

ORANGE COUNTY FLOOD CONTROL DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Santa Ana River Mainstem Project

July 18, 2006, through October 31, 2013



BETTY T. YEE
California State Controller

March 2016



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California State Controller

March 14, 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 Orange County Flood Control District under the Flood Control Subventions Program.

The district claimed costs of \$121,347,904 for the Santa Ana River Mainstem project for the period of July 18, 2006, through October 31, 2013. Our audit found that \$120,696,564 is allowable and \$651,340 is unallowable. The State share of allowable costs is \$84,487,596. The State share represents the percentage of state funding stipulated in California Water Code section 12585.5. The unallowable costs of \$651,340 occurred because the district claimed costs classified as personal property or as ineligible according to Department of Water Resources guidelines for reimbursement.

If you have any questions, please contact Christopher Lek, Interim Chief, Local Government Audits Bureau, at (916) 284-0120.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

Attachment

cc: Partick Luzuriaga, Chief
Flood Control Subventions Program
Division of Flood Management
Depart of Water Resources
Lance Natsuhara, P.E., Manager
Orange County Flood Control District
Howard Thomas, Accounting Manager
Orange County Public Works
Lisa A. Bartlett, Chairperson
Orange County Board of Supervisors

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Follow-up on Prior Audit Findings	2
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Summary of Project Costs	4
Finding and Recommendation	6

Audit Report

Summary

The State Controller’s Office (SCO) audited the reimbursement claims of the Orange County Flood Control District under the Flood Control Subventions Program. Our audit included the Santa Ana River Mainstem Project, for the period of July 18, 2006, through October 31, 2013.

The district claimed \$121,347,904 during the audit period. Our audit found that \$120,696,564 is allowable and \$651,340 is unallowable. The State share of allowable costs is \$84,487,596. The State share represents the percentage of state funding stipulated in California Water Code section 12585.5. The unallowable costs occurred because the district claimed costs classified as personal property or as ineligible according to Department of Water Resources guidelines for reimbursement.

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 an instance of noncompliance with the requirements outlined above. This instance is shown on the Summary of Project Costs (Schedule 1) and described in the Finding and Recommendation section. The Orange County Flood Control District claimed \$121,347,904 for the Santa Ana River Mainstem project under the Flood Control Subventions Program for the period of July 18, 2006, through October 31, 2013. Our audit found that the claimed amounts for the audit period included allowable costs of \$120,696,564 and unallowable costs of \$651,340. The State share of allowable costs is \$84,487,596. The State share represents the percentage of state funding stipulated in California Water Code section 12585.5.

Follow-up on Prior Audit Findings

The finding noted in our prior audit report, issued on August 22, 2013, has been satisfactorily resolved by the district.

**Views of
Responsible
Officials**

We issued a draft report on January 27, 2016. We contacted Lance Natsuhara, P.E., Manager, by telephone on January 29, 2016. Mr. Natsuhara indicated that the district was in agreement with the findings of the report.

Restricted Use

This report is solely for the information and use of the Orange County Flood Control 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

