

**VENTURA COUNTY WATERSHED
PROTECTION DISTRICT**

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Beardsley Watershed Project

July 1, 1997, through September 30, 2008



BETTY T. YEE
California State Controller

January 2022



BETTY T. YEE
California State Controller

January 5, 2022

Eric Nichol, Assistant Chief
Division of Flood Management
Department of Water Resources
3310 El Camino Avenue, Suite 120
Sacramento, CA 95821

Dear Mr. Nichol:

The State Controller's Office audited Flood Control Subventions Program claims submitted by the Ventura County Watershed Protection District to the Department of Water Resources (DWR). Our audit pertained to DWR Claim Number BWW 15, for the period of July 1, 1997, through September 30, 2008.

The district claimed \$1,290,747 for the Beardsley Watershed project. Our audit found that \$1,057,429 is allowable and \$233,318 is unallowable. The costs are unallowable because the district claimed costs that were ineligible, lacked required DWR preapproval, and lacked supporting documentation.

The district was reimbursed \$1,004,863 during the audit period. Pursuant to California Water Code section 12832, the DWR reimbursed the district 90% of eligible costs claimed, with the remaining 10% to be released subject to the completion of this audit. Based on our audit, the state share of allowable project costs, which represents the percentage of state funding stipulated in California Water Code for each project cost category, is \$924,904. The district should return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

cc: Mehdi Mizani, Acting Manager, Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Glenn Shephard, Director
Ventura County Watershed Protection District
Linda Parks, Chair
Ventura County Board of Supervisors
Jeffery S. Burgh, Auditor-Controller
Ventura County

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Audit Report

Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program reimbursement claims of the Ventura County Watershed Protection District to the Department of Water Resources (DWR). Our audit pertained to DWR Claim Number BWW 15, for the period of July 1, 1997, through September 30, 2008.

The district claimed \$1,290,747 during the audit period. Our audit found that \$1,057,429 is allowable and \$233,318 is unallowable. The costs are unallowable because the district claimed costs that were ineligible, lacked required DWR preapproval, and lacked supporting documentation.

The district was reimbursed \$1,004,863 during the audit period. Pursuant to California Water Code section 12832, the DWR reimbursed the district 90% of eligible costs claimed, with the remaining 10% to be released subject to completion of this audit. Based on our audit, the state share of allowable project costs, which represents the percentage of state funding stipulated in California Water Code for each project cost category, is \$924,904. The district should return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR.

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 (California Water Code, Division 6, Part 6, Chapters 1 through 4), the 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. In accordance with California Water Code section 12866.2, the DWR reimburses the district for 75% of eligible costs associated with land acquisitions and 90% of eligible costs associated with relocations.

The DWR's *Guidelines for State Reimbursement on Flood Control Projects (Guidelines)* describe the compliance requirements for local agencies seeking reimbursement for the state share of federal flood control projects.

Audit Authority

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority of California Water Code section 12832, which requires the State Controller to perform audits of flood control projects.

Objective, Scope, and Methodology

Our audit objective was to determine whether the costs claimed as presented in the Schedule were:

- Allowable and in compliance with the DWR *Guidelines*; and
- Adequately supported and documented.

We audited the Beardsley Watershed project for the period of July 1, 1997, through September 30, 2008.

To achieve our objective, we completed the following procedures:

- We gained an understanding of the district's internal controls that are significant to the audit objective by reviewing policies and procedures and interviewing key personnel.
- We evaluated and assessed control activities over the claim preparation process by inspecting documents and records, and inquiring with key personnel.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing district officials knowledgeable about the data; and by judgmentally tracing non-statistical sample of data to source documents. We determined that the data was sufficiently reliable for the purposes of achieving our audit objective.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We reviewed the district's prior SCO audit and single audit reports.
- We reviewed the DWR's claim evaluation on the district's claim.
- We determined whether the district received revenues that should be offset against the flood program expenditures.
- We reviewed the district's claim detail for any condemnation interest, and inquired of the district whether it had received interest on condemnation deposits.
- We determined whether the district received from DWR advances on its flood control project expenditures.
- We verified through sampling that the costs claimed were supported by proper documentation and eligible in accordance with the applicable criteria. Based on our risk assessment, we tested all items that were equal to or greater than the significant item amount (calculated based on materiality threshold). We also tested additional items that were valued less than the individual significant item amount, based on auditor judgment and non-statistical sampling. Based on errors identified in the selected sample, we expanded our testing to include all \$1,290,747 in expenditures.

