



Transmitted via e-mail

June 22, 2015

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

Mr. Samuel P. Schuchat, Executive Officer
State Coastal Conservancy
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California Department of Conservation
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Final Report—County of Santa Cruz, Proposition 1E and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the following County of Santa Cruz's (County) grants:

<u>Grantor</u>	<u>Agreement Number</u>	<u>Award Amount</u>
California Department of Water Resources	4600009121	\$5,000,000
California Department of Conservation	3010-536	\$500,000
State Coastal Conservancy	08-020	\$345,000

The enclosed report is for your information and use. The draft report was issued March 3, 2015 and the County'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 County. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

cc: On following page

cc: Ms. Laura King Moon, 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. Jeff Ingles, Chief Auditor, California Department of Water Resources
Mr. David Thesell, Deputy Chief, Division of Land Resource Protection, California Department of Conservation
Mr. John Lowrie, Acting Assistant Director, Division of Land Resource Protection, California Department of Conservation
Ms. Mary Small, Deputy Executive Officer, State Coastal Conservancy
Ms. Nadine Peterson, Deputy Executive Officer, State Coastal Conservancy
Ms. Regine Serrano, Chief of Administrative Services, State Coastal Conservancy
Ms. Mary Jo Walker, Auditor-Controller, County of Santa Cruz
Ms. Susan Mauriello, County Administration Officer, County of Santa Cruz
Ms. Edith Driscoll, Chief Deputy Auditor-Controller, County of Santa Cruz
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency

AUDIT REPORT

County of Santa Cruz
Propositions 1E and 84 Bond Programs
Grant Agreements 4600009121, 08-020 and 3010-536

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

MEMBERS OF THE TEAM

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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

BACKGROUND

California voters approved the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), for \$4.09 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The County of Santa Cruz (County) received the following grants:

- **Pajaro River Flood Protection (Grant 4600009121)**—\$5,000,000 awarded by the California Department of Water Resources (DWR) under Proposition 1E to finance projects associated with the Pajaro River Flood Protection.
- **County Sustainable Community and Transit Corridors Plan (Grant 3010-536)**—\$500,000 awarded by the California Department of Conservation (DOC) under Proposition 84 to develop land use and transportation patterns that will reduce greenhouse gas production in urbanized areas of the County.
- **Shingle Mill Gulch Fish Passage Improvement Project (Grant 08-020)**—\$345,000 awarded by the State Coastal Conservancy (SCC) under Proposition 84 to complete the Shingle Mill Gulch fish passage improvement project at two culverts.

SCOPE

In accordance with the Department of Finance’s bond oversight responsibilities, we audited the following grants:

<u>Grant Agreement</u>	<u>Audit Period</u> ¹
DWR 4600009121	February 24, 2011 through May 23, 2014
DOC 3010-536	September 27, 2011 through May 23, 2014
SCC 08-020	August 20, 2008 through December 31, 2011

The audit objectives were to determine whether the County’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 County’s management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR, DOC, SCC and the California Natural Resources Agency are responsible for the state-level administration of the bond programs.

¹ An interim audit was conducted on grants 4600009121 and 3010-536 because the grant terms end December 31, 2015 and September 27, 2014, respectively.

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 agreements, and applicable policies and procedures.
- Reviewed the grantee's available accounting records, vendor invoices, timesheets and proof of payments.
- 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 agreements.
- Evaluated whether grant deliverables were met by reviewing supporting documentation and relying on engineer approvals.

In conducting our audits, we obtained an understanding of the County'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 audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Except as noted below, the grant expenditures claimed complied with the grant requirements and the grant deliverables available for inspection at the time of our audits were completed as specified in the grant agreements. The Schedules of Claimed Amounts are presented below.

Schedule of Claimed Amounts

California Department of Water Resources (DWR) Grant Agreement 4600009121	
Task Description	Claimed¹
Project and Grant Administration	\$ 55,750
Pre-Construction Planning, Engineering & Design	791,503
Environmental Compliance and Permitting	579,166
Total Grant Funds	\$1,426,419
Match Funds ²	0
Total Project Costs	\$1,426,419

Department of Conservation (DOC) Grant Agreement 3010-536	
Task Description	Claimed³
Salaries and Benefits	\$ 50,114
Consultants	292,856
Total Grant Funds	\$342,970

¹ DWR awarded \$5,000,000 and the grantee claimed \$1,426,419 as of April 2014.

