

SANTA CLARA VALLEY WATER DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Coyote – Berryessa Creeks, Lower Silver Creek Watershed,
South San Francisco Bay Shoreline Phase 1, Upper Guadalupe
River, and Upper Llagas Creek Watershed Projects

March 1, 2015, through June 30, 2023



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 2025



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 14, 2025

Mr. Jeremy Arrich, P.E., Manager
Division of Flood Planning and Improvements
Department of Water Resources
3310 El Camino Avenue, Suite 124
Sacramento, CA 95821

Dear Mr. Arrich:

The State Controller's Office audited Flood Control Subventions Program claims submitted by the Santa Clara Valley Water District (the district) to the Department of Water Resources (DWR). Our audit pertained to DWR claim numbers CBC 48 through CBC 61; LSCW 92 through LSCW 97; SSFBS 1 through SSFBS 8; UGR 56 through UGR 61; and ULCW 287 through ULCW 323, for the period of March 1, 2015, through June 30, 2023.

The district claimed costs of \$23,822,100 for the Coyote – Berryessa Creeks Project, Lower Silver Creek Watershed Project, South San Francisco Bay Shoreline Phase 1 Project, Upper Guadalupe River Project, and Upper Llagas Creek Watershed Project for the period of March 1, 2015, through June 30, 2023. Our audit found that \$23,709,297 is allowable and \$112,803 is unallowable. The costs are unallowable because the district claimed costs in excess of maximum allowable reimbursable costs, and it claimed unallowable land costs.

The State's share of allowable costs is \$19,453,704. The DWR reimbursed the district \$17,514,634 during the audit period; therefore, the district is owed the remaining balance of \$1,939,070.

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

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

Mr. Jeremy Arrich

April 14, 2025

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KAT/am

Copy: Marisela Pavlenko, P.E., Program Manager
Division of Flood Planning and Improvements
Department of Water Resources
The Honorable Tony Estremera, Chair
Board of Directors
Santa Clara Valley Water District
Rick Callender, Chief Executive Officer
Santa Clara Valley Water District
Darin Taylor, Chief Financial Officer
Santa Clara Valley Water District

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Audit Report

Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program claims submitted by the Santa Clara Valley Water District (the district) to the Department of Water Resources (DWR). Our audit pertained to DWR claim numbers CBC 48 through CBC 61; LSCW 92 through LSCW 97; SSFBS 1 through SSFBS 8; UGR 56 through UGR 61; and ULCW 287 through ULCW 323, for the period of March 1, 2015, through June 30, 2023.

The district claimed \$23,822,100 during the audit period. Our audit found that \$23,709,297 is allowable and \$112,803 is unallowable.

Water Code stipulates the percentage of state funding by project cost category. Pursuant to Water Code section 12832, the DWR reimbursed the district 90% of eligible claimed costs, 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 \$19,453,704. The DWR reimbursed the district \$17,514,634 during the audit period; therefore, the district is owed the remaining balance of \$1,939,070.

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.

In accordance with Water Code section 12585.5, the DWR reimburses the district for 70% of eligible costs associated with non-federal expenditures, land acquisition, and relocations. The DWR's *Guidelines for Reimbursement on Flood Control Projects* (DWR Guidelines) describe the compliance requirement for local agencies seeking reimbursement for the state 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 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 district, as presented in the Schedule, were allowable and in compliance with the DWR Guidelines.

Our audit pertained to DWR claim numbers CBC 48 through CBC 61; LSCW 92 through LSCW 97; SSFBS 1 through SSFBS 8; UGR 56

through UGR 61; and ULCW 287 through ULCW 323, for the period of March 1, 2015, through June 30, 2023.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the district's internal controls that are significant to the audit objective by interviewing key personnel, by completing an internal control questionnaire, and by reviewing the district'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 district 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 district's prior SCO audit and single audit reports.
- We reviewed the DWR's engineering reports and/or claims evaluations pertaining to the district's claims.
- We determined whether the district received revenues that should be offset against the flood program expenditures.
- We reviewed the district's claim detail for any condemnation interest and inquired of the district whether it had received interest on condemnation deposits.
- We determined whether the district received from 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.

We tested the following expenditures:

- Land – We tested \$6,079,115 of \$6,375,021 in total land, easement, and right-of-way acquisition costs claimed.
- Relocation – We tested \$3,825,485 of \$4,327,223 in total relocation costs claimed.
- Associated project costs – We tested \$53,553 of \$1,410,557 in total labor costs claimed.

