

# **CITY OF SANTA CRUZ**

Audit Report

## **FLOOD CONTROL SUBVENTIONS PROGRAM**

San Lorenzo River Flood Control Project

*March 28, 2018, through December 15, 2022*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

August 2025



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CALIFORNIA STATE CONTROLLER

August 22, 2025

Mr. Jeremy Arrich, P.E., Manager  
Division of Flood Planning and Improvements  
Department of Water Resources  
3310 El Camino Avenue, Suite 120  
Sacramento, CA 95821

Dear Mr. Arrich:

The State Controller's Office audited Flood Control Subventions Program claims submitted by the City of Santa Cruz (the city) to the Department of Water Resources (DWR) for the San Lorenzo River Flood Control (SLOR) Project. Our audit pertained to Project Claim Numbers SLOR 40 through SLOR 42 for the period of March 28, 2018, through December 15, 2022.

The city claimed \$2,003,119 for the aforementioned project during the audit period. Our audit found that \$1,920,980 is allowable and \$82,139 is unallowable. The costs are unallowable because the city failed to follow the DWR's *Guidelines for State Reimbursement on Flood Control Projects* to ensure that all claimed costs were allowable.

The State's share of allowable costs is \$1,344,686. The DWR reimbursed the city \$1,261,965 during the audit period; therefore, the city is owed the remaining balance of \$82,721.

If you have any questions regarding this report, please contact Efren Loste, Chief, Local Government Audits Bureau, by telephone at 916-324-7226 or email at [eloste@sco.ca.gov](mailto:eloste@sco.ca.gov). Thank you.

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

KAT/rs

Mr. Jeremy Arrich

August 22, 2025

Page 2 of 2

Copy: Marisela Pavlenko, P.E., Program Manager  
Division of Flood Planning and Improvements  
Department of Water Resources  
Matt Huffaker, City Manager  
City of Santa Cruz  
The Honorable Fred Keeley, Mayor  
City of Santa Cruz

# Contents

## Audit Report

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Audit Authority.....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>1</b>
<b>Conclusion .....</b>	<b>3</b>
<b>Follow-up on Prior Audit Findings.....</b>	<b>3</b>
<b>Views of Responsible Officials.....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule—Total Project Costs .....</b>	<b>4</b>
<b>Finding and Recommendation .....</b>	<b>5</b>

# Audit Report

## Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program claims submitted by the City of Santa Cruz (the city) to the Department of Water Resources (DWR) for the San Lorenzo River Flood Control (SLOR) Project. Our audit pertained to Project Claim Numbers SLOR 40 through SLOR 42, for the period of March 28, 2018, through December 15, 2022.

The city claimed \$2,003,119 for the aforementioned project during the audit period. Our audit found that \$1,920,980 is allowable and \$82,139 is unallowable. The costs are unallowable because the city failed to follow the DWR's *Guidelines for State Reimbursement on Flood Control Projects* (Flood Control Guidelines) to ensure that all claimed costs were allowable.

Water Code stipulates the percentage of state funding by project cost category. Pursuant to Water Code section 12832, the DWR reimbursed the city 90 percent of eligible costs claimed, with the remaining 10 percent to be released subject to the completion of this audit. Based on our audit, the State's share of allowable project costs is \$1,344,686. The DWR reimbursed the city \$1,261,965 during the audit period; therefore, the city is owed the remaining balance of \$82,721.

## 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.

In accordance with Water Code section 12585.5, the DWR reimburses the district for 70 percent of eligible costs associated with non-federal expenditures, land acquisition, and relocations.

