



Transmitted via e-mail

April 10, 2012

Mr. Mark Cowin, Director  
California Department of Water Resources  
P.O. Box 942836, Room 1115-1  
Sacramento, CA 94236-0001

Dear Mr. Cowin:

**Final Report—Tyler Island Reclamation District 563, Proposition 84 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Tyler Island Reclamation District 563's (District) Proposition 84 grants 4600008106 and 4600008801.

After review of the draft report, the District chose not to provide a written response. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources  
Ms. Tracie Billington, Chief, Financial Assistance Branch, California Department of Water Resources  
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources  
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Mr. Steve Mello, President, Tyler Island Reclamation District 563  
Ms. Victoria Hale, Accountant, Tyler Island Reclamation District 563

# AUDIT REPORT

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## Tyler Island Reclamation District 563 Proposition 84 Bond Program Grant Agreements 4600008106 and 4600008801



*Source: Department of Water Resources*

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE TEAM**

Susan Botkin  
Manager

Angie Williams  
Supervisor

Staff  
Dennis Williams

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) authorized \$5.388 billion in general obligation bonds to fund waterway and natural resource protection, water pollution and contamination control, state and local park improvements, public access, and water conservation efforts.

The Delta Levees Maintenance Subventions Program (Program) provides financial assistance to local agencies for the maintenance and rehabilitation of levees in the Sacramento–San Joaquin Delta. The Program is authorized in the California Water Code, sections 12980 through 12995, and is managed by the California Department of Water Resources (DWR). The Central Valley Flood Protection Board (Board) governs the Program. Water Code section 12987 requires DWR to prioritize projects for grant funding and make recommendations to the Board. The Board reviews and approves DWR's recommendations and enters into agreements with local agencies to reimburse eligible project costs. *(Source: DWR)*

The Tyler Island Reclamation District 563 (District) was formed by a special act of the Legislature to improve, repair, operate, maintain, construct and reconstruct the levees, works, structures, or other facilities that provide flood control and flood protection to the 22.9 mile area encompassed by the District. *(Source: District)*

## SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we conducted a performance audit of the following grants:

<u>Grant Agreements</u>	<u>Grant Period</u>	<u>Awarded</u>
4600008106	July 1, 2007 through June 30, 2008	\$3,631,575
4600008801	July 1, 2008 through June 30, 2009	\$1,179,075

The audit objectives were to determine whether the District's grant expenditures complied with applicable laws, regulations, and the grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

District management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements, as well as evaluating the efficiency and effectiveness of the Program. DWR, along with the California Natural Resources Agency are responsible for the state-level administration of the bond program.

## **METHODOLOGY**

To determine whether grant revenues and expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, grant agreements, and applicable policies and procedures.
- Reviewed a sample of the District's reimbursement claims, accounting records, vendor invoices, vendor contracts, and bank statements.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Determined if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- On a sample basis, evaluated whether grant deliverables required by the grant agreements were met.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds. The audit was conducted from May 2011 through January 2012.

We conducted this performance 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, the Tyler Island Reclamation District 563's (District) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedules of Claimed and Questioned amounts are presented in Table 1.

**Table 1: Schedules of Claimed and Questioned Amounts**

<b>Grant Agreement 4600008106 For the Period July 1, 2007 through June 30, 2008</b>		
<b>Category</b>	<b>Claimed<sup>(1)</sup></b>	<b>Questioned</b>
Delta Levee Maintenance Subventions Work Agreement	\$ 2,750,589	\$ 0
Total Expenditures	\$ 2,750,589	\$ 0

(1) The District was awarded a maximum of \$3,631,575, but only claimed \$2,750,589.

<b>Grant Agreement 4600008801 For the Period July 1, 2008 through June 30, 2009</b>		
<b>Category</b>	<b>Claimed<sup>(2)</sup></b>	<b>Questioned</b>
Delta Levee Maintenance Subventions Work Agreement	\$ 96,826	\$ 0
Total Expenditures	\$ 96,826	\$ 0

(2) The District was awarded a maximum of \$1,179,075, but only claimed \$96,826.

**Observation 1: No Contract with the Engineering Firm**

The District could not provide evidence of a valid contract with the engineering firm that provides direction and supervision of levee maintenance and rehabilitation work. Without evidence of a valid contract that clearly defines the scope of work, allowable and unallowable costs, and final deliverables, there is an increased risk that expenditures are not in compliance with program requirements and state fiscal policies, and final deliverables are not completed as intended.

Grant Agreements 4600008106, Article 8, and 4600008801, Article 10, state the local agency shall be responsible for compliance with competitive bidding, contract administration laws, and all applicable labor laws.

DWR's Delta Levees Maintenance Subventions Program manual, Article 4.9, states the District's contracting procedures should be in conformance with state law.

**Recommendation:**

Execute a valid contract with all subcontractors and consultants performing state-funded services. Retain the original signed contract for audit.