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CA Controller Finds Egregious Lack of Spending Controls, Misspent Funds at Panoche Water District

SACRAMENTO – State Controller Betty T. Yee today announced that her team’s detailed [review](#) of the Panoche Water District’s administrative and accounting controls found prevalent and severe deficiencies, with 76 percent of internal control elements deemed inadequate.

“The district’s egregious lack of spending oversight is shocking. It is especially troubling in a region where effective water governance is so vital for the agricultural community,” said Controller Yee, the state’s chief fiscal officer. “I am looking into what options are available to ensure small entities like Panoche Water District are kept accountable.”

Controller Yee announced in June 2016 that her team would review the water district’s finances over two fiscal years (FY 2013-14 and FY 2014-15). The Panoche Water District, spanning 38,000 acres in the Central Valley, delivers water to western Merced and Fresno counties. The district is overseen by a five-member board of directors composed of landowners. Though funded by a customer water service charge and not state or county taxes, the district has received state loan and grant money.

Among the State Controller’s most significant findings:

- 1 Without legal authority, the district gave more than \$86,000 in interest-free loans to employees. One employee received a \$30,143 loan for personal bills and set up a payment plan of \$50 per biweekly pay period, which would take more than 23 years to pay back. In some cases, the district increased employees’ salaries to match loan payments, did not timely collect loan payments, and processed loans through payroll as compensation. Based on piecemeal district records, it is unclear if these personal loans were reported to the IRS as taxable income.
- 1 As part of the “fringe benefits” package, the district provided free housing for six employees with no documentation justifying the need for it. The General Manager had authorized himself to live in district-furnished housing since 1992. The district did not consider the free housing compensation and therefore did not subject the value to payroll taxes.
- 1 Without policies and procedures for use, the district provided approximately 50 vehicles that employees, including administrative staff, drove to commute from home on a daily basis.
- 1 In addition to wages, the district provided an average of \$57,600 per year to employees in rent checks without supporting documentation. One employee lived in a district-provided home while also receiving additional utility payments.
- 1 District management permitted employees to use district credit cards for personal use, paying for more than \$37,000 in personal spending from FY 2013-14 to FY 2014-15. Employee purchases included season tickets to the Oakland A’s and Oakland Raiders, Katy Perry concert tickets, and retail goods from Ralph Lauren, Nike, and Sunglass Hut. Reimbursement collection procedures were so lax that one employee did not repay personal expenses for nearly three years. Due to woefully inadequate controls, it is highly likely that personal charges were paid for with district funds.
- 1 In total, 59 of 78 internal control elements were inadequate. The district lacked written policies, ignored administrative procedures, and potentially violated state law.

The district documented many corrective actions it has taken or plans to take in response to the Controller’s review, available [here](#).

Several audits and reviews since Controller Yee took office have shown a lack of internal controls especially in smaller cities and government entities. Controller Yee and her audit team have identified more than \$3 billion in misuse, waste, and fraud involving public funds since January 2015. The State Controller’s audits and reviews of local governments can be accessed [here](#).

As the chief fiscal officer of California, Controller Yee is responsible for accountability and disbursement of the state’s financial resources. The Controller also safeguards many types of property until claimed by the rightful owners, and has independent auditing authority over government agencies that spend state funds. She is a member of numerous financing authorities, and fiscal and financial oversight entities including the Franchise Tax Board. She also serves on the boards for the nation’s two largest public pension funds. Elected in 2014, Controller Yee is the tenth woman elected to a statewide office in California’s history. Follow the Controller on Twitter at [@CAController](#) and on Facebook at [California State Controller’s Office](#).

