

**LOS ANGELES COUNTY
DEPARTMENT OF PUBLIC WORKS**

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Los Angeles Watershed and Los Angeles Riverbed projects

August 18, 1941, through August 10, 1993



JOHN CHIANG
California State Controller

January 2013



JOHN CHIANG
California State Controller

January 8, 2013

Mark Cowin, Director
Department of Water Resources
1416 Ninth Street, Room 1115-1
Sacramento, CA 95814

Dear Mr. Cowin:

The State Controller's Office audited claims submitted by the Los Angeles County Department of Public Works under the Flood Control Subventions Program.

The county claimed costs of \$1,461,611 for the Los Angeles Watershed and Los Angeles Riverbed projects for the period of August 18, 1941, through August 10, 1993. Our audit disclosed that \$98,523 is allowable and \$1,363,088 is unallowable.

The unallowable costs of \$1,363,088 occurred because the county claimed ineligible construction costs and costs not supported by source documents.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Nahideh Madankar, P.E., Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Gail Farber, Director
Los Angeles County Department of Public Works
Zev Yaroslavsky, Chairman
Los Angeles County Board of Supervisors
Angelica Cobian, Head
Internal Audit Group
Los Angeles County Department of Public Works

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Los Angeles County Department of Public Works under the Flood Control Subventions Program. Our audit included the Los Angeles Watershed and Los Angeles Riverbed projects, for the period of August 18, 1941, through August 10, 1993.

The county claimed \$1,461,611 during the audit period. Our audit disclosed that \$98,523 is allowable and \$1,363,088 is unallowable. The unallowable costs occurred because the county claimed ineligible construction costs and costs not supported by source documents.

Background

The State of California provides financial assistance to local agencies participating in the construction of federal flood control projects. Under the Flood Control Subventions Program (State Water Code, Division 6, Part 6, Chapters 1 through 4), the California Department of Water Resources pays a portion of the local agency's share of flood control project costs, including the costs of rights-of-way, relocation, and recreation and fish and wildlife enhancements.

California Water Code section 12832 authorizes the State Controller to audit the books and records of local agencies to determine whether the State funds received were expended for the purposes and under the conditions authorized.

Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Summary of Project Costs (Schedule 1) are allowable and in compliance with the Department of Water Resources' Guidelines for State Reimbursement on Flood Control Projects.

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority under California Water Code section 12832. We did not audit the county's financial statements. We conducted the 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.

The sampling method we used to test transactions was haphazard sampling. The areas examined included:

- Claim preparation process
- Land acquisition costs
- Other allocable costs
- Revenue recognition

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are shown on the Summary of Project Costs (Schedule 1) and described in the Findings and Recommendations section. The county claimed \$1,461,611 for the Los Angeles Watershed and Los Angeles Riverbed projects under the Flood Control Subventions Program for the period of August 18, 1941, through August 10, 1993. Our audit disclosed that the claimed amounts for the audit period included allowable costs of \$98,523 and unallowable costs of \$1,363,088.

**Views of
Responsible
Official**

We issued a draft report on September 5, 2012. Gail Farber, Director of Public Works, responded by a letter dated October 17, 2012, agreeing with Finding 1, and disagreeing with Finding 2. The final audit report includes the county's response as an attachment.

Restricted Use

This report is solely for the information and use of the county, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

January 8, 2013

**Schedule 1—
Summary of Project Costs
August 18, 1941, through August 10, 1993**

Project/ Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage ²	State Share of Allowable Costs ²
Los Angeles Watershed Project LAW 93-1	\$ 1,363,564	\$ —	\$ (1,363,564)	Findings 1, 2	100%	\$ —
Los Angeles Riverbed Project LAR 93-1	98,047	98,523	476	Finding 1	100%	98,523
Totals	<u>\$ 1,461,611</u>	<u>\$ 98,523</u>	<u>\$ (1,363,088)</u>			<u>\$ 98,523</u>

¹ See the Findings and Recommendations section.

² The California Water Code authorized the Los Angeles River Watershed Project at an estimated cost of \$1,882,000. The engineering report published by the State Department of Water Resources indicates that 50% of construction costs are reimbursable and 100% of other costs are reimbursable.

