

SAN BERNARDINO FLOOD CONTROL DISTRICT

Audit Report

FLOOD CONTROL SUBVENTIONS PROGRAM

Santa Ana Mainstream – Seven Oaks Dam
and San Timoteo Creek Channel Projects

July 1, 2005, through June 30, 2006



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

September 2024



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CALIFORNIA STATE CONTROLLER

September 4, 2024

Eric Nichol, Assistant 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 San Bernardino County Flood Control District to the Department of Water Resources. Our audit pertained to Project Claim Numbers SAMSB 2017-01(28) and SAMSB 2017-02(29), for the period of July 1, 2005, through June 30, 2006.

The district claimed \$1,012,791 for the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects during the audit period. Our audit found that \$986,824 is allowable and \$25,967 is unallowable. The costs are unallowable because the district did not adhere to the local cooperation agreement cost-sharing requirements and failed to offset an escrow refund against land acquisition costs.

The State's share of allowable costs is \$690,777. The Department of Water Resources reimbursed the district \$623,532; therefore, the district is owed the remaining balance of \$67,245.

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

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/ac

Attachment

Mr. Eric Nichol
September 4, 2024
Page 2 of 2

Copy: Marisela Pavlenko, Manager
Flood Control Subventions Program
Division of Flood Management
Department of Water Resources
The Honorable Ensen Mason, Auditor-Controller
San Bernardino County
The Honorable Dawn Rowe, Chair
San Bernardino County Board of Supervisors
Noel Castillo, Director
San Bernardino County Department of Public Works

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Audit Report

Summary

The State Controller's Office (SCO) audited Flood Control Subventions Program claims submitted by the San Bernardino County Flood Control District (the district) to the Department of Water Resources (DWR). Our audit pertained to Project Claim Numbers SAMSB 2017-01(28) and SAMSB 2017-02(29), for the period of July 1, 2005, through June 30, 2006.

The district claimed \$1,012,791 for the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects during the audit period. Our audit found that \$986,824 is allowable and \$25,967 is unallowable. The costs are unallowable because the district did not adhere to the local cooperation agreement cost-sharing requirements and failed to offset an escrow refund against land acquisition costs.

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 \$690,777. DWR reimbursed the district \$623,532 during the audit period; therefore, the district is owed the remaining balance of \$67,245.

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% of eligible costs associated with non-federal expenditures and land acquisitions and relocations.

The DWR's *Guidelines for Reimbursement on Flood Control Projects* (Flood Control Guidelines) describe the compliance requirement for local agencies seeking reimbursement for the state share of federal flood control projects.

The district submitted to DWR claim numbers SAMSB 2017 01(28) and SAMSB 2017-02(29) on June 29, 2017. DWR completed its review and payment of the claims on March 26, 2021, and June 21, 2021, respectively. On July 26, 2021, SCO received the claims from DWR.

Audit Authority

We conducted this performance audit 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 district, as presented in the Schedule, were allowable and in compliance with the DWR's Flood Control Guidelines.

Our audit included the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects, for the period of July 1, 2005, through June 30, 2006.

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 claim 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; and
- 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:

- Land – We tested all \$672,900 in land, easement, and right-of-way acquisition costs.
- Equipment – We tested \$547 of \$3,378 in total equipment costs.

- Labor – We tested \$35,591 of \$255,329 in total labor costs.
- Services and supplies – We tested \$79,126 of \$81,184 in total services and supplies costs.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

The district claimed \$1,012,791 in project costs for the period of July 1, 2005, through June 30, 2006.

Our audit found instances of noncompliance with the requirements described in the Objective, Scope, and Methodology section. These instances are quantified in the Schedule and described in the Findings and Recommendations section. Based on our audit, the State's share of allowable project costs is \$690,777. The DWR reimbursed the district \$623,532; therefore, the district is owed the remaining balance of \$67,245.

Follow-up on Prior Audit Findings

The district has satisfactorily resolved the findings noted in our prior audit report for the period of March 30, 2005, through June 2, 2006, issued on March 28, 2014.

Views of Responsible Officials

We issued a draft audit report on May 23, 2024. The district's representative responded by letter dated May 29, 2024 (Attachment), agreeing with the audit results.