- Services and supplies – We tested \$11,359,740 of \$11,709,299 in total services and supplies costs claimed.

For the selected sample, errors found 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 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

The district claimed \$23,822,100 in project costs for the Coyote – Berryessa Creeks Project, Lower Silver Creek Watershed Project, South San Francisco Bay Shoreline (SSFBS) Phase 1 Project, Upper Guadalupe River (UGR) Project, and Upper Llagas Creek Watershed Project for the period of March 1, 2015, through June 30, 2023. Our audit found that \$23,709,297 is allowable and \$112,803 is unallowable. The costs are unallowable because the district claimed costs in excess of maximum allowable reimbursable costs, and it claimed unallowable land costs.

Based on our audit, the State's share of allowable project costs is \$19,453,704. The DWR reimbursed the district \$17,514,634 during the audit period; therefore, the district is owed the remaining balance of \$1,939,070.

Follow-up on Prior Audit Findings

The findings noted in our prior audit report, issued on August 31, 2022, have been satisfactorily resolved by the district.

Views of Responsible Officials

We issued a draft audit report on January 28, 2025. The district's representative responded by letter dated February 6, 2025, agreeing with the audit results. This final audit report includes the district's response as an attachment.

Restricted Use

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

Kimberly A. Tarvin, CPA
Chief, Division of Audits

April 14, 2025

Schedule—
Summary of Project Costs
May 1, 2015, through June 30, 2023

Project Claim Number	Claimed Costs	DWR Adjustment to Claimed Costs	Audit Adjustment ¹	Allowable Costs	State Share	State Share of Claimed Costs	State Share of Allowable Costs	Amount Received by the District	Additional Amount Due to the District Pending Audit
CBC 2021-01 (48)	\$ 1,555	\$ -	\$ -	\$ 1,555	70%	\$ 1,088	\$ 1,088	\$ 979	\$ 109
CBC 2021-01 (49)	750	-	-	750	70%	525	525	473	53
CBC 2021-02 (50)	146,885	-	-	146,885	70%	102,819	102,819	92,537	10,282
CBC 2021-02 (51)	111,727	-	-	111,727	70%	78,209	78,209	70,388	7,821
CBC 2021-03 (52)	968,379	-	-	968,379	70%	677,866	677,866	610,079	67,787
CBC 2021-03 (53)	27,895	-	-	27,895	70%	19,527	19,527	17,574	1,953
CBC 2021-04 (54)	3,276	-	-	3,276	70%	2,294	2,294	2,064	229
CBC 2021-04 (55)	2,307	-	-	2,307	70%	1,615	1,615	1,453	161
CBC 2022-01 (56)	36,248	-	-	36,248	70%	25,374	25,374	22,836	2,537
CBC 2022-01 (57)	50,777	-	-	50,777	70%	35,544	35,544	31,989	3,554
CBC 2022-02 (58)	45,057	-	-	45,057	70%	31,540	31,540	28,386	3,154
CBC 2022-02 (59)	1,600	-	-	1,600	70%	1,120	1,120	1,008	112
CBC 2022-03 (60)	99,080	-	-	99,080	70%	69,356	69,356	62,420	6,936
CBC 2022-03 (61)	116,205	-	-	116,205	70%	81,344	81,344	73,209	8,134
Total	1,611,741	-	-	1,611,741		1,128,219	1,128,219	1,015,397	112,822
UGR 2021-01 (56)	288,259	-	-	288,259	70%	201,781	201,781	181,603	20,178
UGR 2021-01 (57)	71,129	-	-	71,129	70%	49,790	49,790	44,811	4,979
UGR 2021-02 (58)	43,000	-	-	43,000	70%	30,100	30,100	27,090	3,010
UGR 2021-03 (59)	143,000	-	-	143,000	70%	100,100	100,100	90,090	10,010
UGR 2021-04 (60)	445,000	-	(10,000)	435,000	70%	311,500	304,500	280,350	24,150
UGR 2021-04 (61)	4,198	-	-	4,198	70%	2,939	2,939	2,645	294
Total	994,586	-	(10,000)	984,586		696,210	689,210	626,589	62,621

Schedule (continued)