Findings and Recommendations

**FINDING 1—
Department of
Water Resources’
adjustments**

The Los Angeles County Department of Public Works claimed \$415,657 for the Watershed Project and \$951 for the Riverbed Project, Right-of-Way Construction Costs. The county was eligible to receive 50% reimbursement for these construction costs. Therefore, the Department of Water Resources (DWR) adjusted the county’s claims accordingly, in the amount of \$207,353.

The DWR adjustments were as follows:

Claim #LAW 93-1 for the Los Angeles Watershed Project	\$ (207,829)	See Finding 2
Claim #LAR 93-1 for the Los Angeles Riverbed Project	<u>476</u>	
Total	<u>\$ (207,353)</u>	

The county did not provide the State Controller’s Office with documentation to refute DWR’s findings.

We concur with DWR’s determination.

DWR’s *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), section VI, specifies that DWR will review agency claims to determine the amount eligible for reimbursement.

Recommendation

The county should reduce its claim for reimbursement by \$207,829 on LAW 93-1 and increase its claim for reimbursement by \$476 on LAR 93-1. In the future, the county should ensure that eligible costs are claimed for reimbursement under DWR guidelines.

County’s Response

The county agreed with the finding.

**FINDING 2—
Lack of source
documents to
support claimed
right-of-way costs**

The county did not retain source documents to support right-of-way costs claimed on the Los Angeles Watershed Project in the amount of \$1,363,564 for the period of July 1, 1962, through August 10, 1993. Consequently, we could not verify the accuracy or validity of the costs claimed.

DWR’s *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), section VI, Part D, specifies that the local agency must maintain its records of project expenditures until the final audit is made.

As a result, claimed costs of \$1,155,735 are unallowable as follows:

Costs not documented – Claim #LAW 93-1	\$ (1,363,564)	
DWR disallowed - Claim #LAW 93-1	<u>207,829</u>	See Finding 1
Total disallowed in Finding 2 – Claim #LAW 93-1	<u>\$ (1,155,735)</u>	

Recommendation

We recommend that the county contact DWR and inquire whether DWR has maintained any documentation in its files that support the county's claimed costs of \$1,155,735.

County's Response

The county agrees that source documents were unavailable at the time of the State Controller's Office (SCO) review to verify the accuracy of the costs claimed. However, the county disagrees that this is an appropriate basis for disallowing costs in consideration of the following:

1. This audit was conducted 19 years from the time the claims were submitted to DWR. The county should not be penalized for not maintaining records for such an inordinate amount of time, particularly when DWR previously verified claim expenditures as noted in the Engineering Report.
2. The DWR Engineering Report dated April 28, 1999, for the Los Angeles Watershed Project and the Engineering Report dated June 6, 2000, for the Los Angeles Riverbed Project, indicate that DWR made the determination of eligible expenditures in accordance with their *Guidelines for State Reimbursement on Flood Control Projects* (February 1974) (guidelines). DWR also indicated that they either verified actual receipts, internal correspondence to the Board of Supervisors seeking authorization of payment, or spot checked the requested reimbursement on the claim against the warrant numbers. Therefore, we seek reimbursement on the amount DWR recommended.
3. DWR's guidelines specify that records be maintained until the final audit is made. However, the publishing of these guidelines postdate a segment of the audit period reviewed.
4. As cited in the draft audit report, SCO is auditing the books and records under the authority of the California Water Code section 12832, which states that SCO shall perform an audit of projects completed within nine months after the claim is received by DWR. If SCO is unable to perform the audit within nine months after the claim is submitted by a local agency, the department shall pay at least 90 percent of the claim subject to completion of the audit by SCO. However, we have not been able to locate any record of payment received from DWR for these two projects and ask that the audit report reflect there is no record of payment.

