

SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Coyote Creek Flood Control Project

Claimed Costs Incurred From July 1, 1999, through June 30, 2000,

Guadalupe River Flood Control Project

Claimed Costs Incurred From July 1, 1987, through June 30, 2004



JOHN CHIANG
California State Controller

January 2009



JOHN CHIANG
California State Controller

January 9, 2009

Lester A. Snow, Director
California 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 submitted claims for the Coyote Creek Flood Control Project (CCFCP) for costs incurred from July 1, 1999, through June 30, 2000, and for the Guadalupe River Flood Control Project (GRFCP) for costs incurred from July 1, 1987, through June 30, 2004.

The district claimed a total of \$101,573,394 on claims for claimed costs incurred for CCFCP (\$8,557,478) and for GRFCP (\$93,015,916). Our audit disclosed that \$95,513,637 (\$8,204,732 for the CCFCP and \$87,308,905 for the GRFCP) is allowable and \$6,059,757 (\$352,746 for the CCFCP and \$5,707,011 for the GRFCP) is unallowable. The costs are unallowable primarily because the district claimed ineligible relocation, land acquisition, and rights-of-way costs; did not report interest earned on condemnation deposits; and overstated indirect 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:wm

cc: Michele Ng, Chief
Flood Control Subventions Program
Division of Flood Management
California Department of Water Resources
Olga Martin Steele, Interim General Manager
Santa Clara Valley Water District
Najon Chu, Financial Services Manager
Santa Clara Valley Water District

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Officials	2
Restricted Use	2
Schedule 1—Summary of Project Costs	3
Findings and Recommendations	7
Attachment—District’s Response to Audit Report Findings	

Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Santa Clara Valley Water District submitted under the Flood Control Subventions Program. The district submitted claims for the Coyote Creek Flood Control Project (CCFCP) for costs incurred from July 1, 1999, through June 30, 2000, and the Guadalupe River Flood Control Project (GRFCP) for claims incurred from July 1, 1987, through June 30, 2004.

The district claimed a total of \$101,573,394 on claims for costs incurred for Coyote Creek Flood Control Project (\$8,557,478) and for the Guadalupe River Flood Control Project (\$93,015,916). Our audit disclosed that \$95,513,637 (\$8,204,732 for the CCFCP and \$87,308,905 for the GRFCP) is allowable and \$6,059,757 (\$352,746 for the CCFCP and \$5,707,011 for the GRFCP) is unallowable. The costs are unallowable primarily because the district claimed ineligible relocation, land acquisition, and rights-of-way costs; did not report interest earned on condemnation deposits; and overstated indirect 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 (DWR) 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 DWR's *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 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 Santa Clara Valley Water District claimed a total of \$101,573,394 under the Flood Control Subventions Program for claimed costs incurred from July 1, 1999, through June 30, 2000, for the Coyote Creek Flood Control Project (\$8,557,478) and for claimed costs incurred from July 1, 1987, through June 30, 2004, for the Guadalupe River Flood Control Project (\$93,015,916).

Our audit disclosed that \$95,513,637 (\$8,204,732 for the CCFCP and \$87,308,905 for the GRFCP) is allowable and \$6,059,757 (\$352,746 for the CCFCP and \$5,707,011 for the GRFCP) is unallowable. The costs are unallowable primarily because the district claimed ineligible relocation, land acquisition, and rights-of-way costs; did not report interest earned on condemnation deposits; and overstated indirect costs.

**Views of
Responsible
Officials**

We discussed our audit results with Najon Chu, Manager Financial Services Division, and Charlene Forstner, Senior Accountant, during an exit conference on September 11, 2008. The district representatives agreed with the audit results, and agreed that we could issue the audit report as final. Santa Clara Valley Water District's responses to the SCO audit findings, signed off by its management, are included as an attachment to this report.

