

LOS ANGELES COUNTY FLOOD CONTROL DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Los Angeles County Drainage Area Project

July 1, 1995, through June 30, 2006



MALIA M. COHEN
California State Controller

February 2023



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California State Controller

February 1, 2023

Eric Nichol, Assistant Division 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 Los Angeles County Flood Control District to the Department of Water Resources. Our audit pertained to Claim Numbers LACDA 1 through 3 for the period of July 1, 1995, through June 30, 2006.

The district claimed \$69,139,452 for the Los Angeles County Drainage Area project during the audit period. Our audit found that \$66,421,104 is allowable and \$2,718,348 is unallowable. The costs are unallowable because the district claimed project costs after the project was completed, lacked supporting documentation, and did not exclude administrative overhead from its claims.

The State's share of allowable costs is \$39,852,662. The Department of Water Resources reimbursed the district \$36,660,489 during the audit period; therefore, the district is owed the remaining balance of \$3,192,173.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226 or by email at eloste@sco.ca.gov.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

cc: Sami Nall, Manager
Flood Control Subventions Program
Department of Water Resources
Arlene Barrera, Auditor-Controller
Los Angeles County
Holly J. Mitchell, Chairperson
Los Angeles County Board of Supervisors
Mark Pestrella, Director
Los Angeles County Public Works
Carolina Hernandez, Assistant Deputy Director
Stormwater Planning Division
Los Angeles County Public Works

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Audit Report

Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program claims submitted by the Los Angeles County Flood Control District to the Department of Water Resources (DWR). Our audit pertained to Claim Numbers LACDA 1 through 3 for the period of July 1, 1995, through June 30, 2006.

The district claimed \$69,139,452 for the Los Angeles County Drainage Area project during the audit period. Our audit found that \$66,421,104 is allowable and \$2,718,348 is unallowable. The costs are unallowable because the district claimed project costs after the project was completed, lacked supporting documentation, and did not exclude administrative overhead from its claims.

Water Code stipulates the percentage of state funding by project cost category. Pursuant to 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's share of allowable project costs is \$39,852,662. The DWR reimbursed the district \$36,660,489 during the audit period; therefore, the district is owed the remaining balance of \$3,192,173.

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 (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.

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

Audit Authority

We conducted this performance audit in accordance with Water Code section 12832, which requires the SCO to perform audits of flood control projects. In addition, Government Code section 12410 provides the SCO with general authority to audit the disbursement of state money for correctness, legality, and sufficient provisions of law for payment.

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's Flood Control Guidelines.

Our audit included the Los Angeles County Drainage Area project, for the period of July 1, 1995, through June 30, 2006.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the district's internal controls that are significant to the audit objective by interviewing key personnel, by completing an internal control questionnaire, and by reviewing the district's organization chart.
- We evaluated and assessed control activities for the claim preparation process by inspecting documents and records, and by 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 tracing data to source documents, based on auditor judgment and non-statistical sampling. 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 and single audit reports.
- We reviewed the DWR's engineering reports and/or claim evaluations pertaining to the district's claims.
- 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 asked 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.

We tested the following expenditures:

- Cash contributions – We tested all \$57,521,000 in total cash contributions to the Army Corps of Engineers.
- Labor – We tested \$12,213 of \$6,009,196 in total labor costs claimed.
- Indirect costs – We tested \$2,830,507 of \$2,970,339 in total indirect costs claimed.
- Services and supplies – We tested \$1,840,417 of \$2,638,917 in total services and supplies costs claimed.

For the selected sample, errors found were not projected to the intended (total) population.

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 claimed costs 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

The district claimed \$69,139,452 in project costs for the period of July 1, 1995, through June 30, 2006. Our audit found instances of noncompliance with the requirements described in the Objective, Scope, and Methodology section, as quantified in the Schedule and described in the Findings and Recommendations section.

Based on our audit, the State's share of allowable project costs is \$39,852,662. DWR reimbursed the district \$36,660,489 during the audit period; therefore, the district is owed the remaining balance of \$3,192,173.

Follow-up on Prior Audit Findings

The district has satisfactorily resolved the findings noted in our prior audit report, for the period of August 18, 1941, through August 10, 1993, issued on January 8, 2013.

