

SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Upper Guadalupe River, Guadalupe River, Upper Llagas Creek
Watershed, and Lower Silver Creek Watershed Flood Control
Projects

December 6, 2012, through October 29, 2014



BETTY T. YEE
California State Controller

February 2016



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California State Controller

February 10, 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 Santa Clara Valley Water District under the Flood Control Subventions Program.

The district claimed costs of \$12,352,670 for the Upper Guadalupe River, Guadalupe River, Upper Llagas Creek Watershed, and Lower Silver Creek Watershed Flood Control Projects for the period of December 6, 2012, through October 29, 2014. Our audit found that \$9,900,870 is allowable and \$2,451,800 is unallowable. The state share of allowable costs is \$8,784,578. The state share represents the percentage of state funding stipulated in California Water Code sections 12670.8, 12585.5, 12866.2, 12749.8 and 12865. The unallowable costs of \$2,451,800 occurred because the district claimed costs identified as ineligible by the Department of Water Resources.

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/lS

cc: Patrick Luzuriaga, Chief
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Gary Kremen, Chair
Santa Clara Valley Water District
Joseph Atmore, Finance Officer
Santa Clara Valley Water District
Beau Goldie, Chief Executive Officer
Santa Clara Valley Water District

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of Santa Clara Valley Water District under the Flood Control Subventions Program. Our audit included the Upper Guadalupe River, Guadalupe River, Upper Llagas Creek Watershed, and Lower Silver Creek Watershed Flood Control Projects for the period of December 6, 2012, through October 29, 2014.

The district claimed \$12,352,670 during the audit period. Our audit found that \$9,900,870 is allowable and \$2,451,800 is unallowable. The state share of allowable costs is \$8,784,578. The state share represents the percentage of state funding stipulated in California Water Code section 12670.8, 12585.5, 12866.2, 12749.8 and 12865. The unallowable costs occurred because the district claimed costs identified as ineligible by the Department of Water Resources.

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 Finding and Recommendation section. Santa Clara Valley Water District claimed \$12,352,670 for the Upper Guadalupe River, Guadalupe River, Upper Llagas Creek Watershed, and Lower Silver Creek Watershed Flood Control Projects under the Flood Control Subventions Program for the period of December 6, 2012, through October 29, 2014. Our audit found that the claimed amounts for the audit period included allowable costs of \$9,900,870 and unallowable costs of \$2,451,800. The state share of allowable costs is \$8,784,578. The state share represents the percentage of state funding stipulated in California Water Code section 12670.8, 12585.5, 12866.2, 12749.8 and 12865.

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 the district's representatives during an exit conference conducted on April 30, 2015. Joe Atmore, Revenue Manager, and Anne Cooper, Senior Management Analyst, agreed with the audit results. Mr. Atmore declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of Santa Clara Valley Water District, the California Department of Water Resources, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

February 10, 2016

**Schedule 1—
Summary of Project Costs
December 16, 2012, through October 29, 2014**

Project/Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage	State Share of Allowable Costs ²
Upper Guadalupe River							
UGR 2012-10	40	85,000	85,000	-		70%	59,500
UGR 2012-11	41	553,350	553,350	-		70%	387,345
UGR 2012-12	42	455,000	455,000	-		70%	318,500
UGR 2012-13	43	645,000	645,000	-		70%	451,500
UGR 2012-14	44	87,000	87,000	-		70%	60,900
UGR 2014-01	48	44,095	44,095	-		70%	30,867
UGR 2014-01	49	132,500	132,500	-		70%	92,750
UGR 2014-01	51	276,333	276,333	-		70%	193,433
Totals		2,278,278	2,278,278	-			1,594,795
Guadalupe River							
GR 2011-1	162	216,848	216,848	-		70%	151,794
GR 2011-2	163	18,243	18,243	-		70%	12,770
GR 2011-3	164	144,721	90,601	(54,120)	Finding	70%	63,421
GR 2011-4	165	1,885,700	-	(1,885,700)	Finding	70%	-
Totals		2,265,512	325,692	(1,939,820)			227,985
Lower Silver Creek Watershed							
LSCW 2012-3	82	1,947,097	1,945,295	(1,802)		90%	1,750,766
LSCW 2012-4	83	812,551	806,049	(6,502)		90%	725,444
LSCW 2012-5	84	599,679	599,679	-		90%	539,711
Totals		3,359,327	3,351,023	(8,304)			3,015,921
Upper Llagas Creek Watershed							
ULCW 2011-01	136	80,489	80,489	-		100%	80,489
ULCW 2011-02	137	151,238	151,238	-		100%	151,238
ULCW 2011-02	138	52,542	52,542	-		100%	52,542
ULCW 2011-02	139	63,445	63,445	-		100%	63,445
ULCW 2011-02	140	221,999	221,999	-		100%	221,999
ULCW 2011-02	141	6,694	6,694	-		100%	6,694
ULCW 2011-03	142	532,975	29,616	(503,359)	Finding	100%	29,616
ULCW 2011-03	143	493,232	493,232	-		100%	493,232
ULCW 2011-03	144	329,609	329,609	-		100%	329,609

