 200.319(a)(5)).

In addition, as discussed further in the “Other Noted Items” section, the consultant from Summers Engineering did not demonstrate the skills or qualifications necessary to efficiently and effectively administer the cooperative agreement. The consultant, a [REDACTED] admitted on several occasions that he was unfamiliar with proper accounting practices and procedures and suggested that grants management training would be helpful. Further, his resume reflected that he was not qualified for managing grant compliance. The USBR had to send repeated requests to the District to revise its invoices because of errors and improper charges made by the consultant.

6. District Supplies and Site Services – Unsupported Costs of \$2,199 and Unallowable Costs of \$1,092

We questioned \$3,291 of the \$40,187 the District claimed for Demo-Plant supplies and services. Of the amount questioned, we classified \$1,846 for telephone services, alarm software support, janitorial services, pump repair, hardware supplies, and general office supplies as unsupported because the vendor invoices or receipts did not show that these purchases were for Demo-Plant operations. In addition, we classified \$353 for computer repair services as unsupported because there was no basis for the allocation of costs between the Demo-Plant and the District office. Further, we classified \$1,092 for late charges and overcharges, first aid supplies, breakroom supplies, and staff clothing as unallowable because the costs associated with these purchases were either not allowable per Federal regulations or not authorized in the cooperative agreement. For example, Federal regulations (2 C.F.R. § 200.441) do not allow late charges, which totaled almost \$34, and the cooperative agreement did not authorize breakroom supplies for personal use, which totaled \$309.

7. District Technical Training and Related Travel – Unallowable Costs of \$801

The District claimed \$801 for first aid and other technical training, which included related travel costs. We questioned the entire amount and classified the costs as unallowable because the cooperative agreement did not authorize the type of training claimed. The agreement specifically authorized training for only one kind of operator certification.

As summarized in Figure 1, AECOM claimed \$370,946 in costs for the period June 14, 2016, through May 4, 2017. Of these claimed costs, we identified \$16,672 as unsupported and \$105,092 as unallowable, for a total of \$121,764. See Figure 2 below for the specific category descriptions and related notes.

Category Description	Claimed Costs	Unsupported Costs	Unallowable Costs	Total Questioned Costs	Notes
Employee payroll	\$254,573	\$ [REDACTED]	\$101,373	\$104,983	8
Equipment and materials	100,361	7,477	320	7,797	9
Travel	16,013	5,585	3,399	8,984	10
Total costs	\$370,946	\$16,672	\$105,092	\$121,764	

Figure 2. AECOM’s total claimed, unsupported, and unallowable costs under Cooperative Agreement No. R16AC00087 from June 14, 2016, through May 4, 2017. There are minor number variances in the totals due to rounding.

8. AECOM Employee Payroll – Unsupported Costs of \$ [REDACTED] and Unallowable Costs of \$101,373

The District claimed \$254,573 for payroll costs charged by AECOM. We questioned a total of \$104,983, of which we classified \$ [REDACTED] of the plant manager’s time charged on Fridays as unsupported because the plant manager told us he did not work at the Demo-Plant on Fridays, and both the AECOM contract and the cooperative agreement only authorized his position at about 32 hours or 4 days per week. In addition, we classified \$101,373 for employee payroll as unallowable because AECOM charged for multiple positions that were not authorized in its contract or the cooperative agreement and hours claimed for authorized positions exceeded the amounts stipulated in the AECOM contract and the cooperative agreement.

9. AECOM Equipment and Materials – Unsupported Costs of \$7,477 and Unallowable Costs of \$320

We questioned \$7,797 of the \$100,361 the District claimed for equipment and materials purchased by AECOM. Of the amount questioned, we classified \$7,133 as unsupported because invoices were missing or the provided documentation had no item description, did not provide the actual cost, or did not indicate the purchase was for Demo-Plant operations. In addition, we classified \$344 as unsupported because we were unable to

reconcile chemical container deposits with the vendor's records provided to us. Further, we classified \$320 as unallowable because a fuel system repair was performed prior to the execution of the AECOM contract, which means AECOM had no authority at the time to incur costs on behalf the District.

