

ORANGE COUNTY FLOOD CONTROL DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Santa Ana River Mainstem Project

October 1, 2014, through June 30, 2018



BETTY T. YEE
California State Controller

June 2020



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California State Controller

June 16, 2020

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 claims submitted by the Orange County Flood Control District under the Flood Control Subventions Program.

The district claimed costs of \$51,229,356 for the Santa Ana River Mainstem Project for the period of October 1, 2014, through June 30, 2018. Our audit found that the entire amount is allowable. The state share of allowable costs is \$35,860,549. The state share represents the percentage of state funding stipulated in California Water Code section 12585.5.

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Patrick Luzuriaga, Manager
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
Nardy Khan, Deputy Director,
Orange County Infrastructure Programs
Orange County Flood Control District
Michelle Steel, Chairperson
Orange County Board of Supervisors

Contents

Audit Report

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

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 October 1, 2014, through June 30, 2018.

The district claimed \$51,229,356 during the audit period. Our audit found that the entire amount is allowable. The state share of allowable costs is \$35,860,549. The state share represents the percentage of state funding stipulated in California Water Code section 12585.5.

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 California Department of Water Resources (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.

California 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 objective was to determine whether the costs claimed as presented in the Summary of Project Costs (Schedule) were:

- Allowable and in compliance with the DWR Guidelines for State Reimbursement on Flood Control Projects;
- Adequately supported and documented; and
- Reduced by applicable credits to program expenditures.

Our audit included the Santa Ana River Mainstem Project, for the period of October 1, 2014, through June 30, 2018.

To achieve our objective, we:

- Gained a limited understanding of the internal controls over the claim preparation process and the related accounting records by interviewing key personnel, completing an internal control questionnaire, reviewing the district's organization chart, and assessing the reliability of computer-processed data;
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing;
- Reviewed the district's prior SCO audit and single audit;
- Reviewed all of DWR's engineering reports on the district's claims;

- Determined whether the district received revenues that should be offset against the flood program expenditures; the district reported offsets totaling \$2,067,990;
- Reviewed the district's claim detail for any condemnation interest, and inquired of the district whether it had received interest on condemnation deposits;
- Determined whether the district received from DWR advances on its flood control project expenditures; and
- Verified that the costs claimed were supported by source documents by judgmentally selecting non-statistical samples for the following categories:
 - Land – We vouched claimed amounts to source documents for \$11,105,623 of \$20,420,883 in total land acquisition costs claimed.
 - Relocation – We vouched claimed amounts to source documents for \$5,047,126 of \$5,271,078 in total relocation costs claimed.
 - Cash Contribution – We tested all \$10,066,000 in total cash contributions to the Army Corps of Engineers.
 - Labor – We tested \$634,739 of \$8,685,993 in total labor costs.
 - Services and Supplies – We vouched claimed amounts to invoices for \$123,690 of \$769,480 in total services and supplies costs claimed.
 - Equipment – We vouched claimed amounts to invoices for \$12,714 of \$162,380 in total equipment costs claimed.
 - Other Associated Project Costs – We vouched claimed amounts to supporting documentation for \$118,177 of \$1,886,039 in total other associated project costs claimed.

For the selected sample, errors found, if any, 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 costs claimed are allowable for reimbursement. We considered the district's internal controls only to the extent necessary to plan the audit.

We conducted this performance audit under the general authority of Government Code section 12410 and the specific authority under California 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 objective.

Conclusion

Costs claimed by the Orange County Flood Control District, totaling \$51,229,356, were eligible for reimbursement under state regulations. The State share of allowable costs is \$35,860,549. The State share represents the percentage of state funding stipulated in California Water Code section 12858.5.

**Follow-up on
Prior Audit
Findings**

Our prior audit report, issued on January 10, 2017, disclosed no findings.

**Views of
Responsible
Officials**

We discussed the audit results with the district's representatives during an exit conference conducted on June 2, 2020. Nardy Khan, Deputy Director; Howard Thomas, Administrative Manager III; James Tyler, Administrative Manager II; Jim Christiansen, Administrative Manager II; and Vu Le, Senior Accountant I, agreed with the audit results. Ms. Khan further agreed that a draft audit report was not necessary and that we could issue the audit report as final.

Restricted Use

This audit report is solely for the information and use of Orange 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

JIM L. SPANO, CPA
Chief, Division of Audits

June 16, 2020

**Schedule—
Summary of Project Costs
October 1, 2014, through June 30, 2018**

Santa Ana River Mainstem Project	District Claim Number	Costs Claimed	Allowable Per Audit	Audit Adjustments	State Share of Eligibility Percentage ¹	State Share of Allowable Costs	Reimbursement Received by the District	Reimbursement Due to District
SAMO 2015-07	104 A&B	\$ 1,815,448	\$ 1,815,448	\$ -	70%	\$ 1,270,813	\$ 1,143,732	\$ 127,081
SAMO 2015-08	105 A&B	4,009,628	4,009,628	-	70%	2,806,740	2,526,066	280,674
SAMO 2016-01	106 A&B	3,426,597	3,426,597	-	70%	2,398,618	2,158,756	239,862
SAMO 2016-02	107 A&B	1,451,534	1,451,534	-	70%	1,016,074	914,466	101,608
SAMO 2017-01	108 A&B	2,707,328	2,707,328	-	70%	1,895,130	1,705,617	189,513
SAMO 2017-02	109 A&B	5,354,710	5,354,710	-	70%	3,748,297	3,373,467	374,830
SAMO 2017-03	110 A&B	8,224,724	8,224,724	-	70%	5,757,307	5,181,576	575,731
SAMO 2017-04	111 A&B	1,185,424	1,185,424	-	70%	829,797	746,817	82,980
SAMO 2017-05	112 A&B	1,313,632	1,313,632	-	70%	919,542	827,588	91,954
SAMO 2017-06	113 A&B	1,460,204	1,460,204	-	70%	1,022,143	919,928	102,215
SAMO 2017-07	114 A&B	2,507,804	2,507,804	-	70%	1,755,463	1,579,917	175,546
SAMO 2017-08	115 A&B	7,807,615	7,807,615	-	70%	5,465,331	4,918,798	546,533
SAMO 2018-03	116 A&B	6,651,355	6,651,355	-	70%	4,655,948	4,190,353	465,595
SAMO 2018-04	117 A&B	502,894	502,894	-	70%	352,025	316,823	35,202
SAMO 2018-05	118 A&B	2,810,459	2,810,459	-	70%	1,967,321	1,770,589	196,732
Totals		<u>\$ 51,229,356</u>	<u>\$ 51,229,356</u>	<u>\$ -</u>		<u>\$ 35,860,549</u>	<u>\$ 32,274,493</u>	<u>\$ 3,586,056</u>

¹The state share of allowable project costs represents the percentage of state funding, as stipulated in the California Water Code, for each project cost category.

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