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

September 4, 2024

Schedule—
Summary of Project Costs
July 1, 2005, through June 30, 2006

<u>Project / Claim Number</u>	<u>Claim Category</u>	<u>Costs Claimed</u>	<u>Audit Adjustment to Claimed Costs¹</u>	<u>Allowable per Audit</u>	<u>State Share of Eligibility Percentage²</u>	<u>State Share of Claimed Costs</u>	<u>Adjustments to State Share</u>	<u>State Share of Allowable Costs</u>	<u>Reimbursement Received by the District</u>	<u>Reimbursement Due to District Pending Audit</u>
Santa Ana Mainstem - Seven Oaks Dam										
SAMSB 2017-1 (28)	Non-Federal Expenditures	\$ 148,148	\$ (25,061)	\$ 123,087	70%	\$ 103,704	\$ (17,543)	\$ 86,161	\$ 78,807	\$ 7,354
Santa Ana Mainstem - San Timoteo Creek Channel										
SAMSB 2017-2 (29)	Land and Easement	672,900	(906)	671,994	70%	471,030	(634)	470,396	423,927	46,469
SAMSB 2017-2 (29)	Non-Federal Expenditures	191,743	-	191,743	70%	134,220	-	134,220	120,798	13,422
Total		<u>\$ 1,012,791</u>	<u>\$ (25,967)</u>	<u>\$ 986,824</u>		<u>\$ 708,954</u>	<u>\$ (18,177)</u>	<u>\$ 690,777</u>	<u>\$ 623,532</u>	<u>\$ 67,245</u>

¹See the Findings and Recommendations section. The audit adjustment of \$25,967 is comprised of \$23,057 (Finding 1); \$2,004 (Finding 2); and \$906 (Finding 3).

²The state share of allowable project costs represent the percentage of state funding, as stipulated in the Water Code, for each project cost category.

Findings and Recommendations

FINDING 1— Department of Water Resources adjustments

The district claimed \$1,012,791 for costs related to the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects. During its review of the claims, the DWR identified \$23,057 as ineligible for reimbursement. The DWR disallowed these expenditures because the district claimed ineligible costs and did not adhere to the local cooperation agreement’s cost-sharing requirements.

Specifically, the district claimed ineligible irrigation costs and did not apply the required cost-sharing percentages in calculating costs that are coded as “F02055.” The DWR adjusted the following amounts:

- Services and supplies costs of \$18,346, incurred in September, October, and November 2005, which represent ineligible irrigation costs;
- Labor costs of \$4,414, which represent the district’s share of the disallowed environmental studies labor costs; and
- Equipment costs of \$297, which represent the district’s share of the disallowed environmental studies equipment costs.

The DWR reimburses the district for 70% of eligible costs for the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects. At the time of DWR review and approval, the State’s share of the reimbursable claimed costs was \$692,813. The DWR reimbursed the district \$623,532 (90% of the State’s share of eligible project costs) and withheld \$69,281 (10% of eligible project costs) as a retention balance pending our audit.

Because the district failed to assess and bill appropriate amounts, its allowable costs and the State’s share of allowable costs were both reduced.

Section VI, Part D, “State Review,” of the DWR’s Flood Control Guidelines states, in part:

. . . The Department [of Water Resources] will deduct “without prejudice” any item which cannot be verified. The local agency will have 90 days from the date of notification of the deductions to submit additional supporting information. If such information is not received within 90 days, the Department will presume that the local agency accepted the deduction. . . .

Article II, section L of the *Local Cooperation Agreement Among the Department of the Army, Orange County Flood Control District, San Bernardino County Flood Control District and Riverside County Flood Control and Water Conservation District for Construction of the Santa Ana River Mainstem, including Santiago Creek, California Flood Control Project* (December 13, 1989), states, in part:

The Sponsors shall be solely responsible for the costs for operating, maintaining, and rehabilitating mitigation lands. With regard to mitigation applicable to the Seven Oaks feature, costs shall be shared by the Sponsors in relation to benefits received by each Sponsor,

87.70 percent by Orange, 5.27 percent by Riverside, and 7.03 percent by San Bernardino. . . .

Recommendation

We recommend that the district:

- Reduce its claims for the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects by \$23,057; and
- Ensure that claimed costs are eligible for reimbursement under the DWR’s Flood Control Guidelines.

District’s Response

The district has reviewed the content and findings of the subject report, and this letter is to voice our concurrence with those findings. The district will work to update its administrative procedures to ensure [that] ineligible expenditures are excluded from future claims.

**FINDING 2—
Unallowable labor costs**

The district claimed a total of \$148,148 in labor, equipment, and services and supplies costs relating to the Santa Ana Mainstem – Seven Oaks Dam Project on Claim Number SAMSB 2017-01(28). During our review of the claims, we identified \$2,004 in labor costs as ineligible for reimbursement. The labor costs are unallowable because the district did not adhere to the local cooperation agreement’s cost-sharing requirements.

Specifically, the district did not apply the required cost-sharing percentages in calculating costs that are coded as “F02055.”

We tested \$91,388 of \$148,148 as follows:

Cost Category	Amount Claimed	Amount Tested
Labor	\$ 68,916	\$ 13,289
Equipment	817	392
Services and supplies	78,415	77,707
Total	<u>\$ 148,148</u>	<u>\$ 91,388</u>

Based on the supporting documentation, we determined that the total claimed costs were adequately allocated between the three counties, except for \$2,156 in labor costs that was coded as “F02055” but not included in the DWR adjustments. As a result, we allowed \$152 (7.03%) and disallowed \$2,004 (92.97%).