10. AECOM Travel – Unsupported Costs of \$5,585 and Unallowable Costs of \$3,399

We questioned \$8,984 of the \$16,013 the District claimed for AECOM travel, which included airfare, hotel, rental car, and mileage. Of the amount questioned, we classified \$5,585 for mileage and toll charges as unsupported costs because no original support or details were provided. In addition, we classified \$723 for personal snacks and rental car charges as unallowable because purchases of personal items were not considered a necessary expense under the cooperative agreement, and the rental car rates appeared to be in excess of market price. AECOM allowed employees to use its company vehicles to drive to the Demo-Plant, but charged a rental rate of \$90 per day plus fuel. No specially equipped vehicle was needed for the commute, so a compact or equivalent economy vehicle would have been adequate. A simple search of rental car rates in the area from a public travel site showed rental car rates at about half the rate charged by AECOM. We also classified \$2,676 in mileage charges as unallowable because the employee's position associated with the charge was not authorized in the cooperative agreement.

Other Noted Items

Invalid and Missing Single Audits

The USBR uses the financial assistance recipient's single audits to determine risk for award and for oversight purposes. In addition, the C.F.R., pursuant to the Single Audit Act Amendments of 1996 (Pub. L. No. 104-156), requires that non-Federal recipients who expend \$750,000 or more during their fiscal year must have a single or program-specific audit conducted (2 C.F.R. § 200.501(a)).

At the time of our review, two of the last three single audits the District filed were not valid, and no single audit was filed for the last reporting cycle (ended June 30, 2016). The single audits were not valid because the certified public accountant (CPA) firm that the District employed to perform its single audits was on probation with the California Board of Accountancy, and thus did not have authority to practice public accounting when it signed audit reports for the District.⁴ Further, the District has repeatedly filed single audits late, and did not provide a reason for filing the most recent single audit late.

We issued the USBR a Notification of Potential Findings and Recommendations on August 23, 2017, advising it to review the remedies for noncompliance as provided in the "Uniform Grant Guidance" (2 C.F.R. § 200.338) and take appropriate action against the District.

⁴ According to the board, a CPA firm does not have the authority to practice when its license is invalid, and the firm in question did not have a valid license to practice when it signed the audit reports. We determined that the single audit reports for June 2014 – June 2015 (signed March 28, 2016) and June 2012 – June 2013 (signed January 24, 2014) were invalid based on the firm's status to practice. The single audit for June 2013 – June 2014 would also be invalid if the audit work was performed during the CPA's license delinquency period, but we did not confirm the timing of the work.

Unreliable Financial Records

The USBR documented that the District had an adequate accounting system and was qualified and eligible to receive an award, and then used this documentation in its determination that the District was “low risk” and did not need enhanced oversight. We found the District’s financial records, however, to be unreliable. For example, two of the four accounts the District created for this project were property and equipment asset accounts, which is incorrect since the District does not own any of the capitalized property or assets related to the Demo-Plant. In addition, the general ledger accounts appeared to be newly created, were incomplete, and contained inappropriate transactions. Further, even though the District had submitted invoices for charges incurred in June 2017, the last entry in the project expense account had a transaction date of April 17, 2017, which indicates that even the District was not relying on its own accounting records.

