

SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Upper Guadalupe River and Lower Silver Creek Watershed
Flood Control Projects

April 9, 2009, through March 2, 2012



BETTY T. YEE
California State Controller

January 2016



BETTY T. YEE
California State Controller

January 26, 2016

Mark Cowin, Director
Department of Water Resources
1416 Ninth Street, Room 1115-1
Sacramento, CA 95814

Dear Mr. Cowin:

The State Controller's Office audited claims submitted by the Santa Clara Valley Water District under the Flood Control Subventions Program.

The district claimed costs of \$23,263,517 for the Upper Guadalupe River and Lower Silver Creek Watershed Flood Control projects for the period of April 9, 2009, through March 2, 2012. Our audit found that \$21,132,101 is allowable and \$2,131,416 is unallowable. The State share of allowable costs is \$15,432,086. The State share represents the percentage of state funding stipulated in California Water Code sections 12585.5, 12670.8, and 12866.2.

The unallowable costs of \$2,131,416 occurred because the district claimed \$1,975,274 in expenditures identified as ineligible by the California Department of Water Resources, and claimed costs of \$156,142 for land purchases that exceeded the appraised value.

If you have any questions, please contact Mike Spalj, Chief, Local Government Audits Bureau, at (916) 324-6984.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Nahideh Madankar, Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Patrick Luzuriaga, Program Manager
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Gary Kremen, Board Chair
Santa Clara Valley Water District
Bean Goldie, Chief Executive Officer
Santa Clara Valley Water District
Joe Atmore, Revenue Unit 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 Guadalupe River and Lower Silver Creek Watershed Flood Control Projects, for the period of April 9, 2009, through March 2, 2012.

The district claimed \$23,263,517 during the audit period. Our audit found that \$2,132,101 is allowable and \$2,131,416 is unallowable. The State share of allowable costs is \$15,432,086. The State share represents the percentage of state funding stipulated in California Water Code sections 12585.5, 12670.8 and 12866.2.

The unallowable costs occurred because the district claimed \$1,975,274 in expenditures identified as ineligible by the California Department of Water Resources, and claimed costs of \$156,142 for land purchases that exceeded the appraised value.

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 requires 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 objectives are 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;
- Adequately supported and documented; and
- Abated for applicable credits.

To achieve our audit objectives, we performed the following audit procedures:

- Reviewed the auditee's prior SCO audit and single audit.
- Gained a basic understanding of the internal controls and claim process by interviewing key personnel, completing the internal control questionnaire, and reviewing the auditee's organization chart.
- Traced selected claimed cost items to supporting documentation:
 - acquisition of land or rights-of-way
 - relocation, reconstruction, and replacement
 - advances
- Verified the abatement of applicable credits by examining land purchase records for excess land and salvageable materials; reviewed expenditure records for condemnation deposits on land acquisition and related interest earned; and scanned the revenue ledger for receipts related to the flood control project.

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority under State Water Code section 12832. 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 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. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement.

Conclusion

Our audit found 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 \$23,263,517 for the Upper Guadalupe River and Lower Silver Creek Watershed Flood Control projects under the Flood Control Subventions Program for the period of April 9, 2009, through March 2, 2012. Our audit found that the claimed amounts for the audit period included allowable costs of \$21,132,101 and unallowable costs of \$2,131,416. The State share of allowable costs is \$15,432,086. The State share represents the percentage of state funding stipulated in California Water Code sections 12585.5, 12670.8, and 12866.2.

**Follow-up on Prior
Audit Findings**

Our prior audit report, issued on September 4, 2012, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with Joe Atmore, Revenue Unit Manager; Ngoc Nguyen, Engineering Unit Manager; and Anne Cooper, Senior Management Analyst, during an exit conference conducted on September 15, 2014. Additionally, on May 1, 2015, Mr. Atmore and Ms. Cooper declined a draft report and agreed that we could issue the audit report as a final.