The DWR's 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 by the city, as presented in the Schedule, were allowable and in compliance with the DWR's Flood Control Guidelines. Our audit pertained to Project Claim

Numbers SLOR 40 through SLOR 42 for the period of March 28, 2018, through December 15, 2022.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the city's internal controls that are significant to the audit objective by interviewing key personnel, by completing an internal control questionnaire, and by reviewing the city'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 city 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 city's prior SCO and single audit reports.
- We reviewed DWR's engineering reports and/or claim evaluations pertaining to the city's claims.
- We determined whether the city received revenues that should have been offset against the flood program expenditures.
- We reviewed the city's claim detail for any condemnation interest, and asked the city whether it had received interest on condemnation deposits.
- We determined whether the city received from the DWR advances on its flood control project expenditures.
- We verified through sampling that the claimed costs 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:

- Labor – We tested all \$50,513 in labor costs.
- Services and supplies – We tested \$1,577,729 of \$1,952,606 in services and supplies costs.

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

We did not audit the city'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 city claimed \$2,003,119 in project costs for the period of March 28, 2018, through December 15, 2022.

Our audit found that \$1,920,980 is allowable and \$82,139 is unallowable. The costs are unallowable because the city failed to follow the DWR's Flood Control Guidelines to ensure that all costs claimed were allowable.

Based on our audit, the State's share of allowable project costs is \$1,344,686. The DWR reimbursed the city \$1,261,965 during the audit period; therefore, the city is owed the remaining balance of \$82,721.

## **Follow-up on Prior Audit Findings**

Our prior audit report on the city for the period of January 25, 2013, through August 8, 2019, issued on September 28, 2022, disclosed no findings.

## **Views of Responsible Officials**

We discussed our audit results with the city's representatives during an exit conference conducted on May 30, 2025. At the exit conference, the city's representatives agreed with the audit results.

## **Restricted Use**

This report is solely for the information and use of the city, 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](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

August 22, 2025

**Schedule—**  
**Total Project Costs**  
**March 28, 2018, through December 15, 2022**

Project Claim Number	Claimed Costs	Allowable Costs	Adjustment to Claimed Costs	State Share	State Share of Claimed Costs	State Share of Allowable Costs	Adjustment to State Share of Claimed Costs	Amount Received by the City	Amount Due the City Pending Audit
SLOR 40	\$ 478,650	\$ -	\$ (82,139)	70%	\$ 335,055	\$ 277,558	\$ (57,497)	\$ 301,550	\$ (23,992)
SLOR 41	596,200	-	-	70%	417,340	417,340	-	375,606	41,734
SLOR 42	877,756	-	-	70%	614,429	614,429	-	552,986	61,443
SLOR 42	50,513	-	-	70%	35,359	35,359	-	31,823	3,536
<b>Total</b>	<b>\$ 2,003,119</b>	<b>\$ -</b>	<b>\$ (82,139)</b>		<b>\$ 1,402,183</b>	<b>\$ 1,344,686</b>	<b>\$ (57,497)</b>	<b>\$ 1,261,965</b>	<b>\$ 82,721</b>



# Finding and Recommendation

## **FINDING— Unallowable services and supplies costs**

The city claimed \$2,003,119 in project costs for the SLOR Project during the audit period. We tested \$1,628,241 of these claimed costs, and identified a total of \$82,139 in unallowable costs.

This amount represents an accounts payable invoice accrual recorded on June 30, 2020, and subsequently reversed on October 22, 2020. Therefore, the expenditure was nulled, and no payment was due or issued to the vendor. As a result, the State's share of allowable costs should be reduced by \$57,497, as shown in the following table:

Reimbursement Category	Unallowable Claimed Costs	State Share	Reduction in Reimbursement Due the City
Services and Supplies	\$ 82,139	70%	\$ 57,497
<b>Total</b>	<b>\$ 82,139</b>		<b>\$ 57,497</b>

Section VI, Part D.1 of the DWR's Flood Control Guidelines states, in part:

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.

The city failed to follow the Flood Control Guidelines to ensure that all claimed costs were allowable.

### Recommendation

We recommend that DWR reduce the retention balance by the State's share of \$57,497. In the future, the city should also ensure that claimed costs are eligible for reimbursement under the Flood Control Guidelines.

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