



Transmitted via e-mail

February 23, 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 2140, Proposition 1E Grant Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Reclamation District 2140's (District) grant 4600009932, issued by the California Department of Water Resources.

The enclosed report is for your information and use. The draft report was issued November 22, 2016 and the District's response to the draft report required further analysis. As a result of our analysis, changes were made to the *Results* section of the report to provide further clarification. 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
Ms. Lee Ann Grigsby-Puente, President, Board of Trustees, Reclamation District 2140
Mr. Tom Anderson, Interim Secretary, Reclamation District 2140
Mr. Eric Nagy, Principal, Larsen Wurzel & Associates, Inc.

Reclamation District 2140
Proposition 1E Bond Program
Grant Agreement 4600009932



Hamilton City Flood Damage Reduction and Ecosystem Restoration Project
Source: Reclamation District 2140

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:

California Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
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(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 2140 (District) was formed in 2005 to be the non-federal sponsor for the design and construction of a new setback levee near Hamilton City, California. The project is being implemented in close cooperation with the U.S. Army Corps of Engineers (USACE), which requires a non-federal sponsor to share the cost of project implementation, acquire lands, and operate and maintain the project upon the completion of construction.¹

The District received a \$5 million grant from the California Department of Water Resources (DWR) for the Hamilton City Flood Damage Reduction and Ecosystem Restoration Project. The purpose of the project is to assist with the construction of a new 6.8 mile set-back levee and to restore approximately 1,361 acres to native riparian habitat. Total project costs are estimated to be \$52.7 million, with \$46.6 million being provided by federal and local funding. The District is also providing \$1.1 million of matching costs to complete the project.

SCOPE

In accordance with the California Department of Finance's bond oversight responsibilities, we conducted an interim audit of grant 4600009932 for the period April 1, 2014 through March 31, 2016, which is the billing period end date of the last reimbursement claim paid by DWR. Although the grant term ended May 23, 2016, the project was not complete at the time of our fieldwork in July 2016. See the Results section for further discussion.

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 2140 website.

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 USACE correspondence and project status notes, and quarterly progress reports.

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. However, grant deliverables were not completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement 4600009932		
Task	Claimed ¹	Questioned
Setback Levee Construction, Non-Federal Ecosystem Restoration, and Utility Relocation	\$ 2,303,573	\$ 739,859
Project Administration	9,989	0
Total Project Expenditures	\$ 2,313,562	\$ 739,859

Finding 1: Unsupported Expenditures

The District claimed \$739,859 in unsupported expenditures for the grant. Specifically, between May 2013 and May 2015, the District issued four cash advances to the USACE totaling \$1,862,319 and one cash advance for PG&E without requesting or maintaining any documents to substantiate how the funds were used. The District noted it was unable to sufficiently oversee these cash advances due to a lack of staff.

The District subsequently requested and provided documentation in response to our audit; however, this was four years after the initial May 2013 advance and the documentation did not support all of the cash advances. The District was still unable to provide documentation supporting \$617,538 of the advance payments to USACE and \$122,321 in advances relating to PG&E. As a result, the total questioned costs for unsupported advances is \$739,859 (\$617,538 + \$122,321).

As the primary recipient of grant funds, the District has the fiduciary responsibility to monitor subrecipients' use of those funds. Without monitoring the use of grant funds, the District cannot ensure claimed costs are allowable, grant-related, and supported by accounting records.

Grant agreement 4600009932 requires the grantee and its contractors or subcontractors to keep complete and accurate records of all receipts, disbursements, and interest earned on grant funds.

¹ DWR awarded \$5,000,000 and the District has claimed \$2,313,562 as of March 31, 2016.

Recommendations:

- A. Remit \$739,859 to DWR for unsupported expenditures, or since the grant is ongoing and the District will submit more reimbursement claims, provide sufficient documentation to DWR to support the funds advanced to USACE and PG&E.
- B. Ensure local sponsors and contractors maintain a clear audit trail and supporting documentation for all claimed grant expenditures, and submit such documentation to the District as appropriate. The audit trail should facilitate the tracing of expenditures claimed on payment requests to the accounting records and source documents.

