



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

**PROPOSED MODIFICATION TO
USBR'S COOPERATIVE AGREEMENT
No. RI6AC00087 WITH THE
PANOCHÉ DRAINAGE DISTRICT**



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

Memorandum

NOV 27 2017

To: Alan Mikkelsen
Acting Commissioner, Bureau of Reclamation

From: Mary L. Kendall *Mary L. Kendall*
Deputy Inspector General

Subject: Management Advisory – Proposed Modifications to USBR’s Cooperative Agreement No. R16AC00087 With the Panoche Drainage District Report No. 2017-WR-048-A

We are conducting an audit of the Bureau of Reclamation’s (USBR’s) cooperative agreement with the Panoche Drainage District (PDD) to operate and maintain the San Luis Demonstration Treatment Plant located in the San Luis Unit of California’s Central Valley Project.

During this audit, we identified significant questionable costs and found USBR’s administration of the agreement to be inadequate. Specifically, we audited \$772,974 in claimed costs under this cooperative agreement, and currently estimate questioning or disallowing nearly 30 percent of these costs. More than \$175,000 of these questioned costs were in paid invoices that were subjected to USBR review and approval before being paid. We also identified invalid single audits, conflicts of interest with key personnel, a general absence of project oversight, and questionable use of a cooperative agreement as the legal instrument.

In addition, we learned that the USBR is currently considering PDD’s request for a reallocation of the cooperative agreement’s budget to task areas for which we questioned costs and that the PDD may also request a funding increase for this agreement. We have significant concerns regarding these requests and of any decision by the USBR to distribute additional funding towards this agreement.

The cooperative agreement is currently more than halfway through its period of performance of June 14, 2016, to December 31, 2018, and the USBR has only reimbursed the PDD about \$1.2 million of the \$4.38 million obligated for the project (approximately 30 percent). We question the need to reallocate or increase the agreement’s funding when more than \$3 million (approximately 70 percent) in obligated funds and 1 year remain. We also question how and why the project grew from a pilot-scale \$15 million demonstration and research and development plant to a full-size \$37 million plant. Further, we have been told that the costs to operate and maintain the plant could outweigh the benefits of the treated water produced.

We plan to fully address the cost deficiencies, along with several other concerns in two subsequent reports, but wanted to advise you of our concerns prior to completion to allow for an informed management decision regarding the issues identified.

We recommend the following actions be taken to address our concerns:

1. Conduct a management review of the appropriateness of reallocating the Panoche Drainage District cooperative agreement budget.
2. Conduct a management review of the appropriateness of approving the request for a funding increase.
3. Promptly review and improve the management and internal controls used to review and approve invoices.

Please provide us with your written response to this management advisory within 30 days. The response should provide information on actions taken or planned to address the recommendations, as well as target dates and title(s) of the official(s) responsible for implementation. Please send your response to aie_reports@doioig.gov.

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. Please contact me at 202-208-5745 if you have any questions.

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