



Transmitted via e-mail

June 26, 2013

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Dear Mr. Howard:

Final Report—City of Huntington Beach, Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Huntington Beach's (City) grant 04-194-558-3 issued by the State Water Resources Control Board.

The enclosed report is for your information and use. The City's response to the report observation is incorporated into this final report. The City agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program. This report will be placed on our website.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Diana Antony, Manager, or Jon Chapple, 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. Jennifer Taylor, Budget Officer, State Water Resources Control Board
Ms. Leslie Laudon, Manager, Division of Financial Assistance, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Ms. Pam Biggins, Administration and Financial Section Manager, State Water Resources Control Board
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Mr. Travis Hopkins, Director of Public Works, City of Huntington Beach
Ms. Terri Elliott, Project Director, City of Huntington Beach
Ms. Sunny Han, Senior Administrative Analyst, City of Huntington Beach

AUDIT REPORT

City of Huntington Beach Proposition 13 Bond Program Grant Agreement 04-194-558-3



Talbert Lake
City of Huntington Beach

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Jon G. Chapple, CPA
Supervisor

Staff
Terrance McDowell Jr.

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

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), authorizing the State of California to sell \$1.97 billion in general obligation bonds to finance a variety of programs.

The City of Huntington Beach (City) received a \$957,908 Proposition 13 grant from the State Water Resources Control Board (SWRCB) to design a channel diversion structure to divert urban runoff from the East Garden Grove Wintersburg Channel to the City of Huntington Beach's Central Park. The project design includes several phases of treatment intended to maximize pollutant removal. Following treatment, urban runoff will be used to rehabilitate Talbert Lake and recharge the groundwater aquifer in the project vicinity.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 04-194-558-3 for the period June 27, 2005 through March 31, 2011.

The audit objectives were to determine whether the City'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 City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. SWRCB and the 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 as required, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the grantee's accounting records and vendor invoices.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.

- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Conducted a site visit to verify project existence.
- Evaluated whether a sample of grant deliverables required by the grant agreement were met.

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.

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 grant funds.

Based on the procedures performed, except as noted below the grant expenditures claimed were in compliance with the requirements of the grant agreement and grant deliverables were completed as required. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 04-194-558-3		
Category	Claimed ¹	Questioned
Personnel Expenditures	\$ 75,413	\$ 11,598
Professional and Consultant Services	1,220,796	0
Total Expenditures	\$ 1,296,209	\$ 11,598

Observation 1: Ineligible Personnel Expenditures

The City claimed \$11,598 of ineligible expenditures as follows:

- Personnel costs of \$3,897 using labor rates that exceeded the maximum rates stated in the grant agreement.
- Salary expenditures of \$4,234 that were not grant related.
- Administrative services costs of \$3,467 that were not eligible for grant funding.

Section 4 of the grant agreement details specific personnel eligible for grant funding and maximum labor rates for the project. Additionally, Section 2 of the grant agreement prohibits the use of grant funds for administrative costs. Because the City did not distinguish between reimbursed grant expenditures versus match expenditures, we were unable to determine how much of the questioned costs were reimbursed to the City.

Recommendations:

- Remit \$11,598 to SWRCB for the ineligible personnel expenditures claimed. Alternatively, because the City claimed more match than required, SWRCB should work with the City to identify eligible match expenditures that may be substituted for the ineligible personnel expenditures. SWRCB will make the final determination regarding the disposition of these questioned costs.
- Ensure terms and conditions of the grant agreement are followed.

¹ Amount includes reimbursed expenditures of \$912,217 (SWRCB awarded \$957,908) and reported match expenditures of \$383,992 (the grant agreement required match of \$168,582) for total project expenditures of \$1,296,209.



CITY OF HUNTINGTON BEACH

Public Works Department

Travis K. Hopkins, PE
Director of Public Works

June 5, 2013

Department of Finance
Office of State Audits and Evaluations
Attention: Diana Antony, CPA, Manager
915 L. Street, 6th Floor
Sacramento, CA 95814

Subject: Audit of City of Huntington Beach Proposition 13 Grant Agreement 04-194-558-3

Dear Ms. Antony,

The City has reviewed the supporting documentation and does not dispute the finding totaling \$11,598 related to certain personnel costs. However, as indicated in the attached spreadsheet provided by SWRCB, project costs funded by the City exceeded the 20% match required by the grant by \$171,457.55. The City will work with SWRCB to determine eligible match expenditures to replace the disallowed costs. The City has implemented procedures to ensure that all terms and conditions included in the grant are followed.

Sincerely,

Original Signed By

Travis K. Hopkins, PE
Director of Public Works

Attachment

Match Tracking Template

Agreement No.:	04-194-558-3		
Grantee:	City of Huntington Beach		
Program:	Prop 13 NPS Pollution Control	Award Budget	Match
Encumbrance FY:	04/05 PCA 198-33	\$2,326,000	\$465,200

		Personnel Services	Professional/ Consultant Services	Total
Line Item Match		\$18,802.00	\$149,780.00	\$168,582.00
Invoice No.	Billing Period			
1	8/1/05 - 12/31/05	\$1,128.64	\$3,246.00	\$4,374.64
2	1/1/06 - 3/31/06	\$463.80	\$894.35	\$1,358.15
3	4/1/06 - 7/27/06	\$425.07	\$1,693.36	\$2,118.43
4	7/28/06 - 10/30/06	\$674.38	\$189.00	\$863.38
5	11/1/06 - 1/26/07	\$406.84	\$0.00	\$406.84
6	1/27/07 - 4/30/07	\$584.78	\$23,320.00	\$23,904.78
7	5/1/07 - 7/13/07	\$969.42	\$16,606.62	\$17,576.04
8	8/1/07 - 9/30/07	\$643.91	\$24,991.10	\$25,635.01
9	10/1/07 - 12/31/07	\$1,544.42	\$39,806.07	\$41,350.49
10	1/1/08 - 3/31/08	\$2,214.01	\$20,880.00	\$23,094.01
11	4/1/08 - 7/31/08	\$1,591.48	\$10,094.53	\$11,686.01
12	8/1/08 - 12/31/08	\$584.73	\$27,568.17	\$28,152.90
13	1/1/09 - 3/31/09	\$3,202.50	\$93,911.27	\$97,113.77
14	4/1/09 - 6/30/09	\$2,896.62	\$17,600.00	\$20,496.62
15	7/1/09 - 9/30/09	\$2,196.00	\$19,763.53	\$21,959.53
16	10/1/09 - 12/31/09	\$3,562.72	\$9,512.01	\$13,074.73
17	1/1/10 - 3/31/10	\$1,314.10	\$2,104.75	\$3,418.85
18	4/1/10 - 6/30/10	\$360.29	\$0.00	\$360.29
19	7/1/10 - 9/30/10	\$360.29	\$0.00	\$360.29
20	10/1/10 - 12/31/10	\$54.79	\$2,680.00	\$2,734.79

Total Amount Invoiced	\$25,178.79	\$314,860.76	\$340,039.55
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Match Remaining	(\$6,376.79)	(\$165,080.76)	(\$171,457.55)
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