SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Upper Llagas Creek, Lower Silver Creek, and
Lower Llagas Creek Flood Control Projects

May 13, 1992, through November 6, 2008

JOHN CHIANG
California State Controller

August 2009

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California State Controller

August 19, 2009

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 Santa Clara Valley Water District under the Flood Control Subventions Program. The district claimed a total of $16,320,778 on claims submitted on May 13, 1992, through November 6, 2008, for the Upper Llagas Creek ($5,562,159), Lower Silver Creek ($9,396,827), and Lower Llagas Creek ($1,361,792) Flood Control Projects.

Our audit disclosed that $16,115,670 ($5,392,165, $9,378,827, and $1,344,678, respectively) is allowable and $205,108 ($169,994, $18,000, and $17,114, respectively) is unallowable. The unallowable costs of $205,108 consisted of $169,994 in duplicate payments by the Department of Water Resources, $18,000 in land costs claimed in excess of the appraised value, $15,634 in interest income not offset on claims, and $1,480 in ineligible permit fees and maintenance costs.

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: Terri Wegener, Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Beau Goldie, Chief Executive Officer
Santa Clara Valley Water District
Deborah McClain, Chief Financial Officer
Santa Clara Valley Water District
Najon Chu, Financial Services Manager
Santa Clara Valley Water District

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Santa Clara Valley Water District under the Flood Control Subventions Program. Our audit included the Upper Llagas Creek, Lower Silver Creek, and Lower Llagas Creek Flood Control Projects for the period of May 13, 1992, through November 6, 2008. The district claimed a total of $16,320,778 on claims submitted on May 13, 1992, through November 6, 2008, for the Upper Llagas Creek ($5,562,159), Lower Silver Creek ($9,396,827), and Lower Llagas Creek ($1,361,792) Flood Control Projects.

Our audit disclosed that $16,115,670 ($5,392,165, $9,378,827, and $1,344,678, respectively) is allowable and $205,108 ($169,994, $18,000, and $17,114, respectively) is unallowable. The unallowable costs of $205,108 consisted of $169,994 in duplicate payments by the Department of Water Resources, $18,000 in land costs claimed in excess of the appraised value, $15,634 in interest income not offset on claims, and $1,480 in ineligible permit fees and maintenance 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 this performance 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. 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 district claimed a total of $16,320,778 on claims submitted on May 13, 1992, through November 6, 2008, for the Upper Llagas Creek, Lower Silver Creek, and Lower Llagas Creek Flood Control Projects. Our audit disclosed that $16,115,670 is allowable and $205,108 is unallowable. The unallowable costs of $205,108 consisted of $169,994 in duplicate payments by the Department of Water Resources, $18,000 in land costs claimed in excess of the appraised value, $15,634 in interest income not offset on claims, and $1,480 in ineligible permit fees and maintenance costs.

Views of Responsible Officials

We discussed the audit results with the district's representatives during an exit conference conducted on June 18, 2009. Deborah McClain, Chief Financial Officer, and Najon Chu, Financial Services Manager, agreed with the audit results. Ms. McClain 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 Santa Clara Valley Water 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

August 19, 2009

Schedule 1—
Summary of Project Costs
May 13, 1992, through November 6, 2008

Flood Control Project/ Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference [1]	State Share of Eligibility Percentage	State Share of Allowable Costs [2]
Upper Llagas Creek:							
92-3	94	$ 97,713	$ 97,713	$ —		100%	$ 97,713
93-3	95	460,393	460,393	—		100%	460,393
96-3	95a	(63,925)	(63,925)	—		100%	(63,925)
93-1	96	35,014	35,014	—		100%	35,014
93-2	97	1,500	1,500	—		100%	1,500
94-1	98	419,622	419,622	—		100%	419,622
96-4	99	167,716	167,716	—		100%	167,716
95-1	100	42,118	42,118	—		100%	42,118
96-1	101	55,000	55,000	—		100%	55,000
96-2	102	(48,000)	(48,000)	—		100%	(48,000)
97-1	103	27,000	27,000	—		100%	27,000
98-1	104	172,518	172,518	—		100%	172,518
99-1	105	1,514	1,514	—		100%	1,514
98-2	106	155,322	155,322	—		100%	155,322
98-3	107	1,987	1,987	—		100%	1,987
99-2	108	19,030	19,030	—		100%	19,030
98-4	109	137,507	137,507	—		100%	137,507
98-5	110	16,858	16,858	—		100%	16,858
99-3	111	1,222	1,222	—		100%	1,222
98-6	112	99,132	99,132	—		100%	99,132
2000-02	113	37,227	37,227	—		100%	37,227
2000-03	114	100,491	100,491	—		100%	100,491
2000-04	115	2,313	2,313	—		100%	2,313
2000-05	116	20,250	20,250	—		100%	20,250
2000-11	117	51,840	51,840	—		100%	51,840
2000-06	118	47,100	47,100	—		100%	47,100
2000-07	119	26,700	26,700	—		100%	26,700
2000-09	120	83,500	83,500	—		100%	83,500
2000-08	121	54,000	54,000	—		100%	54,000
2000-01	122	152,352	152,352	—		100%	152,352
2000-10	123	504,000	504,000	—		100%	504,000
2001-01	124	75,700	75,700	—		100%	75,700
2001-02	125	10,985	10,985	—		100%	10,985
2001-02	125	4,632	4,632	—		100%	4,632
2001-03	126	192,842	192,842	—		100%	192,842
2002-01	127	137,000	137,000	—		100%	137,000
2002-02	128	111	111	—		100%	111
2002-02	128	7,895	7,895	—		100%	7,895
2002-03	129	3,000	3,000	—		100%	3,000
2002-03	129	13,656	13,656	—		100%	13,656
2002-04	130	376,214	376,214	—		100%	376,214
2003-01	131	435,000	435,000	—		100%	435,000