Project Claim Number	Claimed Costs	DWR Adjustment to Claimed Costs	Audit Adjustment ¹	Allowable Costs	State Share	State Share of Claimed Costs	State Share of Allowable Costs	Amount Received by the District	Additional Amount Due to the District Pending Audit
SSFBS 2022-01 (1)	219,814	(5,528)	-	214,286	70%	153,870	150,000	135,000	15,000
SSFBS 2022-01 (2)	10,303,628	(97,275)	44,752	10,251,105	70%	7,212,540	7,175,774	6,430,003	745,771
SSFBS 2022-02 (3)	62,147	-	-	62,147	70%	43,503	43,503	39,153	4,350
SSFBS 2022-02 (4)	6,296	-	-	6,296	70%	4,407	4,407	3,966	441
SSFBS 2022-02 (5)	45,300	-	-	45,300	70%	31,710	31,710	28,539	3,171
SSFBS 2023-03 (6)	51,750	-	-	51,750	70%	36,225	36,225	32,603	3,622
SSFBS 2022-03 (7)	23,000	-	-	23,000	70%	16,100	16,100	14,490	1,610
SSFBS 2022-04 (8)	819,439	-	(44,752)	774,687	70%	573,607	542,281	516,247	26,034
Total	11,531,374	(102,803)	-	11,428,571		8,071,962	8,000,000	7,200,001	799,999
LSCW 2021-01 (92)	145,994	-	-	145,994	90%	131,395	131,395	118,255	13,139
LSCW 2021-01 (93)	247,737	-	-	247,737	90%	222,963	222,963	200,667	22,296
LSCW 2021-02 (94)	16,758	-	-	16,758	90%	15,082	15,082	13,574	1,508
LSCW 2021-02 (95)	47,617	-	-	47,617	90%	42,855	42,855	38,570	4,286
LSCW 2022-01 (96)	7,883	-	-	7,883	90%	7,095	7,095	6,385	710
LSCW 2022-01 (97)	15,244	-	-	15,244	90%	13,720	13,720	12,348	1,372
Total	481,233	-	-	481,233		433,109	433,109	389,798	43,311
ULCW 2022-01 (287)	1,575,051	-	-	1,575,051	100%	1,575,051	1,575,051	1,417,546	157,504
ULCW 2022-01 (288)	18,790	-	-	18,790	100%	18,790	18,790	16,911	1,879
ULCW 2022-01 (289)	134,505	-	-	134,505	100%	134,505	134,505	121,055	13,451
ULCW 2022-01 (290)	859,151	-	-	859,151	100%	859,151	859,151	773,236	85,915
ULCW 2022-01 (291)	334,797	-	-	334,797	100%	334,797	334,797	301,317	33,480
ULCW 2022-01 (292)	158,077	-	-	158,077	100%	158,077	158,077	142,269	15,808
ULCW 2022-01 (293)	11,000	-	-	11,000	100%	11,000	11,000	9,900	1,100
ULCW 2022-01 (294)	42,200	-	-	42,200	100%	42,200	42,200	37,980	4,220
ULCW 2022-02 (295)	806,198	-	-	806,198	100%	806,198	806,198	725,579	80,620
ULCW 2022-02 (296)	20,326	-	-	20,326	100%	20,326	20,326	18,293	2,033
ULCW 2022-02 (297)	40,570	-	-	40,570	100%	40,570	40,570	36,513	4,057
ULCW 2022-02 (298)	1,087,829	-	-	1,087,829	100%	1,087,829	1,087,829	979,047	108,783
ULCW 2022-02 (299)	9,895	-	-	9,895	100%	9,895	9,895	8,905	989
ULCW 2022-02 (300)	67,638	-	-	67,638	100%	67,638	67,638	60,874	6,764

Schedule (continued)

