

# **RIVERSIDE COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT**

Audit Report

## **FLOOD CONTROL SUBVENTIONS PROGRAM**

Santa Ana River Mainstem Project

*Claims Dated July 9, 1992, through May 27, 2003*

Lake Elsinore Outlet Project

*Claims Dated February 2, 1993, through January 19, 1994*



**JOHN CHIANG**  
California State Controller

August 2007



**JOHN CHIANG**  
**California State Controller**

August 17, 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 Riverside County Flood Control and Water Conservation District under the Flood Control Subventions Program.

The district claimed costs of \$24,959,226 for the Santa Ana River Mainstem Project (claims dated July 9, 1992, through May 27, 2003) and Lake Elsinore Outlet Project (claims dated February 2, 1993, through January 19, 1994). Our audit disclosed that \$22,353,894 is allowable and \$2,605,332 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible costs.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/jj:smr

cc: Dena N. Uding, Chief  
Flood Control Subventions Program  
Division of Flood Management  
Department of Water Resources  
Mark Stuart, Chief  
Southern District Office  
Department of Water Resources  
Honorable Robert E. Byrd  
Auditor-Controller  
Riverside County  
Warren D. Williams  
General Manager/Chief Engineer  
Riverside County Flood Control and  
Water Conservation District  
Zully C. Smith, P.E.  
Senior Civil Engineer  
Riverside County Flood Control and  
Water Conservation District  
Steven Gale, Staff Analyst  
Riverside County Flood Control and  
Water Conservation District

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Riverside County Flood Control and Water Conservation District under the Flood Control Subventions Program. Our audit included the Santa Ana River Mainstem Project (claims dated July 9, 1992, through May 27, 2003) and Lake Elsinore Outlet Project (claims dated February 2, 1993, through January 19, 1994). The last day of fieldwork was April 17, 2007.

The district claimed \$24,959,226 during the audit period. Our audit disclosed that \$22,353,894 is allowable and \$2,605,332 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible 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 district'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 district's internal controls only to the extent necessary to plan the audit.

**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 Riverside County Flood Control and Water Conservation District claimed \$24,959,226 for the Santa Ana River Mainstem Project (claims dated July 9, 1992, through May 27, 2003) and Lake Elsinore Outlet Project (claims dated February 2, 1993, through January 19, 1994). Our audit disclosed that the claimed amounts for the audit period included allowable costs of \$22,353,894 and unallowable costs of \$2,605,332.

**Views of  
Responsible  
Official**

We issued a draft report on May 18, 2007. Warren D. Williams, General Manager/Chief Engineer, responded by letter dated June 19, 2007, disagreeing with the audit results. This final audit report includes the district's response as an attachment.

**Restricted Use**

This report is solely for the information and use of Riverside County Flood Control and Water Conservation District, 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  
Santa Ana River Mainstem Project  
(Claims Dated July 9, 1992, through May 27, 2003)  
and Lake Elsinore Outlet Project  
(Claims Dated February 2, 1993, through January 19, 1994)**

<u>Project</u> <u>Claim Number</u>	<u>Costs</u> <u>Claimed</u>	<u>Allowable</u> <u>Per Audit</u>	<u>Audit</u> <u>Adjustments</u>	<u>Reference</u> <sup>1</sup>	<u>State Share of</u> <u>Allowable</u> <u>Costs</u> <sup>2</sup>
Santa Ana River Mainstem Project:					
SAMR 1992-01	\$ 3,863,882	\$ 3,855,288	\$ (8,594)	Finding 1	\$ 2,698,702
SAMR 1993-01A	6,969,636	6,942,597	(27,039)	Finding 1	4,859,818
SAMR 1993-02	2,849,139	1,181,499	(1,667,640)	Finding 1	827,049
SAMR 1994-01	266,842	253,735	(13,107)	Finding 1	177,615
SAMR 1994-02	828,653	816,728	(11,925)	Finding 1	571,710
SAMR 2002-01	318,271	318,271	—		222,790
Subtotal	<u>15,096,423</u>	<u>13,368,118</u>	<u>(1,728,305)</u>		<u>9,357,684</u>
Lake Elsinore Outlet Project:					
SPLEO 1993-01	1,291,244	1,148,746	(142,498)	Finding 1	804,122
SPLEO 1993-02	3,987,473	3,252,944	(734,529)	Findings 1, 2	2,277,061
SPLEO 1994-01R	4,584,086	4,584,086	—		3,208,860
Subtotal	<u>9,862,803</u>	<u>8,985,776</u>	<u>(877,027)</u>		<u>6,290,043</u>
Totals	<u>\$ 24,959,226</u>	<u>\$ 22,353,894</u>	<u>\$(2,605,332)</u>		<u>\$ 15,647,727</u>