In addition to being unreliable, the District’s financial records did not comply with Federal regulations, which require that the financial management system of each non-Federal entity be sufficient to establish that funds have been used according to applicable Federal statutes, regulations, and the terms and conditions of the Federal award (2 C.F.R. § 200.302). The District’s financial system did not meet this regulation. At the time of our review, the USBR had reimbursed \$772,974 in costs, but the expense account for the project had only recorded \$393,665 in transactions. The District’s incomplete and inaccurate accounting system also failed to comply with the Federal regulation (2 C.F.R. § 200.302) that mandates the system have the following:

- Accurate, current, and complete disclosure of the financial results of each Federal award
- Records that adequately identify the source and application of funds for federally funded activities
- Effective control over, and accountability for, all funds, property, and other assets
- Written procedures for determining allowability of costs in accordance with 2 C.F.R. §§ 200.400 – 200.475

Absence of Clearly Written Accounting Policies and Procedures

In March 2017, the District adopted written accounting policies and procedures in response to the Controller’s January 2017 report, which found that the District had no comprehensive, written accounting policies and procedures manual. We found the new policies and procedures to be inadequate because they are not detailed enough for a person to understand how to perform the duties stipulated, especially for untrained personnel. Below we discuss the District’s policies and procedures for purchasing, payroll, and grants management as examples of this problem.

Purchasing. The policy and procedures related to purchasing provide no guidance on

how to procure items. There is no reference to researching purchases, bidding, open competition, or other procurement options. The only detail provided pertains to handling purchase orders and paying invoices in a general sense, including controls over forms, completion and approval, and tracking for payment purposes. In addition, there is no mention of how to ensure purchases meet District, Federal, and State requirements.

While the new policies were adopted after the cooperative agreement was awarded, we found the purchase policy in place at the time of the cooperative agreement's execution to be inadequate (Resolution No. 400-93, dated January 12, 1993). This policy consists of informal and formal bidding procedures, including exceptions to such bidding procedures, but does not contain sufficient detail about purchases made without competition, and it conflicts with State and Federal regulations on competition. Federal regulations require that all procurement transactions be conducted in a manner providing full and open competition (2 C.F.R. § 200.319) and only permit noncompetition when certain circumstances apply (2 C.F.R. § 200.320). State regulations on the competition of contract services require that consulting services contracts be competed with limited exemptions (Public Contract Code 10335.5(c)). We also found that the policy does not include procedures to ensure that purchase transactions have clear and accurate descriptions of the technical requirements for materials, products, or services being acquired, and does not identify all bidder requirements.

Payroll. The payroll policy only contains two sentences stating that the payroll clerk will determine payroll amounts and prepare payroll checks, and the procedures only address payroll timing, timecard completion and approvals, and pay rates in a general sense. Neither mentions the use of timecard stamping machines, handwritten time coding, how corrections to time coding should be made or reviewed, or how supervisors should document the review and approval of employee timecards. In addition, the procedures do not address employee benefits (e.g., leave, fringe, or retirement contributions) or methods for processing, tracking, and paying payroll taxes, insurance, and employee benefit programs. Further, the procedures state that future pay rates and raises would be presented to the Board of Directors for approval, but nothing is documented regarding how pay rates and raises are determined at the outset and no structured approach to pay rates was established.

According to the District's payroll clerk, the District had no comprehensive written accounting policies and procedures prior to those established in 2017. Rather, the payroll clerk received only oral communication and direction from the District's former general manager and former office manager. The only written documentation on payroll is a 1-page memorandum on time reporting, dated February 15, 2016. The only other written policies are employee vacation and sick leave policies, dated December 20, 2016, and July 1, 2015, respectively. These leave policies, however, are not detailed enough to be clearly and consistently implemented, and the payroll clerk communicated that she implemented them differently than stipulated.

Grants Management. The policy and procedures for grants management are written in such a way that the District cannot maintain internal control. The policy and procedures are focused on two positions, one of which is filled by a third-party consultant, and are not detailed enough for any person to understand how to perform the duties stipulated.

Reliance on an outside consultant to oversee, designate, approve, and maintain internal accounting actions is not standard practice. Accounting standards emphasize management taking responsibility for management decisions. The delegation of the management decisions for all grants to an outsider shifts not only the responsibility, but also the authority outside of the District, removing internal controls.