Project Claim Number	Claimed Costs	DWR Adjustment to Claimed Costs	Audit Adjustment ¹	Allowable Costs	State Share	State Share of Claimed Costs	State Share of Allowable Costs	Amount Received by the District	Additional Amount Due to the District Pending Audit
ULCW 2022-02 (301)	114,300	-	-	114,300	100%	114,300	114,300	102,870	11,430
ULCW 2022-02 (302)	41,025	-	-	41,025	100%	41,025	41,025	36,923	4,103
ULCW 2022-02 (303)	5,500	-	-	5,500	100%	5,500	5,500	4,950	550
ULCW 2022-02 (304)	1,000	-	-	1,000	100%	1,000	1,000	900	100
ULCW 2022-02 (305)	58,300	-	-	58,300	100%	58,300	58,300	52,470	5,830
ULCW 2022-02 (306)	434,000	-	-	434,000	100%	434,000	434,000	390,600	43,400
ULCW 2022-02 (307)	88,100	-	-	88,100	100%	88,100	88,100	79,290	8,810
ULCW 2022-02 (308)	43,800	-	-	43,800	100%	43,800	43,800	39,420	4,380
ULCW 2022-02 (309)	141,400	-	-	141,400	100%	141,400	141,400	127,260	14,140
ULCW 2022-03 (310)	226,600	-	-	226,600	100%	226,600	226,600	203,940	22,660
ULCW 2022-03 (311)	1,114,915	-	-	1,114,915	100%	1,114,915	1,114,915	1,003,423	111,491
ULCW 2022-03 (312)	20,900	-	-	20,900	100%	20,900	20,900	18,810	2,090
ULCW 2022-03 (313)	248,000	-	-	248,000	100%	248,000	248,000	223,200	24,800
ULCW 2022-03 (314)	1,330,000	-	-	1,330,000	100%	1,330,000	1,330,000	1,197,000	133,000
ULCW 2022-03 (315)	2,000	-	-	2,000	100%	2,000	2,000	1,800	200
ULCW 2022-03 (316)	21,600	-	-	21,600	100%	21,600	21,600	19,440	2,160
ULCW 2022-03 (317)	14,000	-	-	14,000	100%	14,000	14,000	12,600	1,400
ULCW 2022-03 (318)	29,000	-	-	29,000	100%	29,000	29,000	26,100	2,900
ULCW 2022-03 (319)	29,000	-	-	29,000	100%	29,000	29,000	26,100	2,900
ULCW 2022-03 (320)	29,000	-	-	29,000	100%	29,000	29,000	26,100	2,900
ULCW 2022-03 (321)	29,000	-	-	29,000	100%	29,000	29,000	26,100	2,900
ULCW 2022-03 (322)	13,300	-	-	13,300	100%	13,300	13,300	11,970	1,330
ULCW 2022-03 (323)	2,400	-	-	2,400	100%	2,400	2,400	2,160	240
Total	9,203,166	-	-	9,203,166		9,203,166	9,203,166	8,282,849	920,317
Grand Total	\$ 23,822,100	\$ (102,803)	\$ (10,000)	\$ 23,709,297		\$ 19,532,666	\$ 19,453,704	\$ 17,514,634	\$ 1,939,070

¹See the Finding and Recommendation section.²The State's share of allowable project costs represent the percentage of state funding, as stipulated in the California Water Code, for each project cost category.

Finding and Recommendation

**FINDING—
Unallowable land
acquisition costs
and partial
reversal of
Department of
Water Resources
adjustments**

The district claimed \$994,586 in costs for the UGR Project and \$11,531,374 in costs for the SSFBS Phase 1 Project. During the audit, we identified unallowable costs totaling \$54,752, which included \$10,000 in unallowable land costs from the UGR Project and \$44,752 in unallowable land costs from the SSFBS Phase 1 Project.

The \$10,000 in unallowable costs for the UGR Project resulted from an overstated appraisal value. We found that the certified appraisal value of \$445,000, which the district claimed for reimbursement, did not agree with the supporting appraisal report calculation of \$435,000.

The \$44,752 in unallowable costs for the SSFBS Phase 1 Project resulted from the district's negotiated settlement of \$469,752, which exceeded the appraised fair market value of \$425,000. The district did not request the necessary preapproval from DWR for the excess amount.

The district did not follow the DWR Guidelines, which require claimants to obtain advance approval from the DWR for negotiated settlements and stipulated court judgments that exceed the high appraised value. In addition, the district did not sufficiently review the certified appraisal value to ensure that the amounts calculated in the report agree with the supporting appraisal report calculation.

Section IV, Part D.1 of the DWR Guidelines states, in part:

Negotiated settlements and stipulated judgments may not exceed the local agency's high appraised value unless the advance approval of the Department [of Water Resources] has been obtained.

Department of Water Resources Adjustments

In its initial processing of the claims, DWR made two adjustments to SSFBS Phase 1 Project claims totaling \$102,803 as excess claims, to reduce the State's share of allowable costs to the maximum allowable amount of \$8 million.

When we identified the unallowable land acquisition costs during the audit, the district contacted the DWR to discuss the audit adjustments. The district subsequently advised us that the DWR had agreed to shift and replace our \$44,752 adjustment with the excess project costs previously adjusted by the DWR. After confirming with the DWR its agreement with the district to shift costs, we performed an additional review of the previously adjusted costs to determine eligibility. We found the costs to be eligible and agreed with the cost shift, and partially reversed the DWR adjustments by \$44,752.

