



Transmitted via e-mail

October 13, 2014

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—County of Orange, Proposition 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the County of Orange's (County) grant 4600009580, issued by the California Department of Water Resources.

The enclosed report is for your information and use. The draft report was issued August 18, 2014 and the County's response, including additional documentation, required further analysis. As a result of our analysis, the audit observation included in the draft report was removed. This report will be placed on our website.

We appreciate the assistance and cooperation of the County. If you have any questions regarding this report, please contact Diana Antony, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Laura King Moon, 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. 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. Shane Silsby, Director, County of Orange Public Works
Ms. Jan Grimes, Auditor/Controller, County of Orange
Mr. James Volz, Sr. Civil Engineer, County of Orange
Mr. Howard Thomas, Accounting Manager, County of Orange

AUDIT REPORT

County of Orange Proposition 1E Bond Program Grant Agreement 4600009580



Haster Basin Recreation Area

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Lisa Negri
Supervisor

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Michael Bratman

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 Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E). The \$4.09 billion of bond proceeds finance flood control and safe drinking water projects.

The County of Orange (County) was awarded a \$15.7 million grant from the California Department of Water Resources (DWR) to build the Haster Retarding Basin, Pump Station, and Recreational Field. This project will increase the storage capacity of Haster Basin and increase the capacity of the downstream reach of the East Garden Grove Wintersburg Channel.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 4600009580 for the period September 30, 2008 through March 31, 2013.¹

The audit objectives were to determine whether the County'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 County's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The California Natural Resources Agency and DWR 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 County's accounting records, personnel expenditures, and vendor invoices.
- 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.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with the grant funds.

¹ An interim audit was conducted as the grant term ends December 31, 2015.

- Reviewed the Certification of Use and Occupancy, other supporting documentation, and conducted a site visit to verify the project's existence.

In conducting our audit, we obtained an understanding of the County's internal controls, including any information systems controls, as they relate to and 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 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.

RESULTS

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.

The grant expenditures claimed complied with the grant agreement requirements. Because the project was active at the time of our site visit, not all deliverables were completed; however, the County has completed interim deliverables in accordance with the grant agreement. The Schedule of Claimed Amounts is presented below.

Schedule of Claimed Amounts

Grant Agreement 4600009580	
Task	Claimed²
Direct Project Administrative Costs	\$ 96,763
Planning/Design/Engineering/Environmental Documentation	25,000
Construction/Implementation	4,284,616
Construction Administration	533,092
Total Grant Costs	4,939,471
Match Funds	5,390,519
Total Project Costs	\$ 10,329,990

² DWR awarded \$15.7 million and as of March 31, 2013, the County had claimed \$4,939,471. The grant term ends December 31, 2015.

September 2, 2014

Mr. Richard R. Sierra, CPA
Department of Finance
915 L Street
Sacramento, CA 95814

Subject: Response to Draft Report – County of Orange, Proposition 1E Grant Audit

Dear Mr. Sierra:

Thank you for the opportunity to respond to the draft audit report dated August 18, 2014 regarding Proposition 1E grant agreement 4600009580 for the Haster Retarding Basin, Pump Station and Recreational Field Project.

Observation 1 in the draft audit report states, “Specifically, the County withheld \$486,542 in retention from the subcontractor’s progress invoices. However, the County claimed and was reimbursed for the total subcontractor’s invoices including retention, resulting in over claimed grant and match funding”.

Response: Do not concur. The retention payments were not withheld by the County, they were placed in an escrow account to be released upon completion of the project. The County was also not reimbursed for the total subcontractor’s invoices. The Department of Water Resources (DWR) withheld \$246,974 (5%) from the Grant Share reimbursements of the County’s claims.

In addition, the County was provided written direction from DWR to submit claims that include retention withheld from its subcontractor’s progress invoices. Please see attached email correspondence (attachment A) between the County and DWR. Specifically, DWR stated, “The grantee should invoice us (DWR) for the full amount from contractors” and that DWR would retain 5% from the Grant Share disbursement to the County.

It should also be noted that the County made a retention payment to Shimmick Construction Company in the amount of \$77,168 during the audit period. We believe this payment should reduce the \$486,542 figure used in the audit report to \$409,374. We have provided documentation for your review (attachment B).

In conclusion, the County does not concur with the findings made in Observation 1 in the draft audit report. The County was following DWR’s instructions and DWR withheld 5% retention on all reimbursements.

Should you have any questions please feel free to contact Howard Thomas at 714-667-9745 or James Volz at 714-647-3904.

Sincerely,

Original signed by **Shane L. Silsby**

Shane L. Silsby, Director, OC Public Works

Enclosure

cc: Ms. Laura King Moon, Chief Deputy Director, California Department of Water Resources
Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources
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Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Jan Grimes, Auditor/Controller, County of Orange
Mr. James Volz, Sr. Civil Engineer, County of Orange
Ms. Tonya Riley, Satellite Accounting Manager, County of Orange
Mr. Howard Thomas, Accounting Manager, County of Orange

EVALUATION OF RESPONSE

The County of Orange's (County) response to the draft report has been reviewed and incorporated into the final report. The County provided additional documentation in response to the draft report's audit observation. The documentation provided by the County consisted of various e-mails between the County and the California Department of Water Resources, and a contractor's payment request to the County for the release of retention. The additional documentation is omitted herein for brevity.

Observation 1: Unsupported Subcontractor Expenditures

The draft report audit observation questioned \$486,542 because the County claimed and was reimbursed for retention fees withheld from the subcontractor's progress invoices. However, according to the County's response, the retention payments were not withheld by the County. They were placed in an escrow account to be released upon completion of the project. After analysis of the documentation, the audit observation included in the draft report was removed.