Further, the policy and procedures related to grants management are too general for any person to understand how to perform his or her duties, especially an untrained employee. Both persons occupying the positions designated in the guidance as responsible for financial and grants management did not have the experience or training necessary to do the job. For example, the consultant stated on multiple occasions that he was not an accountant.

Employee Personal Use of District Vehicles

In November 2016, the District enacted policy stating that vehicles would no longer be available for personal use in response to the Controller's finding that highlighted the inappropriate use of District-owned vehicles for the personal benefit of its employees. It remains a problem, however, because the District now provides money in lieu of vehicles for the same purpose. On September 18, 2017, the District issued a revised policy on the use of District-owned or -leased vehicles and use of District fuel for personal vehicles. The District determined that some employee positions were no longer eligible to have district vehicles for "take home assignment," and affected employees received a \$2,500 annual pay increase to help offset the burden of providing their own transportation. In addition, the policy prohibits District employees from using District fuel for personal vehicles, so employees received a \$1,500 annual pay increase to help offset the burden of purchasing their own fuel.

The Controller's assertion that "the district's practice of appropriating public money for the purposes of making personal loans to employees is a possible violation of Government Code section 8314 and Penal Code section 424" still applies. In addition, Federal law does not allow or support the claim of commuting as an official travel expense. The District's action to pay employees stipends to cover personal commuting costs appears to conflict with both Federal and State regulations and undoes the corrective action submitted and accepted by the Controller to resolve its findings. Commuting is not defined as official business at either the State or Federal levels. Further, the District's Code of Conduct policy, dated February 14, 2017, prohibits the use of funds for anything other than official business.

Questionable Qualifications of District Employees

We found that several District employees involved in the administration of the cooperative agreement or operation of the Demo-Plant were not qualified. The District's former acting general manager acknowledged that employee competence was an issue, and the reason for the District's adoption of new policies and procedures and termination of select employees. While we did not question costs related to the unqualified personnel, below are some examples that we want to bring to the USBR's attention.

- Operator [REDACTED] did not have either of the certifications stipulated as required in the cooperative agreement, but he did appear to meet the experience requirements.

- Operator [REDACTED] met the certification requirements stipulated in the cooperative agreement, but did not meet the minimum 2-year experience requirement until a full year after the cooperative agreement was awarded.
- The former [REDACTED], who was responsible for performing accounting duties, did not appear to have any formal accounting education. [REDACTED] absence of job qualifications was evident from [REDACTED] creation of the substandard general ledger accounts and [REDACTED] improper management of the financial records. [REDACTED] has since been charged by the Attorney General of the State of California for embezzlement and misappropriation of public funds, among other charges.
- The [REDACTED] had very little experience with payroll activities, and she told us that all her training had been provided while working for the District for the last 3 years. Her absence of job qualifications was evidenced by the fact that she provided us with conflicting information regarding written policies. In addition, we found numerous errors in the wages, fringe benefits, and leave computations billed to the USBR.
- The [REDACTED] had no formal education or training in financial management, and we question his qualifications for performing grants management activities. His position, however, made him responsible for working with the District's consultant to ensure grant moneys were spent in accordance with the provisions of the agreement, reviewing vendor invoices to ensure purchases were allowable under the agreement's parameters, coordinating with the office manager on the timing and amount of payment requests, and maintaining vendor invoices and supporting documentation. His absence of job qualifications was apparent by the errors we identified in the billings related to the cooperative agreement.

Questionable Wage Rates Awarded Under the Cooperative Agreement

We did not find the wage rates awarded under the cooperative agreement to be reasonable or justified. In a review of data from the Bureau of Labor Statistics (BLS) that the USBR used to determine the wage rates were acceptable, we found that all but two of the positions were awarded pay rates in the top quarter percentile of the national wage range, with two of the positions being paid within the top 90 percent of the national wage range for their identified positions. When the national rates were adjusted for the local area, all the wages were in the top quarter of the wage range and three positions exceeded 100 percent of the wage range. Other comparisons against BLS estimates for local government wages show the hourly wages for the Demo-Plant positions exceed, in all but one case, the local government mean wage by an average of \$9.74 per hour.