Schedule 1 (continued)

Flood Control Project/ Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference [1]	State Share of Eligibility Percentage	State Share of Allowable Costs [2]
2004-01	132	634,222	634,222	—		100%	634,222
2004-02	133	400,358	400,358	—		100%	400,358
2005-09	134	274,500	274,500	—		100%	274,500
2008-01	135	117,030	117,030	—		100%	117,030
Overpayment on Prior Claim No. 82		—	(169,994)	(169,994)	Finding 1		(169,994)
Subtotal		5,562,159	5,392,165	(169,994)			5,392,165
Lower Silver Creek:							
93-01	1	231,347	231,347	—		75%	173,510
93-02	2	19,450	19,450	—		75%	14,587
94-01	3	485,780	485,780	—		75%	364,335
94-01	3	91,587	91,587	—		75%	68,690
94-01	3	27,945	27,945	—		75%	20,959
94-02	4	48,410	48,410	—		75%	36,307
94-02	4	23,634	23,634	—		90%	21,271
98-01	5	7,500	7,500	—		75%	5,625
99-01	6	9,000	9,000	—		75%	6,750
99-02	7	72,999	72,999	—		75%	54,749
99-02	7	70,696	70,696	—		90%	63,626
2001-01	8	39,044	39,044	—		75%	29,283
99-03	9	30,317	30,317	—		75%	22,738
99-04	10	1,250	1,250	—		75%	938
99-05	11	1,950	1,950	—		75%	1,463
2000-1	12	72,537	72,537	—		75%	54,403
2000-1	12	26,828	26,828	—		90%	24,145
2000-2	13	33,525	33,525	—		75%	25,144
2000-2	13	9,558	9,558	—		90%	8,602
2000-3	14	3,913	3,913	—		75%	2,935
2000-3	14	1,000	1,000	—		90%	900
2000-4	15	11,565	11,565	—		75%	8,674
2000-6	16	40,026	40,026	—		75%	30,020
2000-6	17	11,060	11,060	—		75%	8,295
2000-7	18	14,376	14,376	—		75%	10,782
2000-8	19	18,941	18,941	—		75%	14,206
2000-9	20	3,360	3,360	—		75%	2,520
2000-10	21	1,731	1,731	—		75%	1,298
2001-2	22	4,500	4,500	—		75%	3,375
2001-3	23	3,195	3,195	—		75%	2,396
2001-4	24	435	435	—		75%	326
2001-4	24	60	60	—		75%	45
2001-4	24	395	395	—		75%	296
2001-4	24	2,655	2,655	—		75%	1,991
2001-5	25	5,728	5,728	—		75%	4,296
2001-06	26	59,571	59,571	—		75%	44,678
2001-06	26	6,150	6,150	—		90%	5,535
2001-06	26	1,800	1,800	—		75%	1,350
2002-1	27	12,532	12,532	—		75%	9,399

Schedule 1 (continued)