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

January 9, 2009

**Schedule 1—
Summary of Project Costs
July 1, 1987, through June 30, 2004**

<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> ¹	<u>State Share</u> <u>of Allowable</u> <u>Costs</u> ²
Coyote Creek Flood Control Project:					
16	\$ 1,094,917	\$ 1,088,914	\$ (6,003)	Finding 1	\$ 762,240
17	141,833	141,833	—		99,283
18	155,000	155,000	—		108,500
19	42,919	42,919	—		30,043
20	34,632	34,632	—		24,243
21	643	643	—		150
22	413,425	413,425	—		289,398
23	359,873	359,873	—		251,911
24	362,071	362,071	—		253,450
25	152,525	152,525	—		106,768
26	83,545	83,545	—		58,481
27	102,833	102,833	—		71,983
28	23,024	23,024	—		16,117
29	25,706	25,706	—		17,994
30	558,273	534,949	(23,324)	Finding 3	374,464
31	41,187	41,187	—		28,831
32	1,254,017	1,254,017	—		877,812
33	354,035	354,035	—		247,825
34	215,192	215,192	—		150,634
35	607,019	607,019	—		424,913
36	342,366	342,089	(277)	Finding 1	239,462
37	475,334	475,334	—		332,733
38	84,158	84,158	—		58,910
39	126,123	126,123	—		88,286
40	266,578	266,578	—		186,604
41	17,605	17,605	—		12,323
42	54,512	54,512	—		38,159
43	324,295	314,990	(9,305)	Finding 1	220,493
44	10,465	—	(10,465)	Finding 1	—
45	979,697	676,325	(303,372)	Finding 1	473,428
46	(315,118)	(315,118)	—		(220,583)
47	168,794	168,794	—		118,156
Subtotal	8,557,478	8,204,732	(352,746)		5,743,311
Guadalupe River Flood Control Project:					
1	1,006,000	1,006,000	—		704,200
2	384,750	384,750	—		269,325
3	227,500	158,113	(69,387)	Finding 1	110,679
4	139,000	34,750	(104,250)	Finding 1	24,325
5	114,500	114,500	—		80,150
6	135,000	118,976	(16,024)	Finding 1	83,283
7	272,200	187,981	(84,219)	Finding 1	131,587
8	214,500	114,329	(100,171)	Finding 1	80,030

Schedule 1 (continued)

Project Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Allowable Costs ²
9	646,500	646,500	—		452,550
10	149,500	114,726	(34,774)	Finding 1	80,308
11	295,000	295,000	—		206,500
12	978,000	316,187	(661,813)	Finding 1	221,331
13	121,400	121,400	—		84,980
14	134,000	134,000	—		93,800
15	210,000	210,000	—		147,000
16	288,115	288,115	—		201,681
17	192,500	192,500	—		134,750
18	634,184	614,894	(19,290)	Finding 2	430,426
19	40,353	40,353	—		28,247
20	26,950	26,950	—		18,865
21	358,864	358,864	—		251,205
22	390,836	390,836	—		273,585
23	289,500	289,500	—		202,650
24	346,000	238,210	(107,790)	Finding 1	166,747
25	1,455,600	1,455,600	—		1,018,920
26	175,715	175,715	—		123,000
27	767,300	767,300	—		537,110
28	911,000	745,745	(165,255)	Finding 1	522,021
29	237,000	78,139	(158,861)	Finding 1	54,697
30	604	604	—		422
31	97,843	97,843	—		68,490
32	865,484	865,484	—		605,839
33	1,580,816	1,580,816	—		1,106,571
34	1,331,454	1,331,454	—		932,018
35	4,386,095	4,386,095	—		3,070,266
36	6,242,373	6,202,821	(39,552)	Finding 1	4,341,975
37	160,000	94,672	(65,328)	Finding 1	66,270
38	15,118	14,380	(738)	Finding 1	10,066
39	91,020	56,548	(34,472)	Finding 1	39,584
40	76,748	73,962	(2,786)	Finding 1	51,773
41	528,000	528,000	—		369,600
42	6,247,500	3,131,530	(3,115,970)	Finding 1	2,171,641
43	2,441,000	1,911,000	(530,000)	Finding 1	1,329,700
44	360,000	359,000	(1,000)	Finding 1	251,300
45	860,000	585,000	(275,000)	Finding 1	395,500
46	741,984	741,984	—		519,389
47	7,293,008	7,293,008	—		5,105,106
47A	51,791	—	(51,791)	Finding 1	—
48	608,354	608,354	—		425,848
49	31,500	31,500	—		22,050
50	435,000	435,000	—		304,500
51	69,300	69,300	—		48,510
52	122,800	122,800	—		85,960
53	2,100	2,100	—		1,470
54	393,408	393,408	—		275,385
55	56,050	56,050	—		39,235
56	43,128	35,723	(7,405)	Finding 2	25,006
57	540,777	526,267	(14,510)	Finding 2	368,387