Although not formally documented in the USBR cost analysis, we were told that part of the reason for the higher wages was the need for special certifications for Demo-Plant operators, but only one operator met the minimum qualifications required by the cooperative agreement. Given that BLS wage data already include hazard and incentive pay, any argument that the employees were positioned higher on the pay scale due to the remote location is not supportable.

Further, it would seem reasonable to award premium pay rates for personnel with superior qualifications, but as documented above, we did not find this to be the case.

Recommendations

As of May 4, 2017, the costs claimed by the District for Cooperative Agreement No. R16AC00087 were \$772,974. We identified \$193,814 as unallowable and \$20,077 as unsupported, for a total of \$213,891 in questioned costs.

We recommend that the USBR:

1. Resolve the unsupported Demo-Plant operator payroll costs of \$468
2. Resolve the unallowable Demo-Plant operator payroll costs of \$26,413
3. Resolve the unallowable District administrative payroll costs of \$ [REDACTED]
4. Resolve the unsupported District equipment and materials costs of \$630
5. Resolve the unallowable District equipment and materials costs of \$382
6. Resolve the unsupported District travel costs of \$108
7. Resolve the unallowable District travel costs of \$5,903
8. Resolve the unallowable Summers Engineering costs of \$26,804
9. Resolve the unsupported District supplies and services costs of \$2,199
10. Resolve the unallowable District supplies and services costs of \$1,092
11. Resolve the unallowable District technical training and related travel costs of \$801
12. Resolve the unsupported AECOM employee payroll costs of \$ [REDACTED]
13. Resolve the unallowable AECOM employee payroll costs of \$101,373
14. Resolve the unsupported AECOM equipment and materials costs of \$7,477
15. Resolve the unallowable AECOM equipment and materials costs of \$320
16. Resolve the unsupported AECOM travel costs of \$5,585
17. Resolve the unallowable AECOM travel costs of \$3,399

Prior to awarding any additional funding, we recommend that the USBR require the District to take action to comply with State and Federal regulations. The USBR should require the District to, at a minimum, take the following actions:

18. Complete all required single audits to standards and verify prior single audits are valid
19. Implement an accounting system in accordance with professional standards that meets applicable Federal regulations and adequately accounts for Federal funds
20. Develop detailed written accounting policies and procedures
21. Ensure its policy on official use of District vehicles and related pay increases complies with State requirements
22. Demonstrate that individuals are qualified for assigned duties and responsibilities

The Acting USBR Commissioner and Assistant Secretary for Water and Science responded to our draft report on May 9, 2018, and concurred with our recommendations (see Attachment 2).

While the USBR concurred with all the recommendations, we consider Recommendations 1 through 17 to be unresolved because the targeted implementation date for recovering costs is June 30, 2019, which is after the cooperative agreement ends.

Regarding the reimbursement of costs, the USBR made conflicting statements stating in the “General Comments” section of its response that it will “issue a demand for repayment of unallowable and unsupported costs,” but then stating in the “Response to OIG Recommendations” section that it will request reimbursement from the District. The difference in its language makes it unclear as to how and to what extent the USBR plans to recover the costs. As for implementation of the USBR’s planned actions, the target implementation date is 6 months after the cooperative agreement’s completion date of December 31, 2018, raising concerns as to how the USBR intends to collect the unallowable and unsupported costs.

Based on the USBR’s response, we consider Recommendations 1 through 17 to be unresolved and not implemented and Recommendations 18 through 22 to be resolved and not implemented. We will refer all recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and implementation tracking. See Attachment 3 for the status of recommendations.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions regarding this report, please call me at 202-208-5745.