² Match funds pertain to land easements, right-of-way, relocations, and disposals. These tasks will be completed after finalization of the project's planning, design, and permitting phase.

³ DOC awarded \$500,000 and the grantee claimed \$342,970 as of April 2014.

State Coastal Conservancy (SCC) Grant Agreement 08-020	
Task Description	Claimed⁴
Pre-Construction – Clearing & Grubbing	\$ 10,000
Construction – Rock Weir & Pool Structure	25,000
Traffic Control System	31,279
Site Dewatering System	22,306
Shoring System	13,817
Structure Excavation	10,920
Temporary Bridge (Place & Remove)	34,819
Rock Slope Protection	10,350
Reinforced Concrete Box Culvert	93,044
Reinforced Concrete Wing-Walls	21,218
Slurry Backfill (2-Sack)	8,750
Class 2 Aggregate Base	10,000
Metal Beam Guard Rail	10,272
Contingencies	5,000
Design Engineering	13,400
R/W Engineering	4,276
Construction Inspection (10%)	15,000
Total Grant Funds	\$339,451
Match Funds	218,251
Total Project Costs	\$557,702

Observation 1: Significant Grant Management Weaknesses

We observed internal control deficiencies which impaired the County of Santa Cruz's (County) ability to comply with the provisions of DWR grant agreement 4600009121. Specifically, between May 2011 and December 2013, the County issued eight cash advances totaling over \$1.1 million to the U.S. Army Corps of Engineers (USACE) without requesting or maintaining any documents to substantiate how the funds were used. The County subsequently requested and provided documentation in response to our audit; however, this was four years after the initial May 2011 advance. Additionally, nine of eleven quarterly project reports were submitted to DWR late; in some cases, over 360 days late. These quarterly reports require the grantee to summarize project progress and itemize costs incurred during the quarter by the grantee, local project sponsor, and each contractor, including USACE.

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

Grant agreement 4600009121 requires the grantee and its local project sponsors, contractors or subcontractors to keep complete and accurate records of all receipts, disbursements, and interest earned on grant funds. Grant agreement, section 13 specifically requires all claims to be itemized based on costs incurred and by the categories specified in the budget.

⁴ SCC awarded \$345,000; however, the grantee claimed \$339,451.

Recommendations:

- A. Ensure local sponsors and contractors maintain a clear audit trail and supporting documentation for all claimed grant expenditures, and submit such documentation to the County as appropriate. The audit trail should facilitate the tracing of expenditures claimed on payment requests to the accounting records and source documents.
- B. Submit timely quarterly reports that itemize costs incurred during the quarter by the grantee, local project sponsor, and each contractor, including USACE. The report should include hours per task worked during the quarter and discussion on how the actual budget is progressing in comparison to the estimated budget.



County of Santa Cruz

DEPARTMENT OF PUBLIC WORKS

701 OCEAN STREET, ROOM 410, SANTA CRUZ, CA 95060-4070
(831) 454-2160 FAX (831) 454-2385 TDD (831) 454-2123

JOHN J. PRESLEIGH
DIRECTOR OF PUBLIC WORKS

March 20, 2015
via electronic mail

RICHARD R. SIERRA, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

SUBJECT: DRAFT REPORT – COUNTY OF SANTA CRUZ
PROPOSITION 1E AND 84 GRANTS

Dear Mr. Sierra:

Thank you for the opportunity to review and respond to the draft audit report dated March 3, 2015, regarding the following projects:

- Proposition 1E (Grant 4600009121) - \$5,000,000 awarded for the Pajaro River Flood Protection Project.
- Proposition 84 (3010-536) - \$500,000 awarded for the County Sustainable Community and Transit Corridors Plan Project.
- Proposition 84 (08-020) - \$345,000 awarded for the Shingle Mill Gulch Fish Passage Improvement Project.

Of the three grants audited, there was only one observation made which pertained specifically to the Proposition 1E grant for the Pajaro River Flood Protection Project. Our comments below are in regard to the administration of that grant.

Observation 1: Unsupported Expenditures Claimed for Reimbursement

Response: Do not concur.

During the period under audit, the County did make advances to the U.S. Army Corps of Engineers (USACE) in the amount of \$1,157,800, and as of the beginning of the audit field work, had not received records from the USACE substantiating those costs. During the audit field work, the County fiscal staff worked with the USACE to provide your auditor with adequate substantiating detail for the expenditures. Detail was provided on May 6, 2014, and May 23, 2014, which was rejected by your auditor. Based on your auditor's input and requested format for the detail, additional documentation was provided on June 12, 2014. Your auditor responded to the

email delivering that documentation, saying thank you. The County was not subsequently informed of any issues regarding the acceptability of the data which indicated to us that the documentation was satisfactory and the issue was resolved. There was no formal exit interview conducted informing us of documentation deficiencies, and no further communications were received from your Department prior to the receipt of the draft audit report.