Schedule 1 (continued)

Project Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Allowable Costs ²
58	468,757	438,757	(30,000)	Finding 1	307,130
59	1,425,661	1,425,538	(123)	Finding 1	997,876
60	1,567,710	1,567,710	—		1,097,397
61	145,200	145,200	—		101,640
62	1,180,280	1,180,280	—		826,196
63	991,280	991,280	—		693,896
64	(1,081,626)	(1,081,626)	—		(757,138)
65	12,158	8,760	(3,398)	Finding 2	6,132
66	1,650,458	1,646,106	(4,352)	Finding 2	1,152,274
67	1,290,000	1,290,000	—		863,000
68	591,315	591,315	—		413,920
69	122,725	122,725	—		85,907
70	268,290	268,290	—		187,803
71	4,397	4,397	—		3,078
72	32,463	32,463	—		22,724
73	212,439	212,439	—		148,707
74	298,920	298,920	—		209,244
75	365,524	365,524	—		255,867
76	727,533	727,533	—		509,273
77	1,009,153	1,009,153	—		706,407
78	1,327,341	1,327,341	—		929,138
79	2,717,966	2,717,966	—		1,902,576
80	212,848	212,848	—		148,994
81	462,534	462,534	—		323,774
82	530,785	530,785	—		371,550
83	1,116,437	1,116,437	—		781,506
84	206,849	206,849	—		144,795
85	262,278	262,278	—		183,595
86	2,500,000	2,500,000	—		1,650,000
87	366,473	366,473	—		256,531
88	(535)	(535)	—		(374)
89	61,326	61,326	—		42,928
90	2,999	2,999	—		2,099
91	127,724	127,724	—		89,407
92	8,619	8,619	—		6,033
93	(30,090)	(30,090)	—		(21,063)
94	40,470	40,470	—		28,329
95	664,042	664,042	—		464,830
96	86,342	86,342	—		60,439
97	117,501	117,501	—		82,250
98	42,702	42,702	—		29,891
99	11,343	11,343	—		7,940
100	175,678	175,678	—		122,975
101	16,736	16,736	—		11,715
102	478,893	478,893	—		335,225
103	219,953	219,953	—		153,967
104	233,466	233,466	—		163,426
105	377,852	377,852	—		264,496
106	317,127	317,127	—		221,989
107	307,155	307,155	—		215,008

Schedule 1 (continued)

Project Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Allowable Costs ²
108	11,173	11,173	—		7,821
109	68,149	68,149	—		47,704
110	170,247	170,247	—		119,173
111	35,146	35,146	—		24,602
112	307,778	307,778	—		215,445
113	154,123	154,123	—		107,886
114	274,917	274,917	—		192,442
115	57,940	57,940	—		40,558
116	55,074	51,056	(4,018)	Finding 1	35,740
117	17,857	17,857	—		12,500
118	(448,675)	(448,675)	—		(314,072)
119	42,336	42,336	—		29,635
120	835,300	835,300	—		584,710
121	99,954	99,954	—		69,968
122	6,015,824	6,015,824	—		4,211,077
123	720,517	720,517	—		504,362
124	104,041	104,041	—		72,829
125	431,676	431,676	—		302,173
126	364,823	364,823	—		255,376
127	1,503,407	1,503,407	—		1,052,385
128	19,200	19,200	—		13,440
129	266,452	266,452	—		186,516
130	457,599	457,599	—		320,319
131	406,706	402,167	(4,539)	Finding 1	281,517
132	1,660,000	1,660,000	—		1,153,000
133	2,143,000	2,143,000	—		1,487,100
134	3,392,000	3,392,000	—		2,314,400
135	832,263	832,263	—		582,584
136	158,731	158,731	—		111,112
137	118,900	118,705	(195)	Finding 1	83,094
138	(21,000)	(21,000)	—		(14,700)
139	(441,803)	(441,803)	—		(309,262)
140	1,081,624	1,081,624	—		757,137
141	1,103,016	1,103,016	—		772,111
142	(41,852)	(41,852)	—		(29,296)
143	(1,000)	(1,000)	—		(700)
Subtotal	<u>93,015,916</u>	<u>87,308,905</u>	<u>(5,707,011)</u>		<u>60,851,801</u>
Total	<u>\$ 101,573,394</u>	<u>\$ 95,513,637</u>	<u>\$ (6,059,757)</u>		<u>\$ 66,595,112</u>

