

CITY OF SANTA CRUZ

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

San Lorenzo River Flood Control Project

January 25, 2013, through August 8, 2019



BETTY T. YEE
California State Controller

September 2022



BETTY T. YEE
California State Controller

September 28, 2022

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 City of Santa Cruz to the Department of Water Resources (DWR). Our audit pertained to DWR Claim Numbers SLOR 31 through 39, for the period of January 25, 2013, through August 8, 2019.

The city claimed \$779,127 for the San Lorenzo River Flood Control Project during the audit period. Our audit found that the entire amount is allowable. The State's share of allowable costs is \$545,389. DWR reimbursed the city \$490,850 during the audit period; therefore, the city is owed the remaining balance of \$54,539.

DWR retained \$54,539, which was to be released to the city pending the results of this audit.

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

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
Matt Huffaker, City Manager
City of Santa Cruz
The Honorable Sonja Brunner, Mayor
City of Santa Cruz

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Audit Report

Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program claims submitted by the City of Santa Cruz to the Department of Water Resources (DWR). Our audit pertained to DWR Claim Numbers SLOR 31 through 39 for the period of January 25, 2013, through August 8, 2019.

The city claimed \$779,127 for the San Lorenzo River Flood Control Project during the audit period. Our audit found that the entire amount is allowable.

Pursuant to California Water Code section 12832, the DWR reimbursed the city 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 \$545,389. DWR reimbursed the city \$490,850 during the audit period; therefore, the city is owed the remaining balance of \$54,539.

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 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 (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 under the general authority of Government Code section 12410 and the specific authority of California Water Code section 12832, which requires the State Controller to perform audits of flood control projects.

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 *Guidelines*, and adequately supported and documented.

Our audit pertained to DWR Claim Numbers SLOR 31 through 39, for the period of January 25, 2013, through August 8, 2019.

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 review report and single audit.
- We reviewed the DWR's engineering reports and/or claim evaluations pertaining to the city's claims.
- We determined whether the city received revenues that should be offset against the flood program expenditures.
- We determined whether the city 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). For labor costs, we selected a non-statistical block sample of 13 week periods, approximately three months from each item that was equal to or greater than the significant item amount.

We tested the following expenditures:

- Labor – We tested \$49,764 of \$146,535 in total labor costs claimed.
- Services and supplies – We tested \$404,620 of \$632,592 in total services and supplies costs claimed.

No errors were found.

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 costs claimed 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 \$779,127 in project costs for the period of January 25, 2013, through August 8, 2019.

Based on our audit, the State's share of allowable project costs is \$545,389. DWR reimbursed the city \$490,850 during the audit period; therefore, the city is owed the remaining balance of \$54,539.

**Follow-up on
Prior Audit
Findings**

Our prior review report, issued on September 30, 2016, disclosed no findings.

**Views of
Responsible
Officials**

We discussed our audit results with the City of Santa Cruz representatives during an exit conference conducted on July 26, 2022. The city's representatives agreed with the audit results.

Restricted Use

This audit report is solely for the information and use of the City of Santa Cruz, 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

September 28, 2022

Schedule—
Summary of Project Costs
January 25, 2013, through August 8, 2019

Project / Claim #	Costs Claimed	Audit Adjustments to Claimed Costs	Allowable per Audit	State's Share of Eligibility Percentage ¹	State's Share of Claimed Costs	Adjustments to State Share	State's Share of Allowable Costs	Reimbursement Received by the City	Reimbursement Due to City Pending Audit
San Lorenzo River Flood Control Project									
SLOR 31	\$ 215,565	-	\$ 215,565	70%	\$ 150,896	\$ -	\$ 150,896	\$ 135,806	\$ 15,090
SLOR 32	104,998	-	104,998	70%	73,499	-	73,499	66,149	7,350
SLOR 33	3,000	-	3,000	70%	2,100	-	2,100	1,890	210
SLOR 34	70,238	-	70,238	70%	49,167	-	49,167	44,250	4,917
SLOR 35	103,370	-	103,370	70%	72,359	-	72,359	65,123	7,236
SLOR 36	42,802	-	42,802	70%	29,961	-	29,961	26,965	2,996
SLOR 37	33,495	-	33,495	70%	23,447	-	23,447	21,102	2,345
SLOR 38	93,187	-	93,187	70%	65,230	-	65,230	58,708	6,522
SLOR 39	112,472	-	112,472	70%	78,730	-	78,730	70,857	7,873
	\$ 779,127	\$ -	\$ 779,127		\$ 545,389	\$ -	\$ 545,389	\$ 490,850	\$ 54,539

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

**State Controller's Office
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