



Transmitted via e-mail

February 14, 2017

Mr. William A. Croyle, Acting Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236

Dear Mr. Croyle:

Final Report—Reclamation District 17, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Reclamation District 17's (District) grant 4600008720, issued by the California Department of Water Resources.

The enclosed report is for your information and use. The District's response to the report finding is incorporated into this final report. The District agreed with our finding and we appreciate its willingness to implement corrective actions. 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 Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Cindy Messer, Assistant Chief Deputy Director, California Department of Water Resources
Ms. Katherine Kishaba, Deputy Director of Business Operations, 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
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Henry Long, President, Board of Trustees, Reclamation District 17
Mr. Dante John Nomellini, Secretary and Counsel, Reclamation District 17

Reclamation District 17
Proposition 1E Bond Program
Grant Agreement 4600008720



Landscaped seepage berm for the 100-Year Levee Seepage Area Project
Source: Reclamation District 17

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

MEMBERS OF THE TEAM

Jon G. Chapple, CPA
Manager

Rebecca McAllister, CPA
Supervisor

Staff
Randy McClendon, CISA

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

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E). The \$4.1 billion in bond proceeds finance a variety of natural resource programs.

Reclamation District 17 (District) is a levee maintenance district located in San Joaquin County, California, at the eastern edge of the Sacramento-San Joaquin Delta. The District is responsible for the maintenance of levees along the Walthall Slough, San Joaquin River, and French Camp Slough. The District has the authority to finance and construct regional levee improvements and is governed by a Board of Trustees.¹

The District received a \$62.4 million grant from the California Department of Water Resources (DWR) for the 100-Year Levee Seepage Area Project (LSAP). The purpose of the grant is to assist in the financing of easement acquisitions, engineering design, construction, and environmental and construction permitting for the LSAP. The project consists of three phases and will repair the District's levees and bring them up to the 100-year level of flood protection standards as established by the U.S. Army Corps of Engineers. Total project costs are estimated to be \$76 million, with \$13.6 million provided by local funding.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we conducted an interim audit of grant 4600008720 for the period January 1, 2010 through March 31, 2013, which is the billing period end date of the last reimbursement claim paid by DWR.²

The audit objectives were to determine whether the District's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

¹ Source: Reclamation District 17 Mossdale Tract, Emergency Operations Plan, dated October 2015.

² An interim audit was conducted because the grant term ends June 30, 2020.

METHODOLOGY

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

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the District's accounting records, vendor invoices, and cancelled checks.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant.
- Evaluated whether a sample of grant deliverables were met by reviewing construction approval letters, notices of project completion for Phases 1 and 2, and conducted a site visit to verify the existence of seepage berms.

In conducting our audit, we obtained an understanding of the District's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

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

Except as noted below, the grant expenditures claimed complied with the grant requirements. Additionally, at the time of our fieldwork, grant deliverables for Phases 1 and 2 were completed as specified in the grant agreement. Phase 3 of the project was still active at the time of fieldwork in October 2016; therefore, a determination of whether the deliverables were completed for Phase 3 could not be made. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement 460008720		
Task	Claimed¹	Questioned
Project Element / Phase 1	\$ 9,003	\$ 0
Project Element / Phase 2	4,277,313	0
Project Element / Phase 3	1,710,482	137,552
Total Grant Funds	\$ 5,996,798	\$ 137,552
Match Funds	\$ 2,570,056	\$ 0
Total Project Expenditures	\$ 8,566,854	\$ 137,552

Finding 1: Overpayment of Compliance Costs

The District was overpaid \$137,552 in compliance costs. Specifically, the District was incorrectly reimbursed for California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA) expenses. Section 8 of the grant agreement provides DWR will reimburse 50 percent of the CEQA and NEPA compliance costs related to the project. However, the District did not report the CEQA and NEPA compliance costs separately, and instead combined the costs with other project expenditures that were reimbursed at a higher (70 percent) rate.

Recommendations:

- A. Since the grant is ongoing and the District will submit more reimbursement claims, DWR will make the final determination on the appropriate method to recover the questioned costs of \$137,552.
- B. The District should separately report CEQA and NEPA compliance costs on the reimbursement claims, so DWR can reimburse these costs at the allowable 50 percent rate.

¹ DWR awarded \$62.4 million and the District has claimed \$5,996,798 as of March 31, 2013.

RECLAMATION DISTRICT NO. 17

235 East Weber Avenue (95202)

P. O. Box 1461

Stockton, California 95201

Telephone: (209) 465-5883

Facsimile: (209) 465-3956

TRUSTEES

Henry Long, President
Michael Robinson
Donald W. Widmer

SECRETARY AND COUNSEL

Dante John Nomellini

ENGINEER

Christopher H. Neudeck
Kjeldsen, Sinnock & Neudeck, Inc.

January 24, 2017

Via email OSAEReports@dof.ca.gov

Jennifer Whitaker

Chief

Office of State Audits and Evaluations

Department of Finance

Re: Draft Report - RD 17, Prop. 1E Grant Audit

Dear Jennifer:

Reclamation District 17 concurs with the audit report and will when making future claims separate the CEQA and NEPA costs to help avoid a repeat of the same error. The project is still in progress and the proposed adjustment in the next amount of funding is agreeable. It is anticipated that a full reconciliation of outstanding District claims and grant contributions will occur prior to close of the project.

The professional and courteous manner in which the audit was conducted is much appreciated by all of our staff and engineers.

Yours very truly,

“original signed by”

Dante John Nomellini