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> 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.

# Findings and Recommendations

**FINDING 1—  
Department of  
Water Resources  
adjustment**

The district’s claims included \$2,208,901 in costs that the California Department of Water Resources (DWR) identified as ineligible. We concur with the DWR’s determinations.

The DWR’s Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part D, states that the DWR will reduce a local agency’s reimbursement claims for any item that the DWR cannot verify.

The following table summarizes the audit adjustment.

<u>Claim Number</u>	<u>Audit Adjustment</u>
SAMR 1992-01	\$ (8,594)
SAMR 1993-01A	(27,039)
SAMR 1993-02	(1,667,640)
SAMR 1994-01	(13,107)
SAMR 1994-02	(11,925)
SPLEO 1993-01	(142,498)
SPLEO 1993-02	(338,098)
Total	<u>\$ (2,208,901)</u>

Recommendation

We recommend that the district claim only those costs that are eligible for reimbursement under the DWR’s guidelines.

District’s Response

The report shows an audit adjustment of \$2,897,039 for Claim No. 2 under the Santa Ana River Mainstem Project – Oak Street Channel (SARM 1993-01). It was determined that this cost was ineligible because it was considered a betterment. We provided information to the Department of Water Resources (DWR) that clearly demonstrated that this cost was a necessary part of construction and they have subsequently released the funds.

Claim No. 3 under the Santa Ana River Mainstem Project–Oak Street Channel (SARM 1993-02) has an audit adjustment of \$1,667,639.62 because it was determined that the costs were non-flood related construction costs. We are currently providing evidence to Dena Uding at DWR that these costs were completely flood related and eligible for reimbursement.

Claim No. 2 for the Lake Elsinore Outlet Channel (SPLEO 1993-02) shows . . . an adjustment for condemnation deposit for parcels not part of the Lake Elsinore Outlet Project totaling \$338,089. The District needs more time to research and examine the information submitted in the claim to DWR before it can agree with this audit adjustment.

SCO's Comment

DWR provided an amended engineering report dated March 28, 2007, for Claim No. SAMR 1993-01 (now referenced as SAMR 1993-01A). The engineering report shows that DWR approved additional costs totaling \$2,870,000 for this claim. We revised our audit report to allow these costs. The amended engineering report did not address the remaining unallowable costs totaling \$27,039. Our audit finding is unchanged for these costs.

Our audit finding is unchanged for Claim Nos. SAMR 1993-02 and SPLEO 1993-02. The district did not provide any evidence that DWR approved these costs. The correct audit adjustment amount is \$338,098 for Claim No. SPLEO 1993-02.

The district did not respond to the remaining unallowable costs identified in the audit finding.

**FINDING 2—  
Duplicate costs  
claimed**

The district claimed duplicate costs totaling \$396,431. The district claimed costs as both condemnation costs and land and easement costs.

The district claimed condemnation deposits totaling \$396,431 for County Assessor's Parcel Nos. 3040-21A, 3040-21B, 3040-24, 3040-63A, 3040-63B, and 3040-63C. The district claimed these costs in Claim No. SPLEO 1993-02. However, the district also claimed the total court settlement costs for these parcels in claim number SPLEO 1994-01R. As a result, the condemnation costs are unallowable.

DWR's Guidelines for State Reimbursement on Flood Control Projects (February 1974), Section VI, Part D, states, "The local agency must keep and maintain a complete, accurate, and itemized record of any cost for which state reimbursement is requested."