Flood Control Project/ Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference [1]	State Share of Eligibility Percentage	State Share of Allowable Costs [2]
2002-2	28	9,152	9,152	—		75%	6,864
2002-3	29	33,764	33,764	—		75%	25,323
2002-3	29	2,700	2,700	—		75%	2,025
2002-04	30	11,513	11,513	—		75%	8,635
2002-06	32	45,354	45,354	—		75%	34,016
2003-02	35	400,000	400,000	—		75%	300,000
2003-03	36	355,000	355,000	—		75%	266,250
2003-04	37	355,000	355,000	—		75%	266,250
2003-05	38	395,000	395,000	—		75%	296,250
2003-06	39	61,600	61,600	—		75%	46,200
2003-07	40	9,000	9,000	—		75%	6,750
2003-08	41	1,250,000	1,250,000	—		75%	937,500
2005-01	42	365,000	365,000	—		75%	273,750
2005-02	43	98,000	98,000	—		75%	73,500
2005-03	44	25,047	25,047	—		75%	18,785
2005-04	45	9,127	9,127	—		75%	6,845
2005-05	46	6,227	6,227	—		75%	4,670
2005-06	47	53,317	53,317	—		75%	39,988
2005-07	48	2,998,000	2,980,000	(18,000)	Finding 2	75%	2,235,000
2005-08	49	344,776	344,776	—		75%	258,582
2005-09	50	448,409	448,409	—		75%	336,307
2005-10	51	576,000	576,000	—		75%	432,000
2005-11	52	15,000	15,000	—		75%	11,250
2008-01	53	16,314	16,314	—		75%	12,236
2008-01	53	7,177	7,177	—		90%	6,459
Subtotal		9,396,827	9,378,827	(18,000)			7,055,877
Lower Llagas Creek:							
92-3	152	71,763	56,129	(15,634)	Finding 3	100%	56,129
92-4	153	48,631	48,631	—		100%	48,631
93-1	154	131,208	131,208	—		100%	131,208
93-2	155	51,000	51,000	—		100%	51,000
93-3	156	209,423	208,673	(750)	Finding 4	100%	208,673
96-2	156a	(53,122)	(53,122)	—		100%	(53,122)
96-1	157	114,480	113,980	(500)	Finding 4	100%	113,980
94-1	158	2,400	2,400	—		100%	2,400
97-1	159	500	500	—		100%	500
99-1	160	182,300	182,300	—		100%	182,300
99-2	161	89,405	89,405	—		100%	89,405
99-3	162	281,452	281,452	—		100%	281,452
98-1	163	2,465	2,465	—		100%	2,465
99-4	164	106,620	106,620	—		100%	106,620
2000-1	165	432	202	(230)	Finding 4	100%	202
99-5	166	12,609	12,609	—		100%	12,609
2000-2	167	53,207	53,207	—		100%	53,207
2001-1	168	2,965	2,965	—		100%	2,965
2001-1	168	2,500	2,500	—		100%	2,500
2001-02	169	7,201	7,201	—		100%	7,201

Schedule 1 (continued)

Flood Control Project/ Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference [1]	State Share of Eligibility Percentage	State Share of Allowable Costs [2]
2001-03	170	9,100	9,100	—		100%	9,100
2002-01	171	6,549	6,549	—		100%	6,549
2002-01	171	445	445	—		100%	445
2002-02	172	295	295	—		100%	295
2002-03	173	3,094	3,094	—		100%	3,094
2008-01	174	24,870	24,870	—		100%	24,870
Subtotal		1,361,792	1,344,678	(17,114)			1,344,678
Totals		$16,320,778	$16,115,670	$ (205,108)			$13,792,720

[1] See the Findings and Recommendations 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.

Findings and Recommendations

FINDING 1—Duplicate payment by the Department of Water Resources (DWR) on prior claim

The district submitted Claim No. 82 (DWR No. ULCW 90-10) in the amount of $214,383 for the Upper Llagas Creek Flood Control Project. The whole amount was determined to be eligible for State participation in our prior audit. Due to clerical errors, the department made three payments to the district in the amount of $384,377. As a result, the district was overpaid by $169,994 as summarized below:

District Claim No. 82		$ 214,383
Less cash receipts from DWR 7-18-1990	$ (22,951)	
Less cash receipts from DWR 7-25-1991	(169,994)	
Less Pajaro River Rellocation	(191,432)	(384,377)
Finding 1, Upper Llagas Creek adjustment		$ (169,994)

The department's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section IV, Part D, specify that if the final review of project costs indicates that previous payments require adjustment, the local agency will be expected to reimburse the State for overpayments.

Recommendation

The department should offset the amount of overpayment against future payment due the district.

FINDING 2—Land costs claimed in excess of the appraised value

The district claimed land and easements costs of $2,998,000 that exceeded the $2,980,000 appriaised value on parcel number APN-481-31-001 by $18,000. Claimed costs in excess of high appraisal value are not allowable for the department reimbursement.

The department's guidelines specify that land costs may not exceed the agency's high appraisal value.

Finding 2, Lower Silver Creek adjustment	$ (18,000)

Recommendation

The district should reduce its claims for reimbursements by $18,000 for the Lower Silver Creek Flood Control Project.

FINDING 3—Interest income not offset on claim

The district did not offset against claimed costs the Lower Llagas Creek Flood Control Project's interest income of $15,634 earned on condemnation deposits made by the department.

The department's guidelines require that interest earned on deposits with the State Condemnation Fund be credited against claimed costs.

Finding 3, Lower Llagas Creek adjustment	$ (15,634)

Recommendation

The district should offset its claims by interest income earned on condemnation deposits in accordance with the department's guidelines.

FINDING 4—Department of Water Resources adjustment

The district's claims included ineligible costs that were specifically identified as ineligible and disallowed by the department. We concur with the department's determinations.

The department's guidelines specify that the department will reduce a local agency's reimburesment claims for any item that is determined to be ineligible.

We have adjusted inelgibile claimed costs for the Lower Llagas Creek Flood Control Project, as follows:

Claim No.	Description of Ineligible Costs	Audit Adjustment
93-3	Ineligible permit costs	$ (750)
96-1	Ineligible permit costs	(500)
2000-1	Ineligible maintenance costs	(230)
Finding 1, Lower Llagas Creek adjustments		$ (1,480)

Recommendation

The district should reduce its claims for reimbursements by $1,480 for the Lower Llagas Creek Flood Control Project.

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

http://www.sco.ca.gov

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