



Transmitted via e-mail

March 13, 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—Sherman Island Reclamation District 341, Proposition 50 and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Sherman Island Reclamation District 341 (District) Proposition 50 and 84 grant agreements 4600004301, 4600004300, 4600008050, 4600008158, 4600008162, and 4600008802.

The District's response is incorporated into this final report. The District agreed with our observations 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 Jennifer Whitaker, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

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 Office, California Department of Water Resources
Mr. Dave Mraz, Chief, Delta Levees Program, California Department of Water Resources
Mr. Mike Mirmazaheri, Manager, Delta Levees Program, California Department of Water Resources
Mr. Paul Farris, Chief, Real Estate Branch, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary of 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. Juan Mercado, Jr., President, Sherman Island Reclamation District 341
Mr. Henry Matsunaga, Senior Engineer, Wagner and Bonsignore Engineering

Sherman Island Reclamation District 341
Proposition 50 and 84 Bond Programs



Sherman Island District 341 Shore Preservation Activity

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

MEMBERS OF THE TEAM

Jennifer Whitaker
Manager

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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

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. The bond proceeds provide grants and loans to assist in meeting safe drinking water standards; acquisition, restoration, protection, and development of river parkways; and coastal watershed and wetland protection.

In November 2006, California voters approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), which authorized the State of California to sell \$5.4 billion in general obligation bonds. These bond funds help provide safe drinking water, water quality and supply, flood control, waterway and natural resource protection, water pollution and contamination control, state and local park improvements, public access to natural resources, and water conservation.

California Department of Water Resources

The California Department of Water Resources (DWR) is one of the many state departments that administer Proposition 50 and 84 programs and award funds in the form of grants. The mission of DWR is to manage the water resources of California in cooperation with other agencies, and to protect, restore, and enhance natural and human environments. DWR provided funding via two programs—Delta Levees Flood Protection Program and the Delta Levees Maintenance Subventions Program.

The Delta Levees Flood Protection Program is a grant program that works with more than 60 reclamation districts in the Delta and Suisun Marsh to maintain and improve the flood control system and provide protection to public and private investments in the Delta including water supply, habitat, and wildlife. The Delta Levees Maintenance Subventions Program is a cost share program that provides technical and financial assistance to local levee maintenance agencies in the Sacramento—San Joaquin Delta for the maintenance and rehabilitation of non-project and eligible project levees.¹

Sherman Island Reclamation District 341

The Sherman Island Reclamation District 341 (District) was formed in 1879 and operates under section 50000 et.seq. of the California State Water Code to provide drainage, flood control, levee maintenance, and reclamation of lands within District boundaries encompassing approximately 9,937 acres on Sherman Island. The District is owned jointly by DWR and private owners, and is governed by a three member Board of Trustees elected by Island residents.²

¹ Excerpt from California Department of Water Resources website: www.water.ca.gov.

² Excerpt from Sherman Island's 2009/2010 Notes to the Financial Statements.

The District received the following Proposition 50 and 84 grants from DWR:

Mayberry Slough/Scour Lake Area (Work Agreement SH-05-1.0)—Proposition 50 grant totaling \$1 million to plan, design, and implement levee rehabilitation and construction in the Mayberry Slough/Scour Lake Area of Sherman Island to address flood control and seismic concerns. [Grant number 4600004301]

Splash Cap, Landside Slope, and Drainage Repair (Work Agreement SH-05-2.0)—Proposition 50 grant totaling \$1.25 million for engineering and construction activities for Sherman Island’s splash cap, landside slope, and drainage repair. An amendment to the work agreement added an additional \$350,000 to the project; however, these funds were from the General Fund. The additional funds were to reimburse the District for flood prevention measures taken during the flood events of December 2005 and January 2006. [Grant number 4600004300]

Mayberry Slough Setback Levee Habitat Project (Work Agreement SH-07-3.0)—Proposition 84 grant totaling \$2.5 million for engineering and construction activities for levee improvements consisting of the landside portion of the setback levee. [Grant number 4600008050]

Mayberry Farms Subsidence Reversal Project (Work Agreement SH-08-1.0)—Proposition 84 grant totaling \$1.61 million for the engineering, construction, implementation, and monitoring of the subsidence reversal project on the 307 acre parcel, designated as WDWM-15 Mayberry Farms. [Grant number 4600008158]

Waterside Portion Construction Setback Levee Habitat Project (Work Agreement SH-08-4.0)—Proposition 84 grant totaling \$2.6 million for the planning, design, and monitoring of the setback levee habitat project between stations 510+00 and 610+00 along the Mayberry Slough on Sherman Island. Because the plant-monitoring portion of the project continues throughout 2012, this is an interim audit. [Grant number 4600008162]

Delta Levee Maintenance Subventions Program for Year 2008-2009—Proposition 84 funds up to \$222,997 for the performance, inspection, reimbursement and cost sharing of maintenance and improvement work performed on non-project and eligible project levees by Reclamation District 341 from July 1, 2008 to June 30, 2009. [Grant number 4600008802]

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>
4600004301	July 19, 2005 through September 20, 2007	\$ 1,000,000
4600004300	July 19, 2005 through April 28, 2008	1,250,000
4600008050	February 1, 2008 through January 13, 2009	2,500,000
4600008158	May 22, 2008 through October 12, 2010	1,610,000
4600008162	May 22, 2008 through May 10, 2011 ¹	2,600,000
4600008802	July 1, 2008 through June 30, 2009	222,997

¹ This is an interim audit because the grant term does not end until December 31, 2012.

