



Transmitted via e-mail

February 16, 2016

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—San Joaquin River Flood Control Project Agency, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the San Joaquin River Flood Control Project Agency's (Agency) grant 4600010050 issued by the California Department of Water Resources.

The enclosed report is for your information and use. The draft report was issued December 9, 2015 and the Agency'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 Agency. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: 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. 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. Reggie Hill, Executive Director, San Joaquin River Flood Control Project Agency

San Joaquin River Flood Control Project Agency
Proposition 1E Bond Program
Grant Agreement 4600010050



Bifurcation control structures on the San Joaquin River
Source: San Joaquin River Flood Control Project Agency

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). The \$4.09 billion in bond proceeds finance a variety of natural resource programs.

The San Joaquin River Flood Control Project Agency (Agency) is a joint powers authority located in Dos Palos, California. The joint powers authority was formed to lead the Regional Flood Management Plan (RFMP) and represent local interests.¹ The Agency is composed of the Lower San Joaquin Levee District and the San Joaquin River Exchange Contractors Water Authority, with auditor/controller services provided by the County of Merced.

The Agency received a \$1.56 million grant from the California Department of Water Resources (DWR) to prepare an RFMP for the Upper San Joaquin River Region. The RFMP will use local information to outline regional strategies and solutions for implementing prioritized flood control improvement projects/programs and will review ways to mitigate residual flood risk.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600010050 for the period February 27, 2013 through February 26, 2015.²

The audit objectives were to determine whether the Agency'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 Agency'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, the grant agreement, and applicable policies and procedures.

¹ Source: www.usjrflood.org.

² An interim audit was conducted since the grant term ends June 30, 2017.

- Reviewed the Agency's accounting records, consultant invoices, and accounting records maintained by the County of Merced.
- 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 progress reports, regional plans, draft reports, and final reports.

In conducting our audit, we obtained an understanding of the Agency'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.

Except as noted below, the grant expenditures claimed complied with the grant requirements. Additionally, the grant deliverables available for review at the time of our site visit in August 2015 were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement 4600010050		
Task	Claimed¹	Questioned
Project Administration & Work Plan	\$ 155,085	\$ 8,537
Coordination & Collaboration	354,156	6,866
Update Regional Atlas	17,425	1,361
Plan Formulation	548,272	10,145
Total Project Expenditures	\$ 1,074,938	\$ 26,909

Observation 1: Fiscal Controls Need Improvement

We observed internal control deficiencies which impair the San Joaquin River Flood Control Project Agency’s (Agency) grant fiscal oversight. As shown in the text box, the Agency’s executive director performs several conflicting duties that compromise effective internal controls. Proper segregation of duties is a key element of an entity’s internal control, and is essential to reducing the risk of errors and irregularities. Typically, no one person should initiate, approve, record, and reconcile a transaction, and have custody of funds. The Agency’s executive director is the only individual who works for the Agency. Small entities with limited staffing resources can implement mitigating controls which may include fiscal oversight activities by their board of directors.

**Executive Director
Conflicting Fiscal Duties**

- Reviews & approves expenses
- Prepares grant reimbursement claims
- Receives grant reimbursement checks
- Deposits reimbursement checks with the County of Merced
- Prepares and reviews own timesheet

Additionally, the Agency does not ensure that grant funds are accurately tracked in its accounting records. Specifically, the Agency relies on the County of Merced (County) to deposit claim reimbursement checks, and record and pay grant related invoices. However, the Agency does not reconcile accounting records maintained by the County to its own records, resulting in a risk that grant-related vendors, consultants and regional partners are not paid accurately and timely.² Grant

Agreement, section C.1, requires the grantee to maintain complete and accurate records of all receipts and disbursements, and to maintain audit and accounting procedures that are in accordance with generally accepted accounting principles and practices.

¹ The Department of Water Resources awarded \$1,566,964 and the Agency claimed \$1,074,938 as of February 26, 2015.

² All grant-related expenses reviewed at the County were accurately recorded, properly paid, and supported by accounting records, except for the questioned costs noted in Observation 2.

Recommendations:

- A. Ensure key fiscal duties are adequately segregated. Assign additional oversight activities to board members as needed. Signatures by board members would indicate review of the hours billed and the work performed by the Agency's Executive Director. Update policies and procedures to document the approved duties.
- B. Improve existing accounting policies and procedures to ensure consistency in recording grant revenues and expenditures. Obtain all accounting records from the County, and perform reconciliations between the Agency's accounting records and those maintained by the County.

Observation 2: Unsupported Administration Expenditures

The Agency was unable to support \$26,909 in claimed administration expenditures. Specifically, the Agency claimed reimbursement at \$150 per hour for the general manager of one of the Agency's regional partners. Included in this hourly rate was \$62 per hour for administrative expenses such as meeting room use, meeting paperwork, and transportation. The Agency was unable to provide documentation supporting these administrative expenses. Grant Agreement, section C.1, requires the grantee to maintain complete and accurate records of all receipts and disbursements. Further, Grant Agreement, section C.42, requires travel expenses be reimbursed according to rates established by the California Department of Human Resources.

Recommendations:

- A. Remit \$26,909 to the California Department of Water Resources for unsupported expenditures.
- B. Ensure expenditures claimed for reimbursement are supported by accounting records and adhere to the terms of the grant agreement.