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— Department of Water Resources adjustment

The district's claims included ineligible costs that were specifically identified as ineligible and disallowed by the California Department of Water Resources (DWR). We concur with DWR's determinations.

DWR's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section VI, Part D, specifies that DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

We have adjusted ineligible claimed costs for the Coyote Creek Flood Control Project and the Guadalupe River Flood Control Project, as follows:

Coyote Creek Flood Control Project

<u>Claim No.</u>	<u>Description of Ineligible Costs</u>	<u>Audit Adjustment</u>
16	Ineligible permit costs	\$ (6,003)
36	Ineligible project sign costs	(277)
43	Ineligible hazardous waste remediation, federal express, notice to bidders and permit costs	(9,305)
44	Ineligible temporary Standish dam	(10,465)
45	Ineligible relocation of Standish dam, hazardous materials investigation and remediation, relocation of water line and Camp Coyote, and associated land costs	(303,372)
	Total Coyote Creek adjustments	<u>\$ (329,422)</u>

Guadalupe River Flood Control Project

<u>Claim No.</u>	<u>Description of Ineligible Costs</u>	<u>Audit Adjustments</u>
3	Reduce real estate claim to National Economic Development Plan (NED) percentage	\$ (69,387)
4	Reduce real estate claim to NED percentage	(104,250)
6	Reduce real estate claim to NED percentage	(16,024)
7	Reduce real estate claim to NED percentage	(84,219)
8	Reduce real estate claim to NED percentage	(100,171)
10	Reduce real estate claim to NED percentage	(34,774)
12	Reduce real estate claim to NED percentage	(661,813)
24	Reduce real estate claim to NED percentage	(107,790)
28	Reduce real estate claim to NED percentage	(165,255)
29	Reduce real estate claim to NED percentage	(158,861)
36	Ineligible environmentally related costs: Aquatic Impact Study Environmental Consulting Initial Study/EIS	(39,552)
37	Reduce real estate claim to NED percentage	(65,328)
38	Ineligible costs for permits	(738)
39	Ineligible costs for permits	(34,472)
40	Ineligible costs for permits	(2,786)

Guadalupe River Flood Control Project (continued)

Claim No.	Description of Ineligible Costs	Audit Adjustment
42	Ineligible costs for cash contributions to the U.S. Army Corps for incremental and betterment costs: Eligible costs: 70% = NED costs 50% = Recreation	(3,115,970)
43	Ineligible costs for cash contributions to the U.S. Army Corps for incremental and betterment costs: Eligible costs: 70% = NED costs 50% = Recreation	(530,000)
44	Ineligible costs for real estate clerical error; overstated cost by \$1,000	(1,000)
45	Ineligible costs for cash contributions to the U.S. Army Corps for incremental and betterment costs: Eligible costs: 70% = NED costs 50% = Recreation	(275,000)
47A	Ineligible costs for City of San Jose's portion for the Hedding Street Bridge; the city is not party to the U.S. Army Corps cost share agreement	(51,791)
58	Ineligible costs for real estate settlement for \$30,000 more than the appraised value of the severance damages	(30,000)
59	Ineligible costs for consulting services for the preparation of an initial study and negative declaration for the Coleman Avenue to New Julian Street Reach of the project	(123)
116	Ineligible costs for temporary help and Federal Express	(4,018)
131	Ineligible costs for labor	(4,539)
137	Ineligible costs for real estate field office costs	(195)
	Total Guadalupe River adjustments	<u>\$(5,658,056)</u>

As a result, costs totaling \$329,422 are unallowable for the Coyote Creek Flood Control Project and \$5,658,056 are unallowable for the Guadalupe River Flood Control Project.