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 that costs claimed are allowable for reimbursement.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

As a result of performing the audit procedures, we found instances of noncompliance with the requirements described in our audit objective. These instances are quantified in the Schedule and described in the Findings and Recommendations section.

The district claimed \$1,290,747 during the audit period. Our audit found that \$1,057,429 is allowable and \$233,318 is unallowable. The district was reimbursed \$1,004,863 during the audit period.

Pursuant to California Water Code section 12832, the DWR reimbursed the district 90% of eligible costs claimed, with the remaining 10% to be released subject to completion of this audit. The state share of allowable costs is \$924,904. The district should return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR.

**Follow-up on
Prior Audit
Findings**

The findings noted in our prior audit report, issued on April 30, 2012, have been satisfactorily resolved by the district.

**Views of
Responsible
Officials**

We issued a draft audit report on October 14, 2021. Glenn Shephard, Director, responded by letter dated October 22, 2021 (Attachment).

Restricted Use

This audit report is solely for the information and use of the Ventura County Watershed Protection District, the DWR, 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, and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

January 5, 2022

Schedule—
Summary of Project Costs
July 1, 1997, through September 30, 2008

Claim # / Claim Category	Costs Claimed	Audit Adjustments to Claimed Costs ¹	Allowable Per Audit	State Share of Eligibility Percentage ²	State Share of Claimed Costs ³	Adjustments to State Share	State Share of Allowable Costs	Reimbursement Received by the District	Reimbursement Due to District (Due to State)
BWW 15 / Land	\$ 206,382	\$ (27,835)	\$ 178,547	75%	\$ 140,585	\$ (6,675)	\$ 133,910	\$ 126,527	\$ 7,383
BWW 15 / Relocations	1,084,365	(205,483)	878,882	90%	975,929	(184,935)	790,994	878,336	(87,342)
Total	<u>\$ 1,290,747</u>	<u>\$ (233,318)</u>	<u>\$ 1,057,429</u>		<u>\$ 1,116,514</u>	<u>\$ (191,610)</u>	<u>\$ 924,904</u>	<u>\$ 1,004,863</u>	<u>\$ (79,959)</u>

¹See the Findings and Recommendations section. The audit adjustment of \$233,318 is comprised of \$18,935 (Finding 1); and \$8,900 and \$205,483 (Finding 2).

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

³DWR reduced the district's claim by \$18,935; therefore the State's share of claimed costs is \$140,585 instead of \$154,787.

Findings and Recommendations

**FINDING 1—
DWR adjustments**

The district claimed \$1,290,747 for costs related to the Beardsley Watershed Project. During its review of the claim, the DWR identified \$1,271,812 as eligible for reimbursement and \$18,935 as ineligible for reimbursement.

The DWR reimburses the district for 75% of eligible costs associated with land acquisitions and 90% of eligible costs associated with relocations. The State share of the reimbursable claimed costs is \$1,116,514. The DWR reimbursed the district \$1,004,863 (90% of eligible project costs) and withheld \$111,651 (10% of eligible project costs) as a retention balance pending our audit.

Of the \$18,935 in ineligible costs identified by the DWR, \$18,355 was for negotiated settlements to acquire land and easements, and \$580 was for restoration costs. The negotiated settlements exceeded the appraised fair market value; however, the district did not request the necessary preapproval from the DWR. The restoration costs were ineligible. Therefore, the DWR reduced the district’s claimed costs by \$18,935.

The table below shows DWR’s adjustment to the district’s claimed costs:

Claim # / Claim Category	Costs Claimed	DWR Adjustments to Claimed Costs	Eligible for Reimbursement	State Share of Eligibility Percentage	State Share of Eligible Costs
BWW 15 / Land	\$ 206,382	\$ (18,935)	\$ 187,447	75%	\$ 140,585
BWW 15 / Relocations	1,084,365	-	1,084,365	90%	975,929
	<u>\$ 1,290,747</u>	<u>\$ (18,935)</u>	<u>\$ 1,271,812</u>		<u>\$ 1,116,514</u>

The error occurred because the district did not follow applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section IV, Part D.1 of the DWR *Guidelines* states, in part:

Negotiated settlements and stipulated judgments may not exceed the local agency’s high appraised value unless the advance approval of the Department [of Water Resources] has been obtained

Section VI, Part D of the DWR *Guidelines* states, in part:

The Department [of Water Resources] will deduct “without prejudice” any item which cannot be verified. The local agency will have 90 days from the date of notification of the deductions to submit additional supporting information. If such information is not received within 90 days, the Department will presume that the local agency accepted the deduction.

