



Transmitted via e-mail

November 26, 2014

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

Dear Mr. Howard:

Final Report—Santa Clara Valley Water District, Proposition 40 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Santa Clara Valley Water District's (District) grant 06-166-552 issued by the State Water Resources Control Board.

The enclosed report is for your information and use. The District's response to the report observation is incorporated into this final report. The District agreed with our observation 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 Frances Parmelee, Manager, or Alexis Calleance, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Cheryl McCormick for:

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

Enclosure

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. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board
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. Beau Goldie, Executive Officer, Santa Clara Valley Water District
Mr. Joseph Atmore, Revenue Unit Manager, Santa Clara Valley Water District
Ms. Anne Cooper, Senior Management Analyst, Santa Clara Valley Water District

Santa Clara Valley Water District
Proposition 40 Bond Program
Grant Agreement 06-166-552



Armored Notch Near Alviso Slough, South Bay Shoreline

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

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Laura Reyes

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

California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The \$2.6 billion of bond proceeds finance a variety of cultural and natural resource programs.

The Santa Clara Valley Water District (District) received a \$1.125 million Proposition 40 grant from the State Water Resources Control Board (SWRCB) to construct an armored notch in the Pond A8 Complex near Alviso Slough along the South Bay shoreline, to control tidal flow and restore up to 500 acres of tidal wetland habitat. This project is included in Phase One of the South Bay Salt Ponds Restoration Project, the largest tidal wetland restoration project on the west coast, to restore 15,100 acres of former salt ponds in South San Francisco Bay. The District's mission is to provide Silicon Valley safe, clean water for a healthy life, environment, and economy.¹

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 06-166-552 for the period December 1, 2006 through September 30, 2010.

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. SWRCB 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, the grant agreement, and applicable policies and procedures.
- Reviewed the District's accounting records, vendor invoices, and cancelled checks.

¹ Source: www.valleywater.org

- 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 a sample of grant deliverables were met by reviewing supporting documentation and conducting a site visit to verify project existence.

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 audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit 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.

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.

Except as noted below, the grant expenditures claimed complied with the grant agreement requirements. Additionally, the grant deliverables were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 06-166-552		
Line Item	Claimed	Questioned
Construction (Contracted Services)	\$ 1,125,000	\$ 0
Total Grant Funds	1,125,000	0
Match Funds		
Personnel Services	772,053	647,885
Operating Expenses	6,281	0
Construction (Contracted Services)	287,666	0
Total Match Funds	1,066,000	647,885
Total Project Expenditures	\$ 2,191,000	\$ 647,885

Observation 1: Ineligible Match Funds Claimed

The Santa Clara Valley Water District (District) claimed \$647,885 in ineligible match costs. Specifically, the District claimed \$143,770 of personnel services costs for classifications not specified in the grant agreement or subsequent amendments. The District also claimed \$504,115 of personnel services costs which were actually indirect costs and overhead. Such costs are not eligible for reimbursement. Grant Agreement, Exhibit B, specifies the approved personnel classifications, and the State Water Resources Control Board (SWRCB) Resource Guide states indirect costs and overhead are considered ineligible costs.

Because a large portion of the claimed match funds are questioned, the District did not meet the minimum requirement of providing match funds of at least 25 percent of project costs. As shown in Table 2, only \$418,115 would be considered eligible, which would not satisfy the minimum requirement. Grant agreement, Exhibit D, states the grantee will provide match in the amount of at least 25 percent of the total amount to be spent on this project. SWRCB defines total project cost as the sum of the total matching funds and the grant award.

Table 2: Match Funds Recalculation

Description	Amount
Grant Funds Claimed	\$1,125,000
Match Funds Claimed	1,066,000
Total Project Cost	2,191,000
Minimum Required Match (25% of Total Project Cost)	547,750
Eligible Match Funds (Claimed match funds minus questioned match funds) ¹	(418,115)
Minimum Match Not Met	\$129,635

Recommendations:

The District should:

- A. Work with SWRCB to determine whether other costs may be used to offset the questioned match funds to meet the minimum requirement. SWRCB will make the final determination regarding the disposition of the questioned costs.
- B. For future grants, implement procedures to ensure claimed costs are allowable and eligible for reimbursement.

¹ \$1,066,000 - \$647,885 = \$418,115

November 20, 2014

Mr. Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
915 L. Street
Sacramento, CA 95814-3706

Dear Mr. Sierra:

Thank you for providing your department's audit of the Santa Clara Valley Water District's Proposition 40 Grant funding (grant 06-166-552) issued by the State Water Resources Control Board.

The District understands your department's finding, but felt we had implicit agreement from the State Water Resources Control Board for these costs as evidenced by communications between the District and the State Water Resources Control Board. However, we will implement your recommendations as outlined in the draft report.

We appreciate your thoroughness in auditing the District and look forward to working with you again in the future.

Regards,

ORIGINAL SIGNED BY

Joseph Atmore
Revenue Manager