Restricted Use

This report is solely for the information and use of the 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, CPA
Chief, Division of Audits

January 26, 2016

**Schedule 1—
Summary of Project Costs
April 9, 2009, through March 2, 2012**

<u>Project/ Claim Number</u>		<u>Costs Claimed</u>	<u>Allowable Per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>	<u>State Share of Eligibility Percentage ²</u>	<u>State Share of Allowable Costs ²</u>
Upper Guadalupe River Flood Control Project							
UGR 2009-01	Land	\$1,000,000	\$1,000,000	\$0		70%	\$700,000
UGR 2009-02	Land	\$382,377	\$382,377	\$0		70%	\$267,664
UGR 2009-03	Land	\$640,000	\$640,000	\$0		70%	\$448,000
UGR 2009-04	Land	\$660,000	\$660,000	\$0		70%	\$462,000
UGR 2009-05	Land	\$623,655	\$623,655	\$0		70%	\$436,559
UGR 2009-06	Land	\$630,000	\$630,000	\$0		70%	\$441,000
UGR 2009-07	Land	\$680,000	\$680,000	\$0		70%	\$476,000
UGR 2009-08	Land	\$650,000	\$650,000	\$0		70%	\$455,000
UGR 2009-09	Land	\$660,000	\$660,000	\$0		70%	\$462,000
UGR 2010-1	Labor	\$408,187	\$408,187	\$0		70%	\$285,731
UGR 2010-2	Associated costs	\$32,435	\$32,435	\$0		70%	\$22,705
UGR 2010-3	Associated costs	\$110,902	\$110,902	\$0		70%	\$77,631

Schedule 1 (continued)

Project/ Claim Number		Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage ²	State Share of Allowable Costs ²
UGR 2010-4	Land	\$645,000	\$645,000	\$0		70%	\$451,500
UGR 2010-5	Associated costs	\$45,099	\$44,973	(\$126)	Finding 1	70%	\$31,481
UGR 2010-6	Land - other	\$18,020	\$18,020	\$0		70%	\$12,614
UGR 2010-7	Labor	\$397,765	\$396,810	(\$955)	Finding 1	70%	\$277,767
UGR 2010-8	Land	\$2,235,150	\$2,235,150	\$0		70%	\$1,564,605
UGR 2010-9	Construction	\$205,361	\$205,361	\$0		70%	\$143,753
UGR 2010-10	Construction	\$9,751	\$9,751	\$0		70%	\$6,826
UGR 2010-11	Associated costs	\$61,630	\$58,258	(\$3,372)	Finding 1	70%	\$40,781
UGR 2010-12	Labor	\$228,628	\$228,628	\$0		70%	\$160,040
UGR 2010-13	Associated costs	\$222,932	\$222,932	\$0		70%	\$156,052
UGR 2011-1	Land	\$108,000	\$0	(\$108,000)	Finding 1	70%	\$0
UGR 2011-2	Land	\$120,000	\$0	(\$120,000)	Finding 1	70%	\$0
UGR 2011-3	Land	\$242,500	\$0	(\$242,500)	Finding 1	70%	\$0
UGR 2011-4	Land	\$245,000	\$0	(\$245,000)	Finding 1	70%	\$0

Schedule 1 (continued)

Project/ Claim Number		Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage ²	State Share of Allowable Costs ²
UGR 2011-5	Land	\$220,000	\$0	(\$220,000)	Finding 1	70%	\$0
UGR 2011-6	Land	\$122,658	\$0	(\$122,658)	Finding 1	70%	\$0
UGR 2011-7	Land	\$1,545,779	\$1,064,872	(\$480,907)	Finding 1 and 2	70%	\$745,410
UGR 2011-8	Land	\$4,003,271	\$3,419,786	(\$583,485)	Finding 1 and 2	70%	\$2,393,850
UGR 2012-1	Land - other	\$76,227	\$76,227	\$0		70%	\$53,359
UGR 2012-2	Associated costs	\$330,841	\$330,841	\$0		70%	\$231,589
UGR 2012-3	Labor	\$572,871	\$572,871	\$0		70%	\$401,010
UGR 2013-1	Land - other	\$315,341	\$315,341	\$0		70%	\$220,739
UGR 2012-5	Associated costs	\$71,775	\$71,775	\$0		70%	\$50,243
UGR 2012-6	Labor	\$547,986	\$543,573	(\$4,413)	Finding 1	70%	\$380,501
UGR 2012-7	Land	\$230,000	\$230,000	\$0		70%	\$161,000
UGR 2012-8	Land	\$443,840	\$443,840	\$0		70%	\$310,688
UGR 2012-9	Land	\$260,500	\$260,500	\$0		70%	\$182,350
Totals		\$20,003,481	\$17,872,065	(\$2,131,416)			\$12,510,448

Schedule 1 (continued)