Scope and Methodology

Scope

Our audit work included reviewing costs claimed by the Panoche Drainage District under Cooperative Agreement No. R16AC00087 with the Bureau of Reclamation (USBR). The total claimed costs amounted to \$772,974 for the period June 14, 2016, through May 4, 2017. We performed our audit at the District and the San Luis Demonstration Treatment Plant (Demo-Plant) in Firebaugh, CA, and at our office in Sacramento, CA.

We conducted this 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.

Methodology

To meet our objectives, we:

- Reviewed background information on the Demo-Plant including the California State Controller's January 2017 report, budget documents, and environmental planning documents
- Reviewed the District's audited financial statements for fiscal years 2008 through 2015
- Reviewed the cooperative agreement, including modifications and pre-award documents
- Reviewed laws, regulations, and policies related to the cooperative agreement and construction and operation of the Demo-Plant, including the Code of Federal Regulations' uniform grant guidance (2 C.F.R. part 200) pertaining to claimed costs
- Interviewed or contacted officials from the USBR, the District, and the District's contractors, AECOM and Summers Engineering
- Reviewed the District's written accounting policies and procedures
- Reviewed the District's completed copy of our internal control questionnaire
- Analyzed the District's claimed costs, including documentation for allowability, allocability, reasonableness, and supportability

We considered the District's audit risk to be "high" because the California State Controller identified several deficiencies related to possible violations of State government code

and penal code and weaknesses in the District's accounting and administrative controls, in a January 2017 report. As a result, the District was placed on agency review, meaning its cost invoices were subjected to the USBR's review and approval before being paid. We therefore did not evaluate or rely on the District's internal controls. Further, we were unable to rely on the District's general ledger accounts for the cooperative agreement for purposes of analyzing or verifying costs, thus indicating the District's financial records were also unreliable. Instead, we analyzed all claimed costs for the period June 14, 2016, through May 4, 2017. We did not rely on computer-generated data for cost information, but rather reviewed all sources documents such as the District's cost invoices, vendor invoices, receipts, judgmental sample of purchase orders, and timecards.

Bureau Response

The Bureau of Reclamation's response to our draft report follows on page 2 of Attachment 2.



United States Department of the Interior

BUREAU OF RECLAMATION

Washington, DC 20240

IN REPLY REFER TO:

84-27410

4.4.13

VIA ELECTRONIC MAIL ONLY

MEMORANDUM

To: Office of Inspector General
Attn: Assistant Inspector General for Audits, Inspections, and Evaluations

Through: Timothy R. Petty, Ph.D.
Assistant Secretary
for Water and Science

 MAY 09 2018

From: Brenda Burman
Acting For Commissioner

 MAY 04 2018

Subject: The Bureau of Reclamation's Response to the Office of Inspector General (OIG) Bureau of Reclamation's Cooperative Agreement No. R16AC00087 With the Panoche Drainage District, Report No. 2017-WR-048

The OIG, in its March 27, 2018 draft report, *Bureau of Reclamation's Cooperative Agreement No. R16AC00087 With the Panoche Drainage District, Report No. 2017-WR-048*, requested that Reclamation inform the OIG of the planned course of action to address and implement the recommendations in the subject report. The requested information is attached.

If you have any questions or require additional information, please contact Elizabeth Cordova-Harrison, Director, Mission Support Organization, at 303-445-2783.

Attachment

cc: Assistant Secretary – Water and Science

Attn: Kerry Rae

(w/att)

94-00000 (AShepet)

84-27000 (SDeMarco Reading File), 84-27400 (Reading File), 84-27410 (AHartman)

MP-110 (DGray), MP-3600 (SMay)

(w/att to each)

The Bureau of Reclamation's Response to the
Office of Inspector General (OIG) Audit Report –*Bureau of Reclamation's Cooperative
Agreement No. R16AC00087 the Panoche Drainage District*
Report No. 2017-WR-048

April 2018

General Comments: The Mid-Pacific Region's Grants Officer has concurred with all recommendations presented by the OIG in this report. The Grants Officer will schedule a meeting with the Panoche Water District's General Manager to review the findings and discuss implementation of internal policies and procedures. The Grants Officer will also issue a demand for repayment of unallowable and unsupported costs.