Recommendation

We recommend that the district review its claims to ensure that it does not claim duplicate condemnation costs and land and easement costs.

District's Response

Claim No. 2 for the Lake Elsinore Outlet Channel (SPLEO 1993-02) shows an audit adjustment for claiming costs as both condemnation and land and easements totaling \$396,431. . . . The District needs more time to research and examine the information submitted in the claim to DWR before it can agree with this audit adjustment.

SCO's Comment

Our finding and recommendation are unchanged. The district did not provide any documentation that would refute the audit finding.

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

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WARREN D. WILLIAMS  
General Manager-Chief Engineer



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RIVERSIDE COUNTY FLOOD CONTROL  
AND WATER CONSERVATION DISTRICT

June 21, 2007

Mr. Jim L. Spano, Chief  
Compliance Audits Bureau  
State Controller's Office, Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Spano:

Re: Santa Ana River Mainstem-  
Oak Street Drain Project  
Project No. 2-0-0070  
Lake Elsinore Outlet Channel Project  
Project No. 3-0-0040

The Riverside County Flood Control and Water Conservation District (District) has reviewed the draft audit report for the Santa Ana River Mainstem Project and Lake Elsinore Outlet Channel Project claims. The audit disclosed that a total of \$5,475,332 is unallowable for both of these projects because it was determined that the claims contained ineligible costs. The District disagrees with several of these findings. The costs incurred for these projects were an integral and necessary part of the projects construction, not betterments. Listed below are some of the more significant concerns we have with the audit report.

1. The report shows an audit adjustment of \$2,897,039 for Claim No. 2 under the Santa Ana River Mainstem Project – Oak Street Channel (SARM 1993-01). It was determined that this cost was ineligible because it was considered a betterment. The District provided information to the Department of Water Resources (DWR) to clearly demonstrate this cost was a necessary part of construction and DWR has subsequently released the funds. (Attachment "A" is email correspondence between our staff and Varda Disho with DWR which explains the changes and the reasons for them.)
2. Claim No. 3 under the Santa Ana River Mainstem Project –Oak Street Channel (SARM 1993-02) has an audit adjustment of \$1,667,639.62 because it was determined that the costs were non-flood related construction costs. The District is providing documentation to Dena Uding at DWR to demonstrate that these costs were completely flood related and, therefore, eligible for reimbursement. (Attachment "B" is email correspondence between our staff and DWR which explains the components of the project that were necessary).

June 19, 2007

Jim L. Spano, Chief  
Compliance Audits Bureau  
Re: Santa Ana River Mainstem –  
Oak Street Drain Project  
Project No. 2-0-0070  
Lake Elsinore Outlet Channel Project  
Project No. 3-0-0040

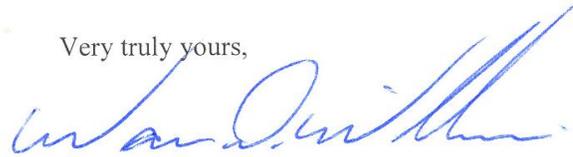
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3. Claim No. 2 for the Lake Elsinore Outlet Channel (SPLEO 1993-02) shows an audit adjustment for claiming costs as both condemnation and land and easements totaling \$396,431. The audit also has an adjustment for condemnation deposit for parcels not part of the Lake Elsinore Outlet Channel Project totaling \$338,089. The District is reviewing this information and will provide both DWR and your office the results of our review as soon as it is completed

The District understands that these audits are a necessary part of the State Flood Control Subvention Program and that DWR holds back 10% of the reimbursement funds until it receives the final audit report from your office. The District also understands that the results of the final audit report do not limit the District's ability to appeal any costs deemed ineligible by DWR.

We appreciate your time and consideration of the items submitted herewith. Should you have any questions or need any additional information, please feel free to contact me at 951.955.1250 or Steve Gale in our Special Projects Section at 951.955.2155.

Very truly yours,



WARREN D. WILLIAMS  
General Manager – Chief Engineer

Attachments

SG:ZS:rlp

**State Controller's Office  
Division of Audits  
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Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**