Recommendation

We recommend that the district follow applicable policies and procedures to ensure that all costs claimed for reimbursement are allowable.

District’s Response

The land acquisition, easement, and restoration were not subject to the Flood Control Subventions Program (FCSP) guidelines at the time the costs were incurred. VCPWA-WPD follows procedures for verifying claimed expenditures are eligible under grant terms; however, staff did not have pre-approval at the time of submission. Following the exit conference, staff [met] with DWR to review land acquisition and easement FCSP guidelines to incorporate the process to future land acquisitions when FCSP funding is present.

SCO Comment

SCO agrees with the DWR’s determination of the costs as ineligible. It appears that the district has since met with the DWR to review the guidelines.

**FINDING 2—
Unallowable costs**

Land and easement costs

The district claimed \$206,382 in land and easement costs related to the Beardsley Watershed project during the audit period. We tested \$205,232 of the claimed costs, and identified \$8,900 in unallowable costs. We tested the remaining \$1,150 of land and easement costs to determine whether additional claimed costs were unallowable. We did not identify any additional unallowable costs.

The district reached an agreement with a property owner regarding a real property acquisition and temporary easement related to the project. The agreed-upon payment exceeded the appraised fair market value for the property and temporary easement. However, the district did not obtain preapproval from the DWR for the amount paid in excess of fair market value. Therefore, claimed costs of \$8,900 for land and easements are unallowable.

The table below shows the resulting reduction in the State’s share of allowable costs:

<u>Vendor</u>	<u>Reimbursement Category</u>	<u>Audit Adjustments</u>	<u>State Share</u>	<u>Reduction in State Share of Allowable Costs</u>
Oxnard Investment Group	Land and easements	\$ (8,900)	75%	\$ (6,675)

The error occurred because the district did not follow applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section IV, Part D.1 of the DWR *Guidelines* states:

Negotiated settlements and stipulated judgments may not exceed the local agency's high appraised value unless the advance approval of the Department [of Water Resources] has been obtained

Relocation costs

The district claimed \$1,084,365 in relocation costs for the Beardsley Watershed project for the audit period. We tested \$1,074,373 of these claimed costs and identified \$205,483 in unallowable relocation costs. We tested the remaining \$9,992 of relocation costs to determine whether additional claimed costs were unallowable. We did not identify any additional unallowable relocation costs.

For the \$205,483 in unallowable relocation costs, the district was unable to provide adequate supporting documentation. It is unclear whether the district did not receive detailed invoices or receipts, or whether such invoices or receipts were received but not retained through the completion of this audit.

The district was unable to provide itemized invoices or receipts for the following relocation costs:

- The district paid Del Norte Water Company \$71,180 as an advanced payment for work to be completed, but was unable to provide itemized invoices or receipts for actual work performed related to the \$71,180 payment.
- The district paid SBC/Pacific Bell \$269,577 as an advanced payment for work to be completed and \$69,349 for work already performed. The district provided supporting documentation (an itemized statement for \$221,971, and a refund receipt for \$47,606) for the advanced payment. However, the district was unable to provide itemized invoices or receipts for actual work performed related to the \$69,349 payment.
- The district paid Verizon \$95,748 as an advanced payment for work to be completed. The district provided supporting documentation for a \$30,794 refund, but was unable to provide itemized invoices or receipts for actual work performed related to the remaining \$64,954.

The district follows the records retention policy described in the County of Ventura's *Federal Grant Administration Policies and Procedures*. This records retention policy does not require that supporting documentation be maintained until an audit is completed. Without supporting documentation, we were unable to verify that these costs were in accordance with the DWR's *Guidelines*. Therefore, the \$205,483 claimed for relocations is unsupported and unallowable.

The table below shows the reduction in the State’s share of allowable costs:

Vendor	Reimbursement Category	Audit Adjustment	State Share	Reduction in State Share of Allowable Costs
Del Norte Water Company	Relocations	\$ (71,180)	90%	\$ (64,062)
SBC/Pacific Bell	Relocations	(69,349)	90%	(62,414)
Verizon	Relocations	(64,954)	90%	(58,459)
		<u>\$ (205,483)</u>		<u>\$ (184,935)</u>

The error occurred because the district did not follow applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section VI, Part D of the DWR *Guidelines* states:

The local agency must keep and maintain a complete, accurate, and itemized record of any cost for which state reimbursement is requested... Until such time as the final audit is made, the local agency must maintain its record of project expenditures. 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.