Views of Responsible Officials

We issued a draft audit report on November 8, 2022. Mark Pestrella, Director of Los Angeles County Public Works, responded by letter dated November 23, 2022, partially agreeing with the audit results. The district's response is included as an attachment to this report.

Restricted Use

This audit report is solely for the information and use of Los Angeles County Flood Control 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

February 1, 2023

Schedule—
Summary of Project Costs
July 1, 1995, through June 30, 2006

Project / Claim #	Costs Claimed	Audit Adjustments to Claimed Costs¹	Allowable per Audit	State's Share of Eligibility Percentage	State's Share of Claimed Costs	Adjustments to State Share	State's Share of Allowable Costs²	Reimbursement Received by the District	Reimbursement Due to District Pending Audit
Los Angeles County Drainage Area									
LACDA 2019-01(1)	\$ 23,860,000	\$ -	\$ 23,860,000	60%	\$ 14,316,000	\$ -	\$ 14,316,000	\$ 12,884,400	\$ 1,431,600
LACDA 2019-02 (2)	33,661,000	-	33,661,000	60%	20,196,600	-	20,196,600	18,176,940	2,019,660
LACDA 2019-03 (3)	11,618,452	(2,718,348)	8,900,104	60%	6,971,071	(1,631,009)	5,340,062	5,599,149	(259,087)
Total	\$ 69,139,452	\$ (2,718,348)	\$ 66,421,104		\$ 41,483,671	\$ (1,631,009)	\$ 39,852,662	\$ 36,660,489	\$ 3,192,173

¹See the Findings and Recommendations section. The audit adjustment of \$2,718,348 is comprised of \$1,249,657 (Finding 1); \$1,413,304 (Finding 2); and \$55,387 (Finding 3).

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

Findings and Recommendations

FINDING 1— DWR adjustments

The district claimed \$69,139,452 for costs related to the Los Angeles County Drainage Area project. During its review of the claims, the DWR identified \$1,249,657 as ineligible for reimbursement. The expenditures were ineligible because they were incurred after the federally sponsored Los Angeles County Drainage Area project was completed in December 2001.

The DWR reimburses the district for 60% of eligible costs for the Los Angeles County Drainage Area project. The State's share of the reimbursable claimed costs was \$40,733,877. The DWR reimbursed the district \$36,660,489 (90% of the State's share of eligible project costs) and withheld \$4,073,388 (10% of eligible project costs) as a retention balance pending our audit.

Of the \$1,249,657 in ineligible costs identified by the DWR, \$798,500 was for services and supplies, \$311,326 was for labor costs, and \$139,831 consisted of indirect costs.

The noncompliance occurred because the district did not adhere to the DWR's Flood Control Guidelines for claiming costs incurred after completion of the project. Moreover, the district did not have applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section VI., Part D, "State Review," (page 39, paragraph 1) of the DWR's Flood Control 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 establish policies and procedures to ensure that costs claimed for reimbursement are allowable.

District's Response

Although the claim submitted listed project completion in 2001, we disagree that this date marked the completion of the LACDA Project for the following reasons:

- Contract work was paid by the U.S. Army Corps of Engineers beyond 2001 for LACDA-related construction including bridge modifications.
- A project turnover or completion letter was not provided by the U.S. Army Corps of Engineers.
- The Federal Emergency Management Agency [FEMA] issued a Letter of Map Amendment approval in January 2002. Although a

significant milestone, this action did not mark the completion of the LACDA Project as related construction work was ongoing.

Public Works plans to appeal this finding with the Department of Water Resources. Furthermore, if successful, we understand that retention owed to the County would increase from \$3,192,173 to \$3,941,968 which would be the State's share of additional allowable costs (\$749,794).

SCO Comment

Our finding and recommendation remain unchanged.

We agree with the DWR's determination that the cost was ineligible. On December 17, 2020, Los Angeles County Public Works provided a letter to the DWR acknowledging the completion of the project in December 2001. On January 11, 2002, the FEMA issued a permit to finalize restoration work on the lower Los Angeles River flood protection system. FEMA's issuance of this permit marked the closure and completion of the Los Angeles County Drainage Area project. The DWR did not receive a contract amendment or agreement to extend state reimbursement for expenditures subsequent to FEMA issuing the permit.

