

CITY OF SANTA CRUZ

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

San Lorenzo River Project

Claims Dated July 3, 2001, through October 31, 2005



JOHN CHIANG
California State Controller

May 2007



JOHN CHIANG
California State Controller

May 23, 2007

Lester A. Snow, Director
Department of Water Resources
Post Office Box 942836
Sacramento, CA 94236-0001

Dear Mr. Snow:

The State Controller's Office audited claims submitted by the City of Santa Cruz under the Flood Control Subventions Program.

The city claimed costs of \$1,366,273 for the San Lorenzo River project for claims dated July 3, 2001, through October 31, 2005. Our audit disclosed that \$1,268,032 is allowable and \$98,241 is unallowable. The unallowable costs occurred because the city claimed unallowable construction project costs.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:vb

cc: Dena N. Uding, Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Paula J. Landis, Chief
San Joaquin District Office
Department of Water Resources
Richard C. Wilson, City Manager
City of Santa Cruz
Joe H. Hall, Assistant Director
Santa Cruz City Redevelopment Agency

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the City of Santa Cruz under the Flood Control Subventions Program. Our audit included the San Lorenzo River Project for claims dated July 3, 2001, through October 31, 2005. The last day of fieldwork was April 12, 2007.

The city claimed \$1,366,273 during the audit period. Our audit disclosed that \$1,268,032 is allowable and \$98,241 is unallowable. The unallowable costs occurred because the city claimed unallowable construction project costs.

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.

State 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 our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of costs claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed were supported. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed an instance of noncompliance with the requirements outlined above. This instance is shown on the Summary of Project Costs (Schedule 1) and described in the Finding and Recommendation section. The City of Santa Cruz claimed \$1,366,273 for the San Lorenzo River project under the Flood Control Subventions Program for claims dated July 3, 2001, through October 31, 2005. Our audit disclosed that the claimed amounts for the audit period included allowable costs of \$1,268,032 and unallowable costs of \$98,241.

**Views of
Responsible
Official**

We discussed the audit results with the city's representative during a telephone exit conference conducted on April 12, 2007. Joe H. Hall, Assistant Director, Santa Cruz City Redevelopment Agency, agreed with the audit results. Mr. Hall declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of the City of Santa Cruz, the California Department of Water Resources, 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

**Schedule 1—
Summary of Project Costs
Claims Dated July 3, 2001, through October 31, 2005**

<u>Project Claim Number</u>	<u>Costs Claimed</u>	<u>Allowable Per Audit</u>	<u>Audit Adjustments¹</u>	<u>State Share of Allowable Costs @ 70%²</u>
San Lorenzo River Project:				
SLR 2001-11	\$ 7,106	\$ 7,106	\$ —	\$ 4,974
SLR 2001-12	130,963	130,963	—	91,674
SLR 2001-13	552,074	453,833	(98,241)	317,683
SLR 2002-15	180,000	180,000	—	126,000
SLR 2003-01	23,348	23,348	—	16,344
SLR 2004-01	178,000	178,000	—	124,600
SLR 2005-01	24,782	24,782	—	17,347
SLR 2005-02	270,000	270,000	—	189,000
Totals	<u>\$ 1,366,273</u>	<u>\$ 1,268,032</u>	<u>\$ (98,241)</u>	<u>\$ 887,622</u>

¹ See the Finding and Recommendation section.

² The state share of allowable project costs represents the percentage of state funding, as stipulated in the *California Water Code*, for each project cost category.

Finding and Recommendation

**FINDING—
Unallowable
construction costs**

The city claimed unallowable construction costs totaling \$98,241 on claim number SLR 2001-13. The city incurred these costs before October 12, 1996, the authorized beginning date for construction cost reimbursement.

Water Code Section 12706.3(d) states, “Reimbursement of the state share of the nonfederal costs of the project shall be for those project costs incurred on or after October 12, 1996, the date on which the project was authorized by Congress. . . .”

Recommendation

We recommend that the city claim only those costs that are eligible for reimbursement, as specified in *Water Code* statutes and the California Department of Water Resources’ *Guidelines for State Reimbursement on Flood Control Projects* (February 1974).

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