

Summary: Panoche Water District General Manager Conspired to Illegally Divert Federal Water

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The OIG investigated allegations that the management and staff of the Panoche Water and Drainage Districts (Panoche) conspired to illegally divert water from State of California and U.S. Bureau of Reclamation (BOR) waterways and Panoche profited from the subsequent sale of the stolen water. This investigation was conducted jointly with the Federal Bureau of Investigation and the Internal Revenue Service.

We substantiated the allegations. We found that Panoche's former General Manager, Dennis Falaschi, directed and conspired with his staff to steal water from State and Federal waterways from approximately 1992 to April 2015. In the early 1990s, Falaschi and his staff discovered that Federal water from the Delta-Mendota Canal (DMC) was leaking from a sealed water delivery structure into a parallel canal managed by Panoche. Falaschi directed Panoche staff to unseal the 24-inch pipe connected to the DMC, thereby allowing diversion of Federal water from the canal undetected and on demand.

In April 2015, while performing routine checks of the DMC, personnel from BOR's contractor and operations manager, the San Luis & Delta-Mendota Water Authority (Water Authority), discovered water leaving the DMC and discharging into Panoche's parallel canal. Water Authority staff estimated that the diverted water was flowing at a rate equivalent to of 5,900 to 8,000 gallons a minute. BOR estimated that over 42 billion gallons of water, valued at over \$25 million, was stolen from this unmetered site for over 23 years. Panoche sold the diverted water to farmers, customers, and members of its Board of Directors. The stolen fresh water from the DMC was also blended with brackish reclaimed drainage or well water for reuse and to irrigate several thousand acres of salt-tolerant crops funded by BOR grants.

The U.S. Attorney's Office for the Eastern District of California prosecuted this case. On January 13, 2021, the U.S. Attorney's Office of the Eastern District of California Civil Division, which represented the United States and BOR, entered into a civil settlement with Panoche for the unauthorized diversion of Federal water from 2009 to 2015, with an estimated diversion of 17 million gallons and associated false claims. Pursuant to the settlement, Panoche paid BOR \$7,462,808 for the unauthorized diversion of water and separately paid the Water Authority \$798,653 for damages.

On April 14, 2022, Falaschi was indicted on felony counts of Conspiracy, Theft of Government Property, and Filing a False Tax Return. Falaschi pleaded guilty to one count of conspiracy to take Government property and one count of filing a false tax return. On September 30, 2024, Falaschi was sentenced to five years of probation, six months of supervised release/home detention, and a \$10,000 fine.

This is a summary of an investigative report we issued to the Acting Commissioner of BOR.