Recommendation

The district should reduce its claims for reimbursements by \$329,422 for the Coyote Creek Flood Control Project and \$5,658,056 for the Guadalupe Flood Control Project.

District's Response

For Real Estate claims that were made in the late 1980's and early 1990's, the Guadalupe River Project Land Rights Work Maps were not yet finalized with the National Economic Development Plan (NED) % allocations. Once the allocation between NED and the Locally Preferred Plan (LPP) allowances were disclose to the District in June 1997, via DWR's Engineering Reports, no further discrepancies of this nature occurred in subsequent District Real Estate claims.

For Cash Contribution claims, once DWR notified the District that not all Cash Contributions to the U.S. Army Corps of Engineers (Corps) were DWR reimbursable, and that some contributions were only 50% (not 70%) reimbursable, the District submitted all further claims in accordance with this notification.

Claim submittal for ineligible costs, such as for permits, were made in 1996 and 1997. After learning they were ineligible via the DWR Engineering Reports, District’s future claims never repeated these errors.

It should be noted that not all agreements executed by the Corps and the District clearly spelled out or address aspects of the complicated, multi-objective projects. Many issues that arose were unique, and required detailed evaluation and collaboration to determine eligible cost. District Staff successfully appealed an additional \$1,131,740.85 (Coyote Creek \$577,920 plus Guadalupe River \$553,820) of DWR denied costs.

There is no financial impact regarding Finding No. 1 for \$5,987,478, as these claims contained costs that the District needed guidance on regarding DWR eligibility. These costs were determined to be ineligible during DWR’s Engineering Review/Report and, as a result, these costs were never paid to the SCVWD and outstanding claims have already been reduced in the Fiscal Year of notification of the DWR reduction or after final appeal determination.

SCO’s Comment

In the future, the district should resolve the eligibility issues and amend its claims once the eligibility issues are resolved prior to closing out of the project claims.

**FINDING 2—
Interest income not
offset on claims—
GRFCP**

The district did not offset claimed costs against the Guadalupe River Flood Control Project’s interest income of \$48,955 earned on condemnation deposits made by DWR.

The DWR’s *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section VI, Part C1, requires that interest earned on deposits with the State Condemnation Fund be credited against claimed costs.

We have adjusted claimed costs against interest income as follows:

<u>District Claim Number</u>	<u>Audit Adjustment</u>
18	\$ (19,290)
56	(7,405)
57	(14,510)
65	(3,398)
66	<u>(4,352)</u>
Total	<u>\$ (48,955)</u>

Recommendation

The district should offset its claims against interest income earned on condemnation deposits in accordance with DWR guidelines.

District's Response

The district concurred with our finding and recommendation.

**FINDING 3—
Overclaimed indirect
costs—CCFCP**

The district claimed indirect costs for the Coyote Creek Flood Control Project (CCFCP) for fiscal year (FY) 1993-94 at a provisional rate of 158.02%. The actual allowable rate per the Department of Defense Audit (DCAA) should be 147.24%. As a result, claimed indirect costs were overstated by \$23,324.

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

We have adusted overclaimed indirect costs for FY 1993-94 for the CCFCP as follows:

		<u>Audit Adjustments</u>
Direct labor costs claimed		\$ 216,368
Provisional indirect cost rate	158.02%	
Less actual rate	<u>(147.24)%</u>	
Overstated rate		× 10.78%
Total adjustment		<u>\$ (23,324)</u>

Recommendation

The district should offset future claims by over-claimed indirect costs of \$23,324. DWR should reduce reimbursement claims by \$23,324.

District's Response

The district concurs with our finding and recommendation.