San Joaquin River Flood Control Project Agency

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January 8, 2016

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RE: Draft Report - San Joaquin River Flood Control Project Agency, Proposition 1E Grant Audit

Enclosed please find the San Joaquin River Flood Control Project Agency's response to the Draft Report, Proposition 1E Grant 4600010050. The grant funds were issued by the California Department of Water Resources for the development of the final report for the Upper San Joaquin River Regional Flood Management Plan. The final report is dated February 2015 and has been delivered to the California Department of Water Resources in accordance with the plan stipulations.

The enclosed pages are the Agency's comments, which are organized referencing the page, section and lines of the document.

Sincerely,

Original signed by

Reggie N. Hill, Executive Director

Encls.

Observation 1- Fiscal Controls Need Improvements

Page 3, First and Second Paragraphs and subsequent recommendations on page 4.

The only purpose for the Agency's existence is to oversee the development of the Regional Flood Management Plan (RFMP) with the help of a consultant who was selected using the required selection processes. The Agency Executive Director (ED) position was created for the purpose of having a single individual with the responsibility for all activities pertaining to assisting the consultant and stakeholders in developing the RFMP for the Upper San Joaquin River Regional area (USJRR). The ED was selected by the Agency board of directors, who happened to be the Secretary-Manager of the LSJLD, since the USJRR footprint contains the entire jurisdictional boundaries of the Lower San Joaquin Levee District (LSJLD). This selection was supported by DWR.

The Agency has no account funding mechanisms either to oversee the grant funds received from DWR, or to issue checks for reimbursement for certain stakeholders and the consultant, so the Agency relied upon the accounting processes of the LSJLD. State law requires the auditor of the principal county in which a special district, (such as the LSJLD), is located to administer the general operation funds of the district. In the case of LSJLD, the principal county is the County of Merced. The ED therefore consulted the Merced County Auditor who indicated that she was willing to provide this service in the LSJLD's administration of the DWR RFMP funds. In accordance with grant guidelines, accounts were created to administer the grant funds and keep these funds separate from the LSJLD general operation funds. Reports were created to monitor the Agency funding mechanisms. Unfortunately, not all of those reports were in the Agency's possession but these reports will be made available upon request. As per footnote 2 in the Draft Audit Report, the unaccounted for reports were reviewed and confirmed that the grant-related expenses were accurately recorded, except for costs noted in the Draft Audit Report.

Installing a fiscal oversight committee of the board of directors would be a possible control alternative of the Agency and ED activities. Another alternative would be for the RFMP to maintain records using generally accepted accounting principles and practices, and then the Agency would contract with an accounting firm, (using funding approved by grant guidelines,) to oversee and audit the Agency's and ED's activities. This second alternative would serve the purpose and would be more attractive to the RFMP.

Observation 2- Unsupported Administrative Expenditures

Page 4, First Paragraph and subsequent recommendations.

The expenditures made by the ED, which were questioned, were the charges made for overhead costs for use of the building facilities (office, meeting room) for hosting the monthly workshops for stakeholder participation in the development of the RFMP, and other meetings between the ED, the consultant and DWR. The listed hourly rate was determined through review of local meeting rooms and offices and associated costs for the facilities. Written material was not obtained by the Agency in reaching this rate, but it included the analysis of the information available on line concerning the charges in this region. This method was deemed unacceptable in the audit. The \$81.51 hourly rate for management is not being questioned, however the overhead costs associated with building use, meeting paperwork and transportation calculated to be \$68.49/hour is being questioned. The auditor determined to calculate these costs using a percentage (45.66%) which was applied across the board on all ED expenses submitted (\$62,250.00), which results in the sum of \$29,793 being at issue.

Pursuant to the recommendations of the Draft Audit Report, attached to this response is a copy of the lease agreement the LSJLD has with the building owner, San Luis Canal Company. This lease details the facilities used by the LSJLD and the lease monthly rate. Since, the host of these meetings was the Agency, (not the LSJLD), the Agency should reimburse the LSJLD the costs which the District incurred. The District's costs have been calculated by the Agency as an hourly rate. Since the lease is paid by the LSJLD for the offices and meeting room, and the ED is also the LSJLD Secretary-Manager, any time spent utilizing the office and meeting room for RFMP activities is an expense which should be reimbursed by the RFMP.

If the amount of the monthly rent called out in the lease agreement (\$1148/month) is multiplied by 12 months, in order to determine the annual cost, and then divided by management accumulated hours (average) for the year (2,080 hours). The result is a lease rate of \$6.63/hour for the building facility use (offices, boardroom, etc.). Using the Draft Audit Report rate that is questioned (\$68.49) minus this building use rate (\$6.63), the questionable cost percentage is then reduced to 41.24%. Applying that percentage across the board, like the DOF auditors did, the questioned amount is reduced to $(41.24\% \times \$62,250 =) \$26,912.11$.

If the auditors will agree to this re-calculated refund number (\$26,912.11), the Agency will agree to refund this sum to DWR.

EVALUATION OF RESPONSE

The San Joaquin River Flood Control Project Agency (Agency) response to the draft report has been reviewed and incorporated into the final report. The attachment referenced in the Agency's response has been omitted herein for brevity. We acknowledge the Agency's willingness to implement our recommendations specific to Observation 1. In evaluating the Agency's response to Observation 2, we provide the following comments:

Observation 2: Unsupported Administration Expenditures

Our draft report dated December 9, 2015 questioned \$29,793 of total administration costs for the Agency. The Agency's response to the draft report included additional documentation that supported some of the claimed administration expenditures. Based on our review of the documentation, a portion of the questioned costs were found to be adequately supported and therefore the questioned amount was reduced to \$26,909.