Project/ Claim Number		Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage ²	State Share of Allowable Costs ²
Lower Silver Creek Watershed Flood Control Project							
LSCW 2011-1	Relocation	\$301,041	\$301,041	\$0		90%	\$270,937
LSCW 2011-2	Utilities relocation	\$2,357,460	\$2,357,460	\$0		90%	\$2,121,714
LSCW 2011-4	Utilities relocation	\$106,681	\$106,681	\$0		90%	\$96,013
LSCW 2011-5	Land - other	\$82,630	\$82,630	\$0		75%	\$61,973
LSCW 2012-1	Utilities relocation	\$50,000	\$50,000	\$0		90%	\$45,000
LSCW 2012-2	Utilities relocation	<u>\$362,224</u>	<u>\$362,224</u>	<u>\$0</u>		90%	<u>\$326,001</u>
Totals		<u>\$3,260,036</u>	<u>\$3,260,036</u>	<u>\$0</u>			<u>\$2,921,638</u>
Grand Totals		<u><u>\$23,263,517</u></u>	<u><u>\$21,132,101</u></u>	<u><u>(\$2,131,416)</u></u>			<u><u>\$15,432,086</u></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.

**Schedule 2—
Summary of Audit Adjustments
April 9, 2009, through March 2, 2012**

Project/ Claim Number	District Claim Number	Audit Adjustments ¹		Total
		DWR Adjustments (Finding 1)	Land Costs Claimed in Excess of Appraisal (Finding 2)	
Upper Guadalupe River Flood Control Project				
UGR 2010-5	14	(\$126)		(\$126)
UGR 2010-7	16	(\$955)		(\$955)
UGR 2010-11	20	(\$3,372)		(\$3,372)
UGR 2011-1	23	(\$108,000)		(\$108,000)
UGR 2011-2	24	(\$120,000)		(\$120,000)
UGR 2011-3	25	(\$242,500)		(\$242,500)
UGR 2011-4	26	(\$245,000)		(\$245,000)
UGR 2011-5	27	(\$220,000)		(\$220,000)
UGR 2011-6	28	(\$122,658)		(\$122,658)
UGR 2011-7	29	(\$435,800)	(\$45,107)	(\$480,907)
UGR 2011-8	30	(\$472,450)	(\$111,035)	(\$583,485)
UGR 2012-6	36	(\$4,413)		(\$4,413)
Totals		(\$1,975,274)	(\$156,142)	(\$2,131,416)

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1 –
Department of
Water Resources'
adjustments**

The district’s claims included \$1,975,274 in costs for the Upper Guadalupe River Flood Control Project that were specifically identified as ineligible and disallowed by the Department of Water Resources (DWR).

We concur with the DWR’s determinations.

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

As a result, costs totaling \$1,975,274 are unallowable, as summarized below and detailed on Schedule 2 of this report:

<u>Category</u>	<u>Audit Adjustments</u>
Ineligible public relations costs	\$ (1,081)
Ineligible security costs	(3,372)
Land acquired prior to 8-17-94	(1,058,158)
Claimed demolition costs deleted at district’s request	(908,250)
Labor claimed for ineligible activities	<u>(4,413)</u>
 Audit adjustment	 <u>\$(1,975,274)</u>

Recommendation

The district should reduce its claims for reimbursement by \$1,975,274 for the Upper Guadalupe River Flood Control Project. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

**FINDING 2 – Land
costs claimed in
excess of appraisal**

The district claimed land acquisition costs that exceeded the appraised value of the land by \$156,142. The following schedule identifies the parcel numbers and the excess cost claimed:

<u>Claim No.</u>	<u>Parcel No.</u>	<u>Costs Claimed</u>	<u>Appraisal</u>	<u>Cost Claimed in Excess of Appraisal</u>
UGR 2011-07	434-04-83,84	\$ 1,109,979	\$ 1,064,872	\$ (45,107)
UGR 2011-08	434-04-03,11, 12,13,14,66	3,051,661	2,944,111	(107,550)
UGR 2011-08	434-04-013	<u>479,160</u>	<u>475,675</u>	<u>(3,485)</u>
Totals		<u>\$ 4,640,800</u>	<u>\$ 4,484,658</u>	<u>\$ (156,142)</u>

DWR's *Guidelines for State Reimbursement on Flood Control Projects* (February 1974), Section IV, Part D, specifies that a local agency may not claim land acquisition costs in excess of the high appraised value unless it obtains the advance approval of DWR.

Recommendation

The district should reduce its claims for reimbursement by \$156,142. In the future, the district should seek DWR approval prior to acquiring land in excess of the appraised value.

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

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