



Sacramento County Department of Water Resources

Proposition 1E Bond Program
Grant Agreements 4600012093, 4600012097, 4600012100,
4600012111, and 4600012112

Report No. 24-3860-080
September 2024

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Final reports are available on our website at <https://esd.dof.ca.gov/reports/report.html>.

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Gavin Newsom ■ Governor

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Transmitted via e-mail

September 12, 2024

Karla Nemeth, Director
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Final Report—Sacramento County Department of Water Resources, Proposition 1E Grant Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Sacramento County Department of Water Resources' (County) grants 4600012093, 4600012097, 4600012100, 4600012111, and 4600012112, issued by the California Department of Water Resources.

The enclosed report is for your information and use. The County's response to the report finding is incorporated into this final report. The County agreed with our finding. We appreciate County's assistance and cooperation during the engagement, and its willingness to implement corrective actions. This report will be placed on our website.

If you have any questions regarding this report, please contact Chikako Takagi-Galamba, Manager, or Joshua Mortimer, Supervisor, at (916) 322-2985.

Sincerely,

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

cc: On following page

cc: Cindy Messer, Lead Deputy Director, California Department of Water Resources
Tom Gibson, Lead Deputy Director, California Department of Water Resources
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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 \$4.090 billion in bond proceeds are intended to rebuild and repair California's most vulnerable flood control structures to protect homes and prevent loss of life from flood-related disasters, including levee failures, flash floods, and mudslides; and to protect California's drinking water supply system by rebuilding delta levees that are vulnerable to earthquakes and storms.¹

The California Department of Water Resources (DWR) administers a portion of Proposition 1E funds under the Small Communities Flood Risk Reduction Program (SCFRRP). This local assistance program's objective is to reduce flood risk for small communities protected by State Plan of Flood Control facilities and legacy communities.²

The Sacramento County Department of Water Resources (County) is the organization primarily responsible for drainage engineering and operations and maintenance within the Stormwater Utility Service Area of unincorporated Sacramento County.³

DWR awarded the County five Proposition 1E grants totaling \$2.5 million through the SCFRRP. The purpose of each grant was to conduct flood risk reduction feasibility studies. These studies will evaluate a suite of structural and non-structural actions to reduce the risk of flooding in the following communities:

- Courtland (Grant Agreement 4600012093)
- Hood (Grant Agreement 4600012097)
- Locke (Grant Agreement 4600012100)
- East Walnut Grove (Grant Agreement 4600012111)
- West Walnut Grove and Ryde (Grant Agreement 4600012112)

All projects are complete.

SCOPE

In accordance with our bond oversight responsibilities, the California Department of Finance, Office of State Audits and Evaluations, audited the following Grant Agreements:

<u>Grant Agreement</u>	<u>Audit Period</u>
4600012093	February 22, 2018 through July 15, 2022
4600012097	February 22, 2018 through July 15, 2022
4600012100	February 22, 2018 through July 22, 2022
4600012111	February 22, 2018 through July 15, 2022
4600012112	February 22, 2018 through July 15, 2022

¹ Excerpts obtained from <https://bondaccountability.resources.ca.gov/pl1e.aspx>.

² Excerpts obtained from <https://water.ca.gov/Work-With-Us/Grants-And-Loans>.

³ Excerpts obtained from <https://waterresources.saccounty.gov/Pages/default.aspx>.

The audit objectives were to determine whether the County's:

1. Claimed grant expenditures were in compliance with the grant agreements' requirements.
2. Grant deliverables were completed as required in the grant agreements.

The County submitted claims for reimbursement detailing its expenditures by task category as follows:

Schedule of Claimed Amounts

Task Category	Grant				
	4600012093	4600012097	4600012100	4600012111	4600012112
	Claimed ⁴	Claimed ⁵	Claimed ⁶	Claimed ⁷	Claimed ⁸
1. Project Management and Coordination	\$ 28,621	\$ 27,221	\$ 25,528	\$ 31,322	\$ 26,529
2. Identification of Problems and Opportunities	35,818	35,938	34,151	55,102	35,378
3. Description of Community and Values	30,595	29,506	27,519	32,816	28,699
4. Quantify Flood Risks and Potential Damages	40,234	42,170	34,814	39,292	41,392
5. Formulation of Alternatives	121,731	127,368	162,959	58,507	120,751
6. Evaluation of Alternatives	89,122	83,516	94,113	103,122	88,269
7. Conduct Trade-off Analysis	10,938	13,175	7,330	20,040	13,708
8. Develop Project Implementation Phasing	18,596	15,758	13,734	24,976	13,929
9. Prepare and Compare Costs Estimates	28,824	31,598	20,816	36,759	34,490
10. Prepare Draft Feasibility Report	34,903	34,889	32,739	39,359	34,895
11. Seek Stakeholder Input on Draft Feasibility	9,833	9,560	5,527	9,201	9,554
12. Prepare Final Feasibility Report	11,628	10,019	5,283	8,459	13,365
13. Public Outreach and Stakeholder Engagement	34,702	34,814	30,979	36,535	34,556
Total Claimed Expenditures	\$ 495,545	\$ 495,532	\$ 495,492	\$ 495,490	\$ 495,515
Less DWR Adjustments	\$ 142	\$ 141	\$ 187	\$ 403	\$ 111
Total Adjusted Claimed Expenditures	\$ 495,403	\$ 495,391	\$ 495,305	\$ 495,087	\$ 495,404