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

State Controller's Office - Audit of DWR Claims for Guadalupe River and Coyote Creek Projects

Santa Clara Valley Water District's Responses to be added to the Final Audit Report as signed off by SCVWD Managers.

From APS #1 10/1

Insert 10

FINDING 1 – The district's claims included ineligible costs that were specifically identified as ineligible and disallowed by the State Department of Water Resources (DWR). We concur with DWR's determinations.

Department of Water Resources adjustments

DWR's Guidelines for State Reimbursement on Flood Control Projects (February 1874), Section VI, Part D specifies that DWR will reduce a local agency's reimbursement claims for any item that is determined to be ineligible.

We have adjusted Ineligible claimed costs for the Coyote Creek and Guadalupe River Flood Control Projects, as follows:

Coyote Creek Flood Control Project

Claim No.	Description of Ineligible Costs	Audit Adjustments
16	Ineligible Permit Costs	(\$6,000)
36	Ineligible Project Sign Costs	(277)
43	Ineligible Hazardous Waste Remediation, Federal Express, Notice to Bidders & Permit Costs	(9,305)
44	Ineligible Temporary Slandish Dam	(10,465)
45	Ineligible Relocation of Slandish Dam, HTHW Investigation, Relocation of Water Line & Camp Coyote & Associated Land Costs	(303,372)
	Total Coyote Creek Adjustments	(\$329,422)

Guadalupe River Flood Control Project

Claim No.	Description of Ineligible Costs	Audit Adjustments
3	Reduce Real Estate Claim to NED %	(\$69,387)
4	Reduce Real Estate Claim to NED %	(104,250)
6	Reduce Real Estate Claim to NED %	(16,074)
7	Reduce Real Estate Claim to NED %	(84,219)
8	Reduce Real Estate Claim to NED %	(100,171)
10	Reduce Real Estate Claim to NED %	(34,774)
12	Reduce Real Estate Claim to NED %	(661,813)
24	Reduce Real Estate Claim to NED %	(107,790)
28	Reduce Real Estate Claim to NED %	(165,255)
29	Reduce Real Estate Claim to NED %	(158,861)
36	Ineligible Environmentally related costs: Aquatic Impact Study Environmental Consulting Initial Study / EIS	(38,552)
37	Reduce Real Estate Claim to NED %	(85,328)
38	Ineligible costs for Permits.	(798)
39	Ineligible costs for Permits.	(34,472)
40	Ineligible costs for Permits.	(2,785)
42	Ineligible costs for Cash Contributions to the US Army Corps for Incremental and Betterment Costs <u>Eligible Costs:</u> 70% = NED Costs 50% = Recreation	(3,115,970)
43	Ineligible costs for Cash Contributions to the US Army Corps for Incremental and Betterment Costs <u>Eligible Costs:</u> 70% = NED Costs 50% = Recreation	(530,000)
44	Ineligible costs for Real Estate typo error. Overstated cost by \$1,000.	(1,000)
45	Ineligible costs for Cash Contributions to the US Army Corps for Incremental and Betterment Costs. <u>Eligible Costs:</u> 70% = NED Costs 50% = Recreation	(275,000)
47A	Ineligible costs for City of San Jose's portion of the Hedding Street Bridge. The City is not party to the US Army Corps Cost Share Agreement.	(51,781)
58	Ineligible costs for Real Estate settlement for \$30,000 more than the appraised value of the severance damages	(30,000)
59	Ineligible costs for Consulting services for the preparation of an Initial Study and Negative Declaration for the Coleman Avenue to New Julian Street Reach of the Project.	(123)
116	Ineligible costs for temporary help & Federal Express	(4,018)
131	Ineligible costs for Labor	(4,539)
137	Ineligible costs for Real Estate Field Office Costs	(195)
	Total Guadalupe River Adjustments	(\$5,658,056)

State Controller's Office - Audit of DWR Claims for Guadalupe River and Coyote Creek Projects

Santa Clara Valley Water District's Responses to be added to the Final Audit Report as signed off by SCVWD Managers.

As a result, costs totaling \$329,422 are disallowed for the Coyote Creek Flood Control Project and \$5,658,056 are disallowed for the Guadalupe River Flood Control Project.