March 14, 2016

**Schedule 1—
Summary of Project Costs
July 18, 2006, through October 31, 2013**

<u>Project/ Claim Number</u>							
Santa Ana River Mainstem Project	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ³	State Share of Eligibility Percentage ⁴	State Share of Allowable Costs ⁴
SAMO 2007-07	71A	\$ 21,970,145	\$ 21,360,145	\$ (610,000)	Finding	0.7	\$14,952,102
SAMO 2007-07(R)	71A(R) ¹	\$ -	\$ -	\$ -		0.7	\$ -
SAMO 2011-05	75A&B	\$ 1,666,690	\$ 1,666,690	\$ -		0.7	\$ 1,166,683
SAMO 2011-05(R)	75(R) ¹	\$ -	\$ (12,825)	\$ (12,825)	Finding	0.7	\$ (8,978)
SAMO 2011-06	76A&B	\$ 3,434,784	\$ 3,434,784	\$ -		0.7	\$ 2,404,349
SAMO 2011-07	77A&B	\$ 624,582	\$ 624,582	\$ -		0.7	\$ 437,207
SAMO 2012-01	78A&B	\$ 4,193,985	\$ 4,193,985	\$ -		0.7	\$ 2,935,790
SAMO 2012-02	80A&B	\$ 1,113,214	\$ 1,113,176	\$ (38)	Finding	0.7	\$ 779,223
SAMO 2012-03	81A&B	\$ 748,871	\$ 748,871	\$ -		0.7	\$ 524,210
SAMO 2012-04	82A&B ²	\$ 4,502,947	\$ 4,502,947	\$ -		0.7	\$ 3,152,063
SAMO 2012-05	83B	\$ 1,994,290	\$ 1,994,290	\$ -		0.7	\$ 1,396,003
SAMO 2012-06	84B	\$ 3,849,898	\$ 3,849,898	\$ -		0.7	\$ 2,694,929
SAMO 2012-07	85A&B	\$ 1,522,488	\$ 1,494,352	\$ (28,136)	Finding	0.7	\$ 1,046,046
SAMO 2013-01	86A&B	\$ 6,040,565	\$ 6,040,327	\$ (238)	Finding	0.7	\$ 4,228,229
SAMO 2013-02	87A&B	\$ 3,105,694	\$ 3,105,694	\$ -		0.7	\$ 2,173,986
SAMO 2013-03	96A&B ²	\$ 17,745,743	\$ 17,745,743	\$ -		0.7	\$12,422,020
SAMO 2014-01	89A&B	\$ 1,464,584	\$ 1,464,584	\$ -		0.7	\$ 1,025,209
SAMO 2014-03	92A&B ²	\$ 9,443,270	\$ 9,443,270	\$ -		0.7	\$ 6,610,289
SAMO 2014-04	94A&B ²	\$ 16,140,598	\$ 16,140,564	\$ (34)	Finding	0.7	\$11,298,395
SAMO 2014-05	95A&B	\$ 10,183,259	\$ 10,183,259	\$ -		0.7	\$ 7,128,281
SAMO 2014-07	91A&B ²	\$ 2,913,791	\$ 2,913,791	\$ -		0.7	\$ 2,039,654

Schedule 1 (continued)

Project/ Claim Number	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	Reference ³	State Share of Eligibility Percentage ⁴	State Share of Allowable Costs ⁴
SAMO 2014-08	93A&B	\$ 4,950,114	\$ 4,950,045	\$ (69)	Finding	0.7	\$ 3,465,032
-----	88B & 90B ²	\$ 3,738,392	\$ 3,738,392	\$ -		0.7	\$ 2,616,874
SAMO 2014-09	82B, 88B, 90B, 91B, 92B, 94B, 96B ²	\$ -	\$ -	\$ -		0.7	\$ -
Totals		<u>\$ 121,347,904</u>	<u>\$ 120,696,564</u>	<u>\$ (651,340)</u>			<u>\$84,487,596</u>

¹ Reconsideration (R) claim amounts are included in the original claim figures.

² Department of Water Resources (DWR) removed Cash Contribution claimed amounts from claims 82B, 88B, 90B, 91B, 92B, 94B, and 96B and paid them separately on Engineering Report SAMO 2014-09. The net effect on the district's claims is \$0. DWR did not provide SCO with copies of an Engineering Report on claim 88B or 90B prior to commencement of our audit. Consequently, we included only the Cash Contribution amounts for those claims in our current audit.

³ See the Finding and Recommendation section.

⁴ 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**

The district’s claims included \$651,340 in costs for the Santa Ana River Mainstem 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 DWR will reduce an agency’s reimbursement claims for any item that is determined to be ineligible.

As a result, costs totaling \$651,340 are unallowable, as summarized below:

Claim No. – DWR/District Cost category	Reason	Amount
<u>SAMO 2007-07/71A</u> Land	Personal property claimed.	\$ (610,000)
<u>SAMO 2011-05(R)/75A(R)</u> Land	The district claimed a land purchase of \$202,825 on claim #75A. DWR disallowed \$94,826 for costs claimed in excess of the \$108,000 appraisal. DWR subsequently accepted the district’s second appraisal of \$190,000 on claim #75A(R) and disallowed the difference of \$12,825.	(12,825)
<u>SAMO 2012-02/80(B)</u> Associated project costs	Ineligible supplies	(38)
<u>SAMO 2012-07/85B</u> Associated project costs	Property tax previously reimbursed by DWR	(28,136)
<u>SAMO 2013-01/86B</u> Associated project costs	Ineligible supplies	(238)
<u>SAMO 2014-04/94B</u> Cash contribution	Ineligible associated project costs.	(34)
<u>SAMO2014-08/93B</u> Associated project costs	Ineligible supplies	(69)
Total		<u>\$ (651,340)</u>

Recommendation

The district should reduce its claims for reimbursement by \$651,340 for the Santa Ana Mainstem Project. In the future, the district should ensure that costs claimed are eligible for reimbursement under DWR guidelines.

District’s Response

The district agreed with the findings.

SCO’s Comment

In a telephone call on January 29, 2016, Lance Natsuhara, P.E., Manager, indicated that the district was in agreement with the findings of the report.

**State Controller's Office
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