

SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Lower Silver Creek Watershed Project

August 1, 2012, through May 12, 2016



BETTY T. YEE
California State Controller

June 2020



BETTY T. YEE
California State Controller

June 29, 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 Santa Clara Valley Water District under the Flood Control Subventions Program.

The district claimed costs of \$1,432,536 for the Lower Silver Creek Watershed project for the period of August 1, 2012, through May 12, 2016. Our audit found that \$1,424,136 is allowable and \$8,400 is unallowable. The state share of allowable costs is \$1,278,932. 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 \$8,400 in unallowable right-of-way costs. These costs are prohibited by the California Department of Water Resources' *Guidelines for State Reimbursement on Flood Control Projects*. The district received \$1,151,039 in reimbursements. Therefore, after the reduction of the \$8,400 in unallowable costs, the unreimbursed amount due the district is \$127,893.

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
Darin Taylor, Chief Financial Officer
Santa Clara Valley Water District
Anne Cooper, Acting Revenue Manager
Santa Clara Valley Water District
Nai Hsueh, Chairperson
Board of Directors
Santa Clara Valley Water District

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Audit Report

Summary

The State Controller's Office (SCO) audited the reimbursement claims of the Santa Clara Valley Water District under the Flood Control Subventions Program. Our audit included the Lower Silver Creek Watershed project, for the period of August 1, 2012, through May 12, 2016.

The district claimed \$1,432,536 during the audit period. Our audit found that \$1,424,136 is allowable and \$8,400 is unallowable. The state share of allowable costs is \$1,278,932. 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 \$8,400 in unallowable right-of-way costs. These costs are prohibited by the California Department of Water Resources (DWR) *Guidelines for State Reimbursement on Flood Control Projects*. The district received \$1,151,039 in reimbursements. Therefore, after the reduction of the \$8,400 in unallowable costs, the unreimbursed amount due the district is \$127,893.

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.

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 claimed costs 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 Lower Silver Creek Watershed project, for the period of August 1, 2012, through May 12, 2016.

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;
 - 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 to source documents all \$27,000 in total land acquisition costs claimed.
 - Relocation – We vouched claimed amounts to source documents for \$1,021,120 of \$1,396,345 in total relocation costs claimed.
 - Labor – We tested all \$9,191 in labor costs.

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

Our audit found an instance of noncompliance with the requirements outlined above. This instance is quantified in the Schedule and described in the Finding and Recommendation section. Santa Clara Valley Water District claimed \$1,432,536 for the Lower Silver Creek Watershed project under the Flood Control Subventions Program for the period of August 1, 2012, through May 12, 2016.

Our audit disclosed that the claimed amounts for the audit period included allowable costs of \$1,424,136 and unallowable costs of \$8,400. The state share of allowable costs is \$1,278,932. The state share represents the percentage of state funding stipulated in California Water Code section 12585.5. The district received \$1,151,039 in reimbursements. Therefore, after the reduction of the \$8,400 of unallowable costs, the unreimbursed amount due the district is \$127,893.

**Follow-up on
Prior Audit
Findings**

The findings noted in our prior audit report, issued on February 10, 2016, have been satisfactorily resolved by the district.

**Views of
Responsible
Officials**

We discussed the audit results with the district's representatives during an exit conference conducted on June 2, 2020. In a letter dated June 2, 2020 (Attachment), Darin Taylor, Chief Financial Officer, agreed with the audit results. Mr. Taylor 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 Santa Clara Valley Water 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 29, 2020

**Schedule—
Summary of Project Costs
August 1, 2012, through May 12, 2016**

Project/Claim Number	District Claim Number	Costs Claimed	Audit Adjustments ¹	Allowable Per Audit	State Share of Eligibility ²	State Share of Allowable Costs	Reimbursements Received by District	Reimbursement Due to District
LSCW 2014-01	86	\$ 907,387	\$ -	\$ 907,387	90%	\$ 816,648	\$ 734,983	\$ 81,665
LSCW FY 2013	87	9,191	-	9,191	90%	8,272	7,445	827
LSCW FY 2013	88	27,000	(8,400)	18,600	75%	13,950	12,555	1,395
LSCW 2014-04	89	458,466	-	458,466	90%	412,619	371,357	41,262
LSCW FY 2015-16	90	492	-	492	90%	443	399	44
LSCW FY 2015-16	91	30,000	-	30,000	90%	27,000	24,300	2,700
Total		\$1,432,536	\$ (8,400)	\$1,424,136		\$ 1,278,932	\$ 1,151,039	\$ 127,893

¹See the Finding and Recommendation section.

²The 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— Unallowable right- of-way costs

During the audit period of August 1, 2012 through May 12, 2016, the district submitted claims of \$27,000 for right-of-way costs associated with the Lower Silver Creek Watershed Project. We tested all \$27,000 in right-of-way costs and found that the district claimed right-of-way costs that exceeded the appraised value of the land by \$8,400.

The \$27,000 in right-of-way costs included \$25,000 in settlement costs and \$2,000 in title and escrow costs. The \$2,000 is allowable; however, the district could provide supporting appraisal documents for only \$16,600. Prior to our audit, DWR identified this error and reduced the district's claim from \$27,000 to \$18,600.

We concur with DWR's determination.

DWR's *Guidelines for State Reimbursement on Flood Control Projects*, Section VI, Part D specifies that DWR will reduce an agency's reimbursement claims for any item that it determines to be ineligible.

The district claimed unallowable right-of-way costs because it did not follow its policies and procedures to ensure that claimed costs were in accordance with the DWR guidelines.

Recommendation

We recommend that the district follow its policies and procedures to ensure that claimed costs are in accordance with DWR's *Guidelines for State Reimbursement on Flood Control Projects*.

**Attachment—
Santa Clara Valley Water District Response to
Draft Audit Report**



June 2, 2020

Mr. John Cobbinah
Audit Specialist
Division of Audits
3301 C Street, Suite 710
Sacramento, CA 95816

Dear Mr. Cobbinah:

As discussed at the telephone exit conference on June 2, Valley Water agrees with both findings from the Lower Silver Creek Flood Control Subventions Program Audit (August 1, 2012 through May 12, 2016). Please proceed with issuing the final report.

Yours truly,

A handwritten signature in blue ink that reads "Darin Taylor".

Darin Taylor
Chief Financial Officer
Office of the Chief Executive Officer

cc: A. Cooper
C. Sun



**State Controller's Office
Division of Audits
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<http://www.sco.ca.gov>