Schedule 1 (continued)

Project/Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ¹	State Share of Eligibility Percentage	State Share of Allowable Costs ²
Upper Llagas Creek Watershed (continued)							
ULCW 2011-03	145	4,684	4,367	(317)	Finding	100%	4,367
ULCW 2011-03	146	2,953	2,953	-		100%	2,953
ULCW 2011-03	147	95,508	95,508	-		100%	95,508
ULCW 2011-03	153	359,529	359,529	-		100%	359,529
ULCW 2013-01	150	227,129	227,129	-		100%	227,129
ULCW 2013-01	155	165,691	165,691	-		100%	165,691
ULCW 2013-01	156	310,341	310,341	-		100%	310,341
ULCW 2013-01	162	329,308	329,308	-		100%	329,308
ULCW 2013-02	152	26,541	26,541	-		100%	26,541
ULCW 2013-02	154	17,620	17,620	-		100%	17,620
ULCW 2013-02	157	219,000	219,000	-		100%	219,000
ULCW 2013-02	160	600,000	600,000	-		100%	600,000
ULCW 2013-03	148	17,204	17,204	-		100%	17,204
ULCW 2013-04	149	10,950	10,950	-		100%	10,950
ULCW 2013-05	151	5,551	5,551	-		100%	5,551
ULCW 2013-05	158	4,641	4,641	-		100%	4,641
ULCW 2013-05	161	5,630	5,630	-		100%	5,630
ULCW 2013-06	159	44,689	44,689	-		100%	44,689
ULCW 2013-06	163	70,361	70,361	-		100%	70,361
Totals		4,449,553	3,945,877	(503,676)			3,945,877
Grand Totals		12,352,670	9,900,870	(2,451,800)			8,784,578

¹ See the Finding and Recommendation 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.

Finding and Recommendation

FINDING— Department of Water Resources’ adjustments

Santa Clara Valley Water District claims included \$2,451,800 in costs for the Guadalupe River, Lower Silver Creek Watershed, and Upper Llagas Watershed Flood Control Projects that were specifically identified as ineligible and disallowed by the Department of Water Resources (DWR).

We concur with the DWR’s determinations.

The 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 \$2,451,800 are unallowable, as summarized below:

<u>Category</u>	<u>Audit Adjustments</u>
Guadalupe River	
Parking lot easment in excess of appraisal	\$ (54,120)
District claimed flood control easement payments to the City of San Jose and the Redevelopment Agency of the City of San Jose (RDA). However the City and the RDA were required to reimburse the District for these payments	<u>\$(1,885,700)</u>
Audit adjustment	<u>\$(1,939,820)</u>
Lower Silver Creek Watershed	
Construction Contract Cost for ineligible non-relocation work	<u>\$ (8,304)</u>
Audit adjustment	<u>\$ (8,304)</u>
Upper Llagas Watershed	
Land and associated land costs previously claimed	\$ (503,359)
Insufficient supporting documents	<u>\$ (317)</u>
Audit adjustment	<u>\$ (503,676)</u>
GRAND TOTAL	<u><u>\$(2,451,800)</u></u>

Recommendation

The district should reduce its claims for reimbursement by \$2,451,800 for the Guadalupe River, Lower Silver Creek Watershed, and Upper Llagas Watershed Flood Control Projects. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

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