FINDING 2— Unallowable services and supplies costs

The district claimed \$2,638,917 for services and supplies costs for the Los Angeles County Drainage Area project. The DWR identified \$798,500 as ineligible for reimbursement. The expenditures were ineligible because they were incurred after the federally sponsored Los Angeles County Drainage Area project was completed in December 2001.

We tested \$686,540 of the remaining \$1,840,417 in claimed costs and identified \$427,566 in unallowable costs. We expanded our testing to include the remaining \$1,153,877 in services and supplies costs, and found an additional \$985,738 in unallowable costs. A total of \$1,413,304, is unallowable because the district was unable to provide supporting documentation. As a result, the retention balance should be reduced by the State's share of \$847,983.

The noncompliance occurred because the district did not maintain supporting documentation when requesting reimbursement. Moreover, the district did not have applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section VI., Part D, "State Review" (pages 38-39), of the DWR Flood Control 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.

Recommendation:

We recommend that the DWR reduce the retention balance for reimbursement due to the district by \$847,983. We also recommend that the district establish policies and procedures to ensure that all costs claimed for reimbursements are allowable.

District’s Response

We agree that source documents were unavailable at the time of your review to verify the accuracy of the costs claimed. Although some of the claimed expenses occurred over 20 years ago, beyond Public Works’ typical retention policy, we agree and will implement a corrective action plan to digitally retain supporting documents for claims until such final audits are completed.

SCO Comment

Our finding and recommendation remain unchanged.

**FINDING 3—
Unallowable indirect costs**

The district claimed \$2,970,339 in indirect costs for the Los Angeles County Drainage Area project. The DWR identified \$139,832 as ineligible for reimbursement. The expenditures were ineligible because they were incurred after the federally sponsored Los Angeles County Drainage Area project was completed in December 2001.

We tested the remaining \$2,830,507 of the district’s claimed indirect costs, and identified \$55,387 in unallowable indirect costs. We calculated the unallowable indirect costs by dividing the administrative overhead costs by the district’s total overhead costs to establish an ineligible overhead rate. We multiplied the ineligible department overhead rate by the department’s overhead rate to determine the final portion of ineligible department overhead rate. Then we multiplied the final ineligible rate by the total indirect costs for each fiscal year. We found that, for fiscal year (FY) 1995-96 through FY 2001-02, a total of \$2,775,120 is allowable and a total of \$55,387 is unallowable. As a result, the retention balance should be reduced by the State’s share of \$33,232.

The table shows the ineligible indirect amount to the district’s claimed costs.

Overhead Analysis	Department overhead - Top Management	Total Department overhead	Ineligible Rate	System Rate	Final Ineligible Rate	Total Indirect Amount	Ineligible Indirect Amount
FY 1995-96	\$ 2,561,453	\$ 33,080,543	7.74%	19.50%	1.51%	\$ 429,622	\$ 6,487
FY 1996-97	2,613,409	29,490,285	8.86%	22.00%	1.95%	502,685	9,800
FY 1997-98	2,739,641	29,958,067	9.14%	22.00%	2.01%	528,161	10,626
FY 1998-99	3,288,136	33,299,122	9.87%	22.00%	2.17%	630,507	13,697
FY 1999-00	3,144,974	32,893,897	9.56%	22.00%	2.10%	385,443	8,107
FY 2000-01	3,194,700	36,024,510	8.87%	22.00%	1.95%	198,919	3,881
FY 2001-02	3,240,185	39,665,623	8.17%	22.00%	1.80%	155,170	2,789
	<u>\$ 20,782,498</u>	<u>\$ 234,412,047</u>				<u>\$ 2,830,507</u>	<u>\$ 55,387</u>

The noncompliance occurred because the district did not exclude administrative overhead from its claim. Moreover, the district did not have applicable policies and procedures to ensure that all costs claimed for reimbursement were allowable.

Section IV., Part E, paragraphs 1 and 2 of the DWR Flood Control Guidelines states:

Associated land acquisition costs may include, but are not limited to salaries of employees, costs incurred in securing appraisals, survey costs . . . and similar expenses directly attributable to the acquisition of rights-of-way.

The local agency may not be reimbursed for its own administrative overhead. The Department defines administrative overhead to include the salaries and fringe benefits of the executive officer in charge of the local agency, his deputy, and their immediate stenographic support. It also includes pro rata rent charge for the use of office furniture and equipment owned by the local agency. . . .

Section V., Part E, “Associated Relocation Costs,” of the DWR Flood Control Guidelines states, in part:

Cost incurred by the local agency in meeting relocation requirements of the projects are eligible for reimbursement to the extent of the state share of the relocation. These costs may include engineering and surveying and contract administration and inspection. [The costs] may also include all other reasonable costs in connection with the relocation. The local agency may not be reimbursed for its own administrative overhead. . . .

Recommendation:

We recommend that DWR reduce the retention balance for reimbursement due to the district by \$33,232. We also recommend that the district should establish policies and procedures to ensure that all costs claimed for reimbursement are allowable.

District’s Response

We agree that the claims included \$55,387 of Administrative Overhead. As a corrective action, all future agreements and claims will be submitted through Public Works’ Fiscal Division to ensure that claims are prepared in accordance with the guidelines of the agreement.

SCO Comment

Our finding and recommendation remain unchanged.

**Attachment—
Los Angeles County Public Works' Response to
Draft Audit Report**



MARK PESTRELLA, Director

COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"

990 SOUTH FREMONT AVENUE
ALHAMBRA, CALIFORNIA 91803-1331
Telephone: (626) 458-5100
<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO:
P.O. BOX 1460
ALHAMBRA, CALIFORNIA 91802-1460

November 23, 2022

IN REPLY PLEASE
REFER TO FILE: A-0

Mr. Efren Loste
Chief, Local Government Audits Bureau
State Controller's Office
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Loste:

AUDIT REPORT FLOOD CONTROL SUBVENTIONS PROGRAM LOS ANGELES COUNTY DRAINAGE AREA PROJECT

Los Angeles County Public Works, on behalf of the Los Angeles County Flood Control District, would like to thank you for the opportunity to comment on the proposed audit report of the Los Angeles County Drainage Area (LACDA) Project under the Flood Control Subventions Program. We are submitting the following comments for your review and consideration to be incorporated in the final audit report.

FINDING 1: The County claimed expenditures that were ineligible because they were incurred after the federally sponsored LACDA Project was completed in December 2001.

Response: Disagree

Although the claim submitted listed project completion in 2001, we disagree that this date marked the completion of the LACDA Project for the following reasons:

- Contract work was paid by the U.S. Army Corps of Engineers beyond 2001 for LACDA-related construction including bridge modifications.
- A project turnover or completion letter was not provided by the U.S. Army Corps of Engineers.
- The Federal Emergency Management Agency issued a Letter of Map Amendment approval in January 2002. Although a significant milestone, this action did not mark the completion of the LACDA Project as related construction work was ongoing.

Mr. Efrén Loste
November 23, 2022
Page 2

Public Works plans to appeal this finding with the Department of Water Resources. Furthermore, if successful, we understand that retention owed to the County would increase from \$3,192,173 to \$3,941,968 which would be the State's share of additional allowable cost (\$749,794).

FINDING 2: It was determined that \$1,413,304 in claims were unallowable because the County did not maintain supporting documentation when requesting reimbursement.

Response: Agree

We agree that source documents were unavailable at the time of your review to verify the accuracy of the costs claimed. Although some of the claimed expenses occurred over 20 years ago, beyond Public Work's typical retention policy, we agree and will implement a corrective action plan to digitally retain supporting documents for claims until such final audits are completed.

FINDING 3: It was determined that an additional \$55,387 in claims were unallowable due to administrative overhead included in Public Works' claim, which is inconsistent with State reimbursement guidelines.

Response: Agree

We agree that the claims included \$55,387 of Administrative Overhead. As a corrective action, all future agreements and claims will be submitted through Public Works' Fiscal Division to ensure that claims are prepared in accordance with the guidelines of the agreement.

If you have any questions, please contact me or Ms. Vivian Wang of our Internal Audit Group at (626) 458-6551.

Very truly yours,


MARK PESTRELLA, PE
Director of Public Works

MP:dbm

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