Recommendation

The district should reduce its claims for reimbursements by \$329,422 for the Coyote Creek Flood Control Project and \$5,658,056 for the Guadalupe Flood Control Project.

Santa Clara Valley Water District's Response

For Real Estate claims that were made in the late 1980's and early 1990's, the Guadalupe River Project Land Rights Work Maps were not yet finalized with the National Economic Development Plan (NED) % allocations. Once the allocation between NED and the locally Preferred Plan (LPP) allowances were disclosed to the District in June 1997, via DWR's Engineering Reports, no further discrepancies of this nature occurred in subsequent District Real Estate claims.

For Cash Contribution claims, once DWR notified the District that not all Cash Contributions to the U. S. Army Corps of Engineers (Corps) were DWR reimbursable, and that some contributions were only 50% (not 70%) reimbursable, the District submitted all further claims in accordance with this notification.

Claim submittal for ineligible costs, such as for permits, were made in 1996 and 1997. After learning they were ineligible via the DWR Engineering Reports, District's future claims never repeated these errors.

It should be noted that not all agreements executed by the Corps and the District clearly spelled out or address aspects of the complicated, multi-objective projects. Many issues that arose were unique, and required detailed evaluation and collaboration to determine eligible cost. District Staff successfully appealed an additional \$1,331,740.85 (Coyote Creek \$577,920 plus Guadalupe River \$553,820) of DWR denied costs.

There is no financial impact regarding Finding No. 1 for \$5,987,478, as these claims contained costs that the District needed guidance on DWR eligibility. These costs were determined to be ineligible during DWR's Engineering Review/Report and, as a result, these costs were never paid to the SCVWD and outstanding claims have already been reduced in the Fiscal Year of notification of the DWR reduction or after final appeal determination.

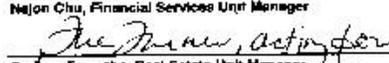
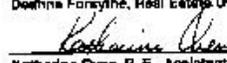
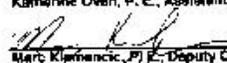
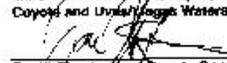
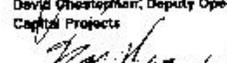
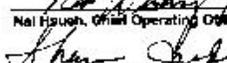
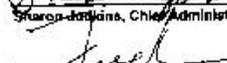
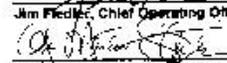
Finding No. 2 of \$48,955 and Finding No. 3 of \$23,324 (total of \$72,279) are amounts due DWR and were credited against claimed costs. Of the total audited costs of \$101,573,392, only an immaterial amount of \$72,279 was due back to DWR via a credit against claims.

The net financial impact, as a result of this Audit, was Revenue paid to the SCVWD of \$5,799,003.94 (net of all adjustments), \$557,828.32 for Coyote Creek and \$5,261,175.62 for Guadalupe River.

Amounts are prior to application of Eligible % Reimbursement and include reductions for Finding Nos. 1, 2, and 3

Claims Submitted - Coyote Creek	8,557,478
Claims Submitted - Guadalupe River	93,015,916
	101,573,392
Reductions of claims - Coyote Creek	(357,146)
Reductions of claims - Guadalupe River	(5,707,611)
	(6,064,757)
Net Claim Amounts Approved	95,513,636
Percentage of Claims Approved	94%

APPROVED BY:

	9/11/08
Nejon Chu, Financial Services Unit Manager	Date
	9/11/08
Dawnna Forsythe, Real Estate Unit Manager	Date
	8/25/08
Katherine Owen, P. E., Assistant Officer	Date
	9-11-08
Marc Klemenec, P. E., Deputy Operating Officer Coyote and Upper Guage Watershed Division	Date
	9/11/08
David Christoffman, Deputy Operating Officer Capital Projects	Date
	9/11/08
Neil Housh, Chief Operating Officer	Date
	9/11/08
Sharon Jenkins, Chief Administrative Officer	Date
	9/11/08
Jim Fiedler, Chief Operating Officer	Date
	9/2/08
Olga Martin-Shawle, Chief Executive Officer	Date

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