Submitted with this response are the following three attachments:

- 1) The original documentation as provided to your auditor on June 12, 2014.
- 2) The email showing that the documentation was transmitted and received by your auditor.
- 3) Additional labor detail received from the USACE.

Recommendations:

- A. **Remit \$1,157,800 to the Department of Water Resources (DWR) for unsupported expenditures.** Please see our response to Observation 1. We believe that these expenditures have been adequately supported and to remittance back to DWR should not be recommended.
- 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 County as appropriate.** The County agrees with this recommendation, and we are working with the USACE project and fiscal staff on developing a standard submittal format for use when making requests for payment. The County will no longer make advances to the USACE, but will instead require documentation of all expenses claimed for reimbursement.
- C. **Submit timely quarterly reports that itemize costs incurred during the quarter by the grantee, local project sponsor and each contractor, including USACE.**

Prior to the Prop 1E grant, the County had a Prop 50 grant for this project. The County was advised by the DWR to spend and finalize all invoicing on the Prop 50 grant before starting any activity utilizing the Prop 1E grant. At that time, they indicated that no reporting would be necessary on the dormant Prop 1E grant.

The final Prop 50 grant invoice was submitted on May 1, 2012. On May 7, 2012, the County was notified by the new DWR Proposition 1E project manager that Proposition 1E quarterly reports were required even if reimbursements had not yet been submitted. The County immediately began preparation and submittal of the delinquent reports. Invoices and reports were submitted on June 28, 2012, July 8, 2012, September 13, 2012, October 2, 2012, October 22, 2012, December 17, 2012, and January 27, 2013. Please note that the submittal of each invoice and report required approval by DWR of the prior invoice and report before final submittal so as to accurately reflect the budget status. Submittal of the January 27, 2013, invoice and report covering the period of October 1, 2012, through December 31, 2013, was timely, and since then, the County has continued to submit all invoicing and reporting within the time requirement of the grant.

RICHARD R. SIERRA, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
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Again, thank you for the opportunity to respond to and remedy issues found during your Department's audit of the above mentioned grants. If you have any questions, please contact Kim Moore, Chief of Fiscal Services, at (831) 454-2360 or kim.moore@santacruzcounty.us.

Yours truly,

Original signed by,

JOHN J. PRESLEIGH
Director of Public Works

KLM:my

Attachments

Copy to: Diana Antony, Manager, California Department of Finance
Edith Driscoll, Chief Deputy Auditor-Controller, County of Santa Cruz
Melodye Serino, Director of Administrative Services – DPW, County of Santa Cruz
Kim Moore, Chief of Fiscal Services – DPW, County of Santa Cruz
Bruce Laclergue, Flood Control Program Manager, County of Santa Cruz

Prop1E-84.doc

EVALUATION OF RESPONSE

The County of Santa Cruz's (County) response to the draft report has been reviewed and incorporated into the final report. The County provided additional documentation in response to the draft report's audit observation. The attachment to the response has been removed for brevity and consisted of additional labor cost detail from the U.S. Army Corps of Engineers (USACE). After analysis of the additional documentation provided, the report was modified as follows:

Observation 1: Significant Grant Management Weaknesses

Our draft audit report dated March 3, 2015, questioned \$1,157,800 in unsupported claimed costs for grant 4600009121. The County's response to the draft report included additional USACE labor documentation that supported the claimed costs. Based on our review of the documentation, the questioned costs were found to be adequately supported and removed from the audit observation. However, in accordance with generally accepted government auditing standards, we consider the lack of fiscal controls as a significant internal control deficiency and therefore the deficiency will remain in the audit report.

Additionally, the County generally disagreed with the recommendation of submitting timely quarterly reports that itemize costs. The County claimed quarterly reports were not required until activity began, which according to the County was May 2012. However, the County issued four advances to the USACE between May 2011 and February 2012 totaling \$512,000. The salary cost documentation provided by USACE indicates hours were charged to the project starting in fiscal year 2010-11; therefore, the County should have begun submitting the quarterly reports at that time. Based on this information, no changes were made to the observation related to quarterly reports.