The audit objectives were to determine whether the District's grant expenditures complied with applicable laws, regulations, and 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.

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

METHODOLOGY

To determine whether 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 grant files, grant agreements, and applicable policies and procedures.
- Reviewed 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.
- Performed site visits to verify the work completed.

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 bond funds. The audit was conducted from June 2011 through February 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.

Based on the audit procedures performed, the District was in compliance with the requirements of the grant agreements, except for the observations noted below. The Schedule of Claimed Amounts for each grant are presented in Table 1.

Table 1: Schedules of Claimed Amounts

Grant Agreement 4600004301 Mayberry Slough/Scour Lake Area For the Period July 19, 2005 through September 20, 2007	
Category	Claimed
Levee Improvements	\$ 829,654
Design, Engineering, and Consultant Costs	55,076
District Personnel and Other costs	18,633
Total Expenditures	\$ 903,363

Grant Agreement 4600004300 Splash Cap/Landside Slope Drainage Repair and Flood Fight For the Period July 19, 2005 through April 28, 2008	
Category	Claimed
Construction Costs	\$ 450,954
Levee Improvements	675,992
Design, Engineering, and Consultant Costs	123,337
Flood Event Costs	349,717
Total Expenditures	\$1,600,000¹

Grant Agreement 4600008050 Mayberry Slough Setback Levee Habitat Project For the Period February 1, 2008 through January 13, 2009	
Category	Claimed
Construction Costs	\$ 2,080,710
Design, Engineering, and Consultant Costs	416,847
District Personnel and Other Costs	2,443
Total Expenditures	\$ 2,500,000

¹ Amount includes \$350,000 General Fund dollars.

Grant Agreement 460008158	
Mayberry Farms Subsidence Reversal Project	
For the Period May 22, 2008 through October 12, 2010	
Category	Claimed
Construction Costs	\$ 1,601,327
Design, Engineering, and Consultant Costs	10,159
District Personnel and Other Costs	3,034
Total Expenditures	\$ 1,614,520²

Grant Agreement 460008162	
Waterside Portion Construction Setback Levee Habitat Project	
For the Period May 22, 2008 through May 10, 2011	
Category	Claimed
Construction Costs	\$ 1,906,589
Design, Engineering, and Consultant Costs	278,728
District Personnel	5,633
Total Expenditures	\$ 2,190,950

Grant Agreement 460008802	
Delta Levee Maintenance Subventions Program	
For the Period July 1, 2008 through June 30, 2009	
Category	Claimed
District Labor	\$ 76,697
District Equipment	60,790
Levee Maintenance	61,405
Engineering and Accounting Costs	70,814
Miscellaneous Supplies	7,825
Total Expenditures	\$ 277,531⁽³⁾

⁽³⁾ The District is eligible to receive a maximum of \$222,997 after applying a formula set forth in the grant agreement to the total amount claimed. The District received \$193,524 based on the formula.

Observation 1: No Contract With Engineering Firm

The District could not provide evidence of a valid contract with the engineering firm hired to provide a combined total of over \$800,000 in consultation, direction, and supervision of levee maintenance and rehabilitation, including the special projects (e.g., for the work agreements above). According to the District, the engineering firm and the District entered into a contract in 1989; however, a contract could not be located. Without evidence of a valid contract that clearly defines the scope of work, allowable and unallowable costs, a current fee schedule, 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.

The grant agreements state the local agency shall be responsible for compliance with competitive bidding, contract administration laws, and all applicable labor laws. Additionally, the local agency shall maintain records relating to the costs and quantities of labor and materials

² Amount includes \$4,520 interest earned from advanced funds.

used, purchased, or contracted for and these records must be available for ten years after the work has been performed.

DWR's Delta Levees Maintenance Subventions Program Manual (October 2008 Version), Article 4.9, states the District's contracting procedures should be in conformance with state law.

Recommendations:

- A. Execute contracts with all subcontractors and consultants performing state-funded services that clearly define the scope of work, allowable and unallowable costs, a current fee schedule, and deliverables.
- B. Retain original signed contracts.

Observation 2: Fiscal Controls Need Improvement

The District should improve its review and approval processes for vendor invoices, timesheets, and DWR reimbursement requests. Our review revealed vendor invoices with no indication of District management review and approval. There was also no formal review by the District of the reimbursement requests prepared by the engineering firm prior to submission to DWR.