Upon receipt, DWR reviewed the claims and made adjustments for ineligible costs. Our audit did not include an evaluation of the validity of adjustments, including ineligible costs, identified by DWR.

⁴ DWR awarded \$499,968 and the County claimed \$495,545.

⁵ DWR awarded \$499,998 and the County claimed \$495,532.

⁶ DWR awarded \$499,951 and the County claimed \$495,492.

⁷ DWR awarded \$499,958 and the County claimed \$495,490.

⁸ DWR awarded \$499,968 and the County claimed \$495,515.

The County'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 plan the audit, we gained an understanding of the grant and bond program, and identified relevant criteria, by interviewing DWR and County personnel and reviewing the grant agreements and corresponding amendments, SCFRRP guidelines, County Code, and applicable state laws and regulations.

We conducted a risk assessment, including evaluating whether the County's key internal controls significant to our audit objectives were properly designed, implemented, and/or operating effectively. Key internal controls evaluated focused on processes related to expenditure review and approval, the County's accounting system, procurement of professional services, and monitoring of deliverables and reporting requirements. Our assessment included conducting interviews with County personnel, observing processes, and testing transactions related to expenditures, professional services procurement, and deliverables.

We determined verification of the reliability of data from the County's accounting system, Comprehensive Online Management Personnel and Accounting System for Sacramento County, was not necessary because other sufficient evidence was available to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. Our methods are detailed in the Table of Methodologies.

Table of Methodologies

Audit Objective	Methods
Objective 1: To determine whether the County's claimed grant expenditures were in compliance with the grant agreements' requirements.	- Selected items from the significant expenditure task categories to verify compliance with grant requirements. Specifically, we selected expenditures from the following task categories: - Task 2: Identification of Problems and Opportunities - Task 5: Formulation of Alternatives - Task 6: Evaluation of Alternatives - Determined if selected expenditures were allowable, grant-related, incurred within the grant agreement periods, supported by accounting records, and mathematically accurate by reviewing consultant invoices and fee schedules, reimbursement claims, general ledger reports, and canceled checks, and comparing to relevant criteria. - Evaluated whether other revenue sources existed and whether they were used to reimburse expenditures claimed under the grant agreements. Specifically, we interviewed key County personnel to confirm that no other funding sources existed for the grants. We also compared reimbursement claims with overlapping service periods to determine whether costs were billed more than once. - Determined whether the County complied with procurement requirements by interviewing County personnel and reviewing requests for proposals and qualifications, the Board of Supervisors (Board) approval memos, and a consultant contract, and compared to relevant criteria.
Objective 2: To determine whether the County's grant deliverables were completed as required in the grant agreements.	- Selected deliverables deemed significant to achieving the grants' purposes. Specifically, we selected the Feasibility Studies (Studies) and Project Completion Reports (PCRs). - Determined if the Studies and PCRs were completed as required for each grant by comparing their content and timing of submission to relevant criteria.

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.

CONCLUSION

Based on the procedures performed and evidence gathered, we obtained reasonable assurance the claimed grant expenditures, excluding any DWR adjustments, complied with the grant agreements' requirements, except as described in Finding 1. Additionally, we obtained reasonable assurance the grant deliverables were completed as required in the grant agreements.

FINDINGS AND RECOMMENDATIONS

Finding 1: Professional Services Procurement Needs Improvement

The County was unable to provide documentation to demonstrate the consultant contract executed for the grants was established on the basis of demonstrated competence and professional qualifications. Specifically, the County hired one engineering consultant to perform professional services for Grant Agreements 4600012093, 4600012097, 4600012100, 4600012111, and 4600012112. Although the Board approval documents provided indicate an evaluation occurred, the County did not retain the evaluation documents to support its decision. The County attributed the missing documents to staff turnover and its document retention policy, which is two years.

Exhibit E of each Grant Agreement states that records, including all subcontractor and consultant contracts and related documents, should be retained for at least three years after receipt of the final payment of grant funds. The final payments for the grants were from July 15, 2022, to July 22, 2022, and the County was required to maintain the documents until July 2025. Additionally, section 9 of each Grant Agreement requires the County to comply with all applicable state laