



Transmitted via e-mail

July 1, 2016

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

Dear Mr. Cowin:

Final Report—West Sacramento Area Flood Control Agency, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the West Sacramento Area Flood Control Agency (WSAFCA) grant 4600010045, issued by the California Department of Water Resources.

The enclosed report is for your information and use. WSAFCA's response to the report finding and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of WSAFCA. 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Carl Torgersen, 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. Christopher Williams, Project Manager, 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. Kenric Jameson, General Manager, City of West Sacramento
Mr. Greg Fabun, Flood Protection Manager, City of West Sacramento
Mr. Nitish Sharma, Budget Manager, City of West Sacramento
Mr. Mark Zollo, Senior Administrative Analyst, City of West Sacramento

AUDIT REPORT

West Sacramento Area Flood Control Agency
Proposition 1E Bond Program
Grant Agreement 4600010045

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Mindy Patterson
Supervisor

Staff
MaryAnn Reamer

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

You can contact our office at:

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Office of State Audits and Evaluations
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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. The California Department of Water Resources (DWR) was allocated \$3 billion of the Proposition 1E bond proceeds.

DWR awarded the West Sacramento Area Flood Control Agency (WSAFCA) \$2.3 million to prepare a regional flood management plan for the Lower Sacramento River/Delta Region and a governance study for Yolo County.

WSAFCA is a joint powers authority comprised of the City of West Sacramento and Reclamation Districts 900 and 537. WSAFCA was created in 1994 to plan and build facilities to protect the city from flood hazards and to finance the local share of these flood control projects in partnership with state and federal governments.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600010045 for the period January 29, 2013 through December 31, 2014.¹

The audit objectives were to determine whether the 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.

WSAFCA'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.

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, grant agreement, grant guidelines, and applicable policies and procedures, and past audit reports.
- Reviewed WSAFCA's accounting records, timesheets, payroll records, cancelled checks, bank statements, and consultant contracts and invoices.

¹ An interim audit was conducted as the grant term ends June 30, 2017.

- 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 agreement.
- Evaluated whether grant deliverables were met by reviewing supporting documentation including progress reports, final completion report, and the grantor-approved final regional flood management plan.

In conducting our audit, we obtained an understanding of WSAFCA'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 the conduct of 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 agreement requirements. All grant deliverables with the exception of the governance study (grant is still active) were completed as specified in the grant agreement.¹ The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement 4600010045		
Task	Claimed ²	Questioned
Program Management/Policy & Strategy	\$ 206,008	\$52,595
Public Outreach/Data Collection	509,782	0
Plan Formulation	727,107	0
Financial Plan	137,864	0
Governance Study	70,252	0
Total Grant Funds	\$1,651,013	\$52,595

Finding 1: Deficient Job Cost System Resulting in Questioned Labor Costs

During our audit, we identified a fiscal control weakness which resulted in questioned labor costs totaling \$52,595. Specifically, West Sacramento Area Flood Control Agency's (WSAFCA) labor costs were accounted for under a deficient job cost system resulting in unsupported costs.

The City of West Sacramento (City) provides administrative services to WSAFCA, including job cost accounting services. A California Department of Transportation (Caltrans) audit report, issued in April 2014, found the City's job cost system to be deficient because it recorded labor costs using billable rates instead of actual labor rates.³ The City agreed with the audit and was required to implement a job cost system that properly recorded direct labor costs, segregated direct and indirect labor, and reconciled to the payroll system. Although the City updated its job cost system⁴ in response to the Caltrans audit, the labor costs claimed for grant agreement 4600010045 were accounted for under the prior job cost system. As a result, labor costs billed to the California Department of Water Resources (DWR) are not based on actual direct labor costs and therefore, were not fully supported.

Grant Agreement Exhibit E, Article E.1 requires grantees to maintain accounting procedures that are in accordance with generally accepted accounting principles and practices. In addition, it specifies that, at a minimum, grantees shall maintain fiscal controls and accounting procedures sufficient to permit tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of state law or the grant agreement.

¹ The grant term ends June 30, 2017.

² DWR awarded \$2,313,744; WSAFCA has claimed \$1,651,013 through December 31, 2014.

³ City of West Sacramento Proposition 1B Audit, Caltrans, April 3, 2014.

⁴ We did not perform an assessment of the new job cost system.

Recommendations:

- A. Prepare an analysis to determine total actual and allowable labor costs for the project and work with DWR to adjust amounts claimed and reimbursed accordingly.
- B. Ensure all future labor costs claimed are properly recorded under the new job cost system segregating direct and indirect labor and only seek reimbursement for actual costs incurred.



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Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street, Sacramento, CA 95814-3706

Dear Ms. McCormick,

Response Letter: West Sacramento Area Flood Control Agency (WSAFCA), Regional Flood Management Plan, Proposition 1E Grant Audit

Finding 1: Deficient Job Cost System Resulting in Questioned Labor Cost

The Department of Finance reported that the City used a deficient job cost system, Book of City Fee Billable Schedule, to bill staff time to the Regional Floodplain Management Project (work order 40012). Per City records, a total of \$75,874.31 was charge to this project using the Book of Fee schedule billable rates. During the time of this project, the City was in the process of updating the labor cost allocation plan (ICAP) pursuant to the Department of Transportation audit of labor costs billed to grant agreement 4600010045.

Response 1: Using ICAP to calculate labor cost recovery

The City revised the hourly cost allocation using the ICAP methodology for periods covering Fiscal Year 2010-11 through Fiscal Year 2014-15. Using the ICAP methodology, the City recalculated the labor costs charged to this project. The total costs under ICAP for actual salaries and benefits were \$49,793.19 and with ICAP were \$113,005.22. The attached report provides a summary of the charges for each category. Based on the grant agreement and the revised cost allocation methodology under ICAP, the City believes it has earned the reimbursement allowed under this grant. The City will work with Department of Water Resources to revise the claims submitted for reimbursement as deem necessary.

The City is currently using an ICAP rate methodology to recover labor costs for all capital projects, including grant funded projects, consistent with the ICAP report audited by Department of Transportation and State Controller's Office.

Cordially,

Original signed by:

Nitish Sharma
Budget Manager

EVALUATION OF RESPONSE

The City of West Sacramento's (City) response to the draft report has been reviewed and incorporated into the final report. The attachment identified in the City's response has been omitted because it identified employees by name. We acknowledge the City's willingness to implement our recommendations specific to Finding 1. In evaluating the City's response, we provide the following comments:

Finding 1: Deficient Job Cost System Resulting in Questioned Labor Costs

The City agreed the labor costs were accounted for under a job system that was being updated at the time of the project. In response to the finding, the City revised the grant labor costs using their updated labor cost allocation plan. We note the labor cost analysis provided by the City includes hourly rates and hours that do not match the amounts claimed and provided during the audit. However, as recommended in the report, the City stated that they will be working with the California Department of Water Resources to revise the claims for reimbursement. Our finding and recommendations will remain unchanged.