Response to OIG Recommendations

Recommendation 1: Resolve the unsupported Demo-Plant operator payroll costs of \$468.

Reclamation's Response: Concur. Request the Panoche Drainage District (District) reimburse Reclamation in the amount of \$468 for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 2: Resolve the unallowable Demo-Plant operator payroll costs of \$26,413.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$26,413 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 3: Resolve the unallowable District administrative payroll costs of \$ [REDACTED].

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$ [REDACTED] for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 4: Resolve the unsupported District equipment and materials costs of \$630.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$630 for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 5: Resolve the unallowable District equipment and materials costs of \$382.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$382 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 6: Resolve the unallowable District travel costs of \$108.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$108 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 7: Resolve the unallowable District travel costs of \$5,903.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$5,903 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 8: Resolve the unallowable Summers Engineering costs of \$26,804.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$26,804 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 9: Resolve the unsupported District supplies and services costs of \$2,199.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$2,199 for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 10: Resolve the unallowable District supplies and services costs of \$1,092.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$1,092 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 11: Resolve the unallowable District technical training and related travel costs of \$801.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$801 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 12: Resolve the unsupported AECOM employee payroll costs of \$ [REDACTED]

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$ [REDACTED] for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 13: Resolve the unallowable AECOM employee payroll costs of \$101,373.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$101,373 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 14: Resolve the unsupported AECOM equipment and materials costs of \$7,477.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$7,477 for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 15: Resolve the unallowable AECOM equipment and materials costs of \$320.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$320 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 16: Resolve the unsupported AECOM travel costs of \$5,585.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$5,585 for unsupported costs or submit documentation supporting the costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 17: Resolve the unallowable AECOM travel costs of \$3,399.

Reclamation's Response: Concur. Request the District reimburse Reclamation in the amount of \$3,399 for unallowable costs.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 18: Reclamation should require the District to complete all required single audits to standards and verify prior single audits are valid.

Reclamation's Response: Concur. Reclamation will send a notice to the District and will continue to follow up with the District until the recommended actions are implemented. Reclamation will not provide any additional funding until the District completes all required single audits to standards and verifies prior single audits are valid.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 19: Reclamation should require the District to implement an accounting system in accordance with professional standards that meets applicable Federal regulations and adequately accounts for Federal funds.

Reclamation's Response: Concur. Reclamation will send a notice to the District and will continue to follow up with the District until the recommended actions are implemented. Reclamation will not provide any additional funding until the District implements an accounting system in accordance with professional standards that meets applicable Federal regulations and adequately accounts for Federal funds.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 20: Reclamation should require the District to develop detailed written accounting policies and procedures.

Reclamation's Response: Concur. Reclamation will send a notice to the District and will continue to follow up with the District until the recommended actions are implemented. Reclamation will not provide any additional funding until the District develops detailed written accounting policies and procedures.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 21: Reclamation should require the District to ensure its policy on official use of district vehicles and related pay increases complies with State and Federal requirements.

Reclamation's Response: Concur. Reclamation will send a notice to the District and will continue to follow up with the District until the recommended actions are implemented. Reclamation will not provide any additional funding until the District develops detailed written policies and procedures that address official use of district vehicles and related pay increases that comply with State and Federal requirements.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Recommendation 22: Reclamation should require the District to demonstrate that individuals are qualified for assigned duties and responsibilities.

Reclamation's Response: Concur. Reclamation will send a notice to the District and will continue to follow up with the District until the recommended actions are implemented. Reclamation will not provide any additional funding until the District can demonstrate that employees are qualified for their assigned duties and responsibilities.

Responsible Official: Regional Director, Mid-Pacific Region

Target Implementation Date: June 30, 2019

Status of Recommendations

Recommendation	Status	Action Required
1 – 17	Unresolved and not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and implementation tracking.
18 – 22	Resolved and not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking.