SCO's Comment

1. The county indicates that it should not be penalized for not maintaining records for 19 years until the SCO performed the audit. However, by submitting a claim for state reimbursement for its flood control projects, the county agreed to abide by the record retention requirements contained in DWR's guidelines.
2. The county states that DWR previously verified claimed expenditures as noted in the Engineering Report for the Los Angeles Watershed Project and the Los Angeles Riverbed Project. Although, we review DWR's engineering reports as a part of the audit procedures, our audit objectives require us to obtain sufficient, appropriate evidence (source documents) to provide reasonable basis for our findings and conclusions. Therefore, the county should contact DWR directly and inquire if DWR can place sufficient reliance upon its verification to justify reimbursing the county's claims.
3. We agree with the county's statement that DWR's guidelines postdate a segment of the audit period. However, the county signed the Los Angeles Watershed Project and the Los Angeles Riverbed Project claims on August 26, 1993 and July 22, 1993, respectively. Because DWR published the guidelines in 1974, the county should have been in compliance with the guidelines' requirements when it signed the claims in 1993. As a result, the guidelines apply to the expenditures identified in the claims.
4. The scope of the audit performed by SCO does not include a verification of payments made by DWR to the county. The county should contact DWR directly and request information on payments made by DWR on these projects.

**Attachment—
County's Response to
Draft Audit Report**



GAIL FARBER, Director

COUNTY OF LOS ANGELES DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

999 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331
Telephone: (626) 458-5100
<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO:
P.O. BOX 1460
ALHAMBRA, CALIFORNIA 91802-1460

October 17, 2012

IN REPLY PLEASE
REFER TO FILE **FI-2**

Mr. Steven Mar
Chief, Local Government Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Mar:

AUDIT REPORT - FLOOD CONTROL SUBVENTIONS PROGRAM LOS ANGELES WATERSHED AND RIVERBED PROJECTS

On behalf of the Los Angeles County Flood Control District, the Department of Public Works thanks you for the opportunity to comment on the proposed audit report for the Los Angeles Watershed and Los Angeles Riverbed Projects under the Flood Control Subventions Program. We have the following comments and would like to submit for your review and consideration to be incorporated in the final audit report.

FINDING 1: The County claimed more or less than 50% of construction costs and should adjust the claims accordingly.

Response: Agree

We concur with the proposed adjustments based on eligibility for 50% of construction costs.

FINDING 2: The County did not retain source documents to support right-of-way costs claimed and concludes costs are unallowable.

Response: Disagree

We agree that source documents were unavailable at the time of your review to verify the accuracy of the costs claimed. However, we disagree that this is an appropriate basis for disallowing costs in consideration of the following:

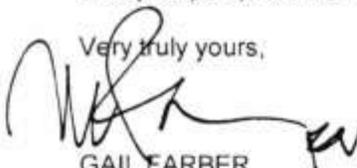
- This audit was conducted 19 years from the time the claims were submitted to the Department of Water Resources (DWR). We should not be penalized for not maintaining records for such an inordinate amount of time, particularly when DWR previously verified claim expenditures as noted in the Engineering reports.

Mr. Steven Mar
October 17, 2012
Page 2

- DWR Engineering reports dated April 28, 1999, for the Los Angeles River Project and June 6, 2000, for the Los Angeles River Project, indicate that DWR made the determination of eligible expenditures in accordance with their *Guidelines for State Reimbursement on Flood Control Projects* (February 1974). DWR also indicated that they either verified actual receipts, internal correspondence to the Board of Supervisors seeking authorization of payment, or spot checking the requested reimbursement on the claim against the warrant numbers. Therefore, we seek reimbursement based on the amount DWR recommended.
- DWR's *Guidelines* specify that records be maintained until the final audit is made. However, the publishing of these guidelines postdate a segment of the audit period reviewed.
- As cited in your report, the State Controller's Office is auditing the books and records under the authority of the California Water Code section 12832, which states that the State Controller shall perform an audit of projects completed within nine months after the claim is received by the department. If the Controller is unable to perform the audit within nine months after the claim is submitted by a local agency, the department shall pay at least 90 percent of the claim subject to completion of the audit by the controller. However, we have not been able to locate any record of payment received from DWR for these two projects and ask that the audit report reflect there is no record of payment.

If you have any questions, please contact Ms. Angelica Cobian of our Internal Audit Group at (626) 458-6551.

Very truly yours,



GAIL FARBER
Director of Public Works

AC:dbm

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