The \$191,610 reduction in state share of allowable costs reduced the total state share of allowable costs to \$924,904. Therefore, the \$1,004,863 reimbursement to the district resulted in an overpayment of \$79,959.

Recommendation

We recommend that the district:

- Return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR; and
- Follow applicable policies and procedures to ensure that all costs claimed for reimbursement are allowable.

District’s Response

VCPWA-WPD performed a review of the \$79,959 that the SCO found to be in excess of allowable claimed costs. The relocation, land, and easement costs were not subject to the Flood Control Subventions Program (FCSP) guidelines at the time the costs were incurred. VCPWA-WPD follows procedures for verifying claimed expenditures are eligible under grant terms and deemed the supporting documentation, at submission, in compliance with the grant agreement of allowable costs. However, VCPWA-WPD was unable to provide additional supporting documentation requested by the SCO during the audit. Records retention is evaluated on regulatory requirements and agreements basis. The *Federal Grant Administration Policies and Procedures*, an internal document by County of Ventura Public Works Agency Central Services Department, provides general guidelines relating to federal grants record retention. VCPWA-WPD agrees to return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR when the formal request has been provided by DWR. VCPWA-WPD also agrees to additional scrutiny in following applicable

policies and procedures to ensure that all costs claimed for reimbursement are allowable.

SCO Comment

The land and easement costs are ineligible due to a lack of preapproval from the DWR for payments in excess of fair market value, which the *Guidelines* require. The relocation costs are ineligible due to a lack of supporting documentation.

**Attachment—
Ventura County Watershed Protection District's Response
to Draft Audit Report**

October 22, 2021

Efren Loste, Chief,
Local Government Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250

**Subject: Ventura County Public Works Agency Watershed Protection District
Flood Control Subventions Program Beardsley Watershed Project,
Response to Draft Audit Report**

Dear Mr. Loste:

The Ventura County Public Works Agency-Watershed Protection District (VCPWA-WPD) respectfully submits the following responses and comments to the Draft Flood Control Subventions Program Audit Report submitted to the County on October 14, 2021.

Finding 1 – Page 5

SCO Recommendation: We recommend that the District follow applicable policies and procedures to ensure that all costs claimed for reimbursement are allowable.

VCPWA-WPD Response: The land acquisition, easement, and restoration were not subject to the Flood Control Subventions Program (FCSP) guidelines at the time the costs were incurred. VCPWA-WPD follows procedures for verifying claimed expenditures are eligible under grant terms; however, staff did not have pre-approval at the time of submission. Following the exit conference, staff has met with DWR to review land acquisition and easement FCSP guidelines to incorporate the process to future land acquisitions when FCSP funding is present.

Finding 2 – Page 6

SCO Recommendation:

- Return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR.



- Follow applicable policies and procedures to ensure that all costs claimed for reimbursement are allowable.

County Response: VCPWA-WPD performed a review of the \$79,959 the SCO found to be in excess of allowable claimed costs. The relocation, land, and easement costs were not subject to the Flood Control Subventions Program (FCSP) guidelines at the time the costs were incurred. VCPWA-WPD follows procedures for verifying claimed expenditures are eligible under grant terms and deemed the supporting documentation, at submission, in compliance with the grant agreement of allowable costs. However, VCPWA-WPD was unable to provide additional supporting documentation requested by the SCO during the audit. Records retention is evaluated on regulatory requirements and agreements basis. The Federal Grant Administration Policies and Procedures, an internal document by County of Ventura Public Works Agency Central Services Department, provides general guidelines relating to federal grants record retention. VCPWA-WPD agrees to return the amount reimbursed in excess of allowable claimed costs, totaling \$79,959, to the State through the DWR when the formal request has been provided by DWR. VCPWA-WPD also agrees to additional scrutiny in following applicable policies and procedures to ensure that all costs claimed for reimbursement are allowable.

Should you have any questions regarding the content of this letter or would like any further clarification, please feel free to contact Glenn Shephard at 805-654-2040.

Sincerely,



Glenn Shephard, P.E.
Director, VCPWA-WPD

cc: Debra Cavaletto, Fiscal Manager, County of Ventura



**State Controller's Office
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Post Office Box 942850
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