As a result, allowable costs are reduced by \$10,000, as shown in the following table:

<u>Claim Number</u>	<u>Category</u>	<u>SCO Adjustment</u>
UGR 2021-04 (60)	Land	(10,000)
SSFBS 2022-04(8)	Land	(44,752)
SSFBS 2022-01(2)	Services and supplies	44,752
Total		<u>\$ (10,000)</u>

Recommendation

We recommend that the district:

- Reduce its claim for the UGR Project by \$10,000; and
- Ensure that future claimed costs are eligible for reimbursement under DWR guidelines.

We also recommend that DWR adjust its records accordingly to reflect the partial reversal of its adjustments to SSFBS Phase 1 Project claims.

District's Response

. . . There was a \$10,000 adjustment resulting from an overstated appraisal value related to the [UGR] project, which was caused by a typographical error on the documentation from the appraiser.

The resulting financial impact to Valley Water will be a reduction in anticipated cost reimbursements by \$7,000, due to the overstated appraisal value related to the UGR project (\$10,000 adjustment × 70% reimbursement = \$7,000), with which Valley Water staff agrees. Valley Water will continue to seek advance approval from DWR whenever seeking reimbursement that exceeds the appraisal value. Additionally, Valley Water will maintain close collaboration with the Real Estate Services Unit to ensure that the most up-to-date reports are available for review.

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



Clean Water • Healthy Environment • Flood Protection

February 6, 2025

Efren Loste
State Controller's Office
Chief, Local Government Audits Bureau, Division of Audits
Po Box 942850
Sacramento, CA 94250

Subject: Upper Guadalupe River, Upper Llagas Creek, Coyote Berryessa, Lower Silver Creek and South San Francisco Bay Shoreline Subvention Claims

Dear Efren Loste:

The Santa Clara Valley Water District (Valley Water) is responding to the draft report dated January 28, 2025. Valley Water would like to thank you and the auditors for the thorough and thoughtful work in reviewing the subvention program claims.

The State Controller's Office (SCO) identified a total of \$112,803 in unallowable costs. Out of this, \$58,051 was already adjusted before the audit because Valley Water (VW) had submitted claims that would have exceeded the \$8 million reimbursement budget specified in the funding agreement for the South San Francisco Bay Shoreline Project (SSFBS). The audit confirmed DWR's prior adjustments.

An additional \$44,752 was adjusted, ultimately for the same reason, to prevent the claims submitted by VW from exceeding the \$8 million reimbursement budget for SSFBS. While the audit records a finding related to the \$44,752, it should be noted that Valley Water was aware of the issue and had already replaced the ineligible costs with other eligible project costs per agreement from DWR, and that SCO found the replaced costs to be eligible. It should also be noted that Valley Water is fully aware of the process to request preapproval from DWR when parcel purchase costs exceed the appraised value, but in this case chose to reallocate those excess costs to another parcel purchase where the purchase costs were less than the appraised value and did so with permission from DWR.

Finally, there was a \$10,000 adjustment resulting from an overstated appraisal value related to the Upper Guadalupe River (UGR) project, which was caused by a typographical error on the documentation from the appraiser.

The resulting financial impact to Valley Water will be a reduction in anticipated cost reimbursements by \$7,000, due to the overstated appraisal value related to the UGR project (\$10,000 adjustment X 70% reimbursement = \$7,000), with which Valley Water staff agrees.



Clean Water • Healthy Environment • Flood Protection

Efren Loste
February 6, 2025
Page 2 of 2

Valley Water will continue to seek advance approval from DWR whenever seeking reimbursement that exceeds the appraisal value. Additionally, Valley Water will maintain close collaboration with the Real Estate Services Unit to ensure that the most up-to-date reports are available for review.

According to the draft audit report, Valley Water is owed the remaining balance of \$1,939,070 in retention and Valley Water hopes to receive the remaining funding soon.

Please contact Simon Lo, Senior Management Analyst at 408-857-7036 or Stephanie Lei-Morales, Supervising Program Administrator at 408-891-2698 if you have any questions.

Regards,

DocuSigned by
Darin Taylor 2/6/2025
Darin Taylor
Chief Financial Officer
Office of the Chief Executive Officer

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

www.sco.ca.gov