Several errors were noted during the audit related to fiscal controls:

- For grant 4600004300—a reimbursement request totaling \$579,146 included costs of \$435,699 that had already been claimed.
- For grant 4600008162—a reimbursement request totaling \$13,626 included ineligible costs of \$7,372.
- For grant 4600008802—the reimbursement request included calculation errors related to the equipment use hours.

For all grants excluding grant 4600008802, the bond funds were advanced to the District; therefore, the reimbursement requests were used to report expenditures instead of requesting reimbursement. The District was not overpaid by DWR; however, when keeping track of advance funds, it is imperative to maintain accurate records and have a review process in place to mitigate the risk of ineligible expenses or duplicate payments.

The grant agreements require the District to maintain complete and accurate records of its actual project costs, and that reimbursement claims include only eligible project costs.

Recommendation:

Develop and implement review and approval processes to ensure expenditures reported to DWR are eligible, incurred, supported, and mathematically correct.

RECLAMATION DISTRICT NO. 341
P.O. Box 875
Rio Vista, California 94571-0875
(916) 826-8408

February 29, 2012

VIA ELECTRONIC MAIL

Mr. David Botelho, CPA, Chief
Office of State Audits and Evaluations
State of California, Department of Finance
915 L Street
Sacramento, California 95814-3706

Subject: Draft Report – Sherman Island Reclamation District No. 341, audit results and observations

Dear Mr. Botelho:

In response to the completed audit of Sherman Island Reclamation District No. 341 (District) we would like to take this opportunity to respond to the observations noted under the Results heading of the report.

Observation 1: No Contract with Engineering Firm

Soon after the District realized there was lack of evidence of a written contract with their long-time engineering firm, the Board of Trustees (Board) took measures to draft and have approved such a contract with their engineers. The contract defines the scope of work, allowable and unallowable costs, a current fee schedule (to be reviewed annually) and expectation of deliverables.

Observation 2: Fiscal Controls Need Improvement

Reimbursement requests are prepared monthly by the accounting firm and are submitted to the Board for approval at the District meeting prior to submission to the State of California Department of Water Resources (DWR). In regards to the errors noted during the audit related to fiscal controls:

- Grant 4600004300 – Duplicate invoicing. In 2005, the Board engaged an accounting firm to maintain the District's accounting records. Prior to that date, the engineering firm handled the reimbursement requests related to special projects. During the implementation phase of the new accounting procedures, there was an invoice submitted to DWR for reimbursement by the District engineers, a process for which they had previously been responsible. The accountants also submitted the invoice as part of their new process, resulting in the appearance of a duplication of charges. Since that time, all special project invoices have been prepared by the accounting firm in order to eliminate the possibility of duplicate billing and to ensure all charges related to special projects are captured. Evidence of the success of the new process is shown by the lack of any similar problems since then.

- Grant 4600008162 – Ineligible costs. DWR disallowed an invoice in the amount of \$7,732 as the invoice, at first glance, appeared to be the same as one submitted in the prior month. The invoice was, in fact, a separate charge covering a different time period than the one previously submitted. The District accountant brought this to the attention of DWR personnel and re-submitted the disallowed invoice for approval. The invoice for \$7,232 was subsequently approved by DWR the following month. The District strives to submit complete and accurate reimbursement invoices to DWR.
- Grant 4600008802 – Calculation errors related to equipment usage. District personnel has been instructed to provide greater detail regarding their equipment usage hours as they relate to the Delta Levees Flood Protection Program and Delta Levees Maintenance Subventions Program in order to ensure the District consultants have complete and accurate information to use when processing the claims on behalf of the District.

The District has a review and approval process in place. The Board, as a whole, discusses and reviews all vendor invoices and DWR reimbursement requests at their monthly District meetings. However, as a result of this audit, recognizing the fact that there is always room for improvement, the District is in the process of implementing a more detailed review and written approval system to further ensure expenditures reported for special projects and subventions are eligible, incurred, supported and correct.

Considering the volume of transactions reviewed during the audit and the amount of funds received by the District, we feel the audit was a success and are pleased with the overall results. We welcome the opportunity to improve our systems whenever possible and will make every effort to continue to do so in the future. This process has also helped the District to gain a better understanding of their role and the role of DWR as it relates to the Delta Levees Flood Protection Program and Delta Levees Maintenance Subvention Program which will aid the District during current and future agreements.

On behalf of Reclamation District No. 341, its staff and consultants, we thank you and your staff for all your efforts.

Sincerely,

RECLAMATION DISTRICT NO. 341

ORIGINAL SIGNED BY

Juan Mercado, Jr.
President

Cc: Mr. Dave Mraz, Chief, Delta Levees Program, California Department of Water Resources
Mr. Henry Matsunaga, Senior Engineer, Wagner and Bonsignore Engineering
Mr. Mark Croce, Certified Public Accountant, Croce and Company Accountancy Corporation
Mr. Jesse Barton, Attorney, Gallery and Barton, A Professional Law Corporation
Mr. Paul Farris, Chief, Real Estate Branch, California Department of Water Resources
Ms. Gail Chong, Deputy Assistant DWR Executive Branch, California Department of Water Resources