We adjusted the claimed "F02055" labor costs on Claim Number SAMSB 2017-01(28) as follows:

<u>Service Date</u>	<u>Costs Claimed</u>	<u>SCO Adjustment</u>
June 27, 2005	\$ 37	\$ (34)
June 30, 2005	463	(431)
June 30, 2005	63	(59)
July 25, 2005	273	(254)
July 25, 2005	273	(254)
November 7, 2005	239	(222)
November 7, 2005	238	(221)
January 5, 2006	239	(222)
February 1, 2006	191	(177)
April 5, 2006	140	(130)
Total	\$ 2,156	\$ (2,004)

Article II, section L of the *Local Cooperation Agreement Among the Department of the Army, Orange County Flood Control District, San Bernardino County Flood Control District and Riverside County Flood Control and Water Conservation District for Construction of the Santa Ana River Mainstem, including Santiago Creek, California Flood Control Project* (December 13, 1989), states, in part:

The Sponsors shall be solely responsible for the costs for operating, maintaining, and rehabilitating mitigation lands. With regard to mitigation applicable to the Seven Oaks feature, costs shall be shared by the Sponsors in relation to benefits received by each Sponsor, 87.70 percent by Orange, 5.27 percent by Riverside, and 7.03 percent by San Bernardino. . . .

Recommendation

We recommend that the district:

- Reduce its claimed labor costs for the Santa Ana Mainstem – Seven Oaks Dam Project by \$2,004; and
- Ensure that costs claimed for reimbursement are accurate.

District's Response

The district has reviewed the content and findings of the subject report, and this letter is to voice our concurrence with those findings. The district will work to update its administrative procedures to ensure ineligible expenditures are excluded from future claims.

FINDING 3— Unallowable land acquisition costs

The district claimed \$864,643 for the Santa Ana River Mainstem – San Timoteo Creek Channel Project. During our review of the claims, we identified \$906 in land and easement costs as ineligible for reimbursement. The costs are unallowable because the district did not comply with the DWR's Flood Control Guidelines.

We tested all \$672,900 in land acquisition and easement costs and identified a \$906 escrow refund. The \$906 is ineligible because the district did not offset the escrow refund against its land acquisition costs.

The DWR reimburses the district for 70% of eligible costs for the Santa Ana Mainstem – Seven Oaks Dam and San Timoteo Creek Channel Projects. The State’s share of the \$906 is \$634. Therefore, the district overstated its land and easement costs by \$634 because it did not offset the escrow refund.

The error occurred because district officials were unaware of the DWR’s Flood Control Guidelines. Furthermore, the district does not have internal policies and procedures to ensure that claimed costs are eligible for reimbursement.

Section VI, Part D, “State Review,” of the DWR’s Flood Control Guidelines states, in part:

. . . The Department [of Water Resources] will deduct “without prejudice” any item which cannot be verified. The local agency will have 90 days from the date of notification of the deductions to submit additional supporting information. If such information is not received within 90 days, the Department will presume that the local agency accepted the deduction. . . .

Recommendation

We recommend that the district:

- Reduce its claims for the Santa Ana Mainstem – San Timoteo Creek Channel Project by \$906; and
- Ensure that costs are eligible for reimbursement under the DWR’s Flood Control Guidelines.

District’s Response

The district has reviewed the content and findings of the subject report, and this letter is to voice our concurrence with those findings. The district will work to update its administrative procedures to ensure ineligible expenditures are excluded from future claims.

**Attachment—
San Bernardino County Flood Control
District's Response to
Draft Audit Report**



Department of Public Works

- Flood Control
- Operations
- Solid Waste Management
- Special Districts
- Surveyor
- Transportation

www.SBCounty.gov

Noel Castillo, P.E.
Director

David Doublet, M.S., P.E.
Assistant Director

May 29, 2024

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

RE: S23FLC0001 SAN BERNARDINO COUNTY FLOOD CONTROL DISTRICT – SANTA ANA MAINSTEM PROJECT / FLOOD CONTROL SUBVENTIONS PROGRAM – RESPONSE TO DRAFT AUDIT FINDINGS DATED APRIL 2024

Dear Mr. Loste:

The San Bernardino County Flood Control District (District) is one of three Local Sponsors for the Santa Ana Mainstem Project and have received the Draft Audit Report for the Subvention Claims No. SAMSB 2017-01 (28) and SAMSB 2017-02 (29) dated May 23, 2024. This report exclusively addresses the reimbursement claims made by the District to the California Department of Water Resources under the Flood Control Subventions Program.

The District has reviewed the content and findings of the subject report, and this letter is to voice our concurrence with those findings. The District will work to update its administrative procedures to ensure ineligible expenditures are excluded from future claims.

Thank you for the opportunity to review this report. If you have any questions, please contact me at (909) 387-8120.

Sincerely,

Noel Castillo, P.E., Director
San Bernardino County Department of Public Works
MF:DM:DW

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