Finding 2: Grant Deliverables Not Met

Two key deliverables required by the grant agreement are behind schedule. Specifically, the greenhouse gas emissions and climate change technical analysis and report were scheduled for completion by December 31, 2013; however, these tasks were not complete at the time of our site visit in July 2016. In addition, completion of work reports for utility relocation were also behind schedule and not complete as of May 23, 2016, the expiration date of the grant agreement. The District noted it was unable to sufficiently monitor completion of grant deliverables due to a lack of staff.

Grant agreement 4600009932, "Task and Deliverable Schedule", specifically details grant tasks and expected completion dates of each task.

Recommendations:

- A. Effectively plan and monitor grant activities to ensure grant deliverables are completed as specified in the grant agreement.
- B. Work collaboratively with DWR to determine the actions needed to address the completion of deliverables, including requesting formal extensions of time for completion as deemed necessary.



December 22, 2016

Ms. Jennifer Whitaker, Chief
California Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814

Subject: Proposition 1E Grant Audit (Contract No. 4600009932), Draft Audit Report to Reclamation District 2140 – Supplemental Project Information for Consideration in Developing a Final Audit Report

Dear Ms. Whitaker:

Thank you for granting Reclamation District 2140 (District) the time extension requested in our letter dated November 29, 2016 for submitting a written response to the Draft Audit Report titled *Audit Report, Reclamation District 2140, Proposition 1E Bond Program Grant Agreement 4600009932* (November 22, 2016). This additional time has allowed the District the opportunity to thoroughly review the Draft Audit Report and compile supplemental project information pertaining to the key findings of the document, namely deficiencies in the District's tracking of funds disbursed through the grant program to the U.S Army Corps of Engineers (USACE) and Pacific Gas and Electric (PG&E), as well as the lack of documentation for meeting grant deliverables.

The USACE is leading the design, construction management, and all contracting necessary to implement the Project. The District is the Non-Federal Sponsor and is using the grant agreement to provide a portion of the local cost share required by the USACE to complete the Project. PG&E is performing relocation and abandonment services for power poles and lines that will be impacted by the Project, and the District is similarly using grant funds to support these relocations. After reviewing the available information, the District has compiled two technical memoranda that provide supplemental information regarding the disbursement of grant funds to USACE and PG&E to address the deficiencies cited in the Draft Audit Report. The two technical memoranda enclosed with this letter are titled:

1. Supplemental Information Package, Department of Finance Audit Summary Report, USACE Funding Documentation
2. Supplemental Information Package, Department of Finance Audit Summary Report, PG&E Utility Relocation Funding Documentation

We appreciate your review of the attached memoranda as they pertain to the findings from the Draft Audit Report and look forward to working with CDOF and DWR to resolve any

remaining concerns. Please feel free to contact Mr. Eric Nagy at (530) 665-8222 with any questions or concerns you may have regarding this issue.

Respectfully,

Original Signed By

Lee Ann Grigsby-Puente, President
Reclamation District 2140

EVALUATION OF RESPONSE

The District's response to the draft report has been reviewed and incorporated into the final report. The District provided additional documentation in response to the findings in the draft report. The attachments to the response have been removed for brevity and consisted of additional expenditure detail from the USACE and PG&E. The District generally agreed with Finding 2 and is currently coordinating the development of deliverable completion reports with the USACE and PG&E.

After analysis of the additional documentation provided for Finding 1, the report was modified as follows:

Finding 1: Unsupported Expenditures

Our draft report dated November 22, 2016 questioned \$2,112,319 in unsupported claimed costs for grant 4600009932. The District's response to the draft report included additional documentation from USACE and PG&E that, after our review, supported some of the claimed costs. Therefore, the questioned amount was reduced by \$1,372,460. The finding was revised to report \$739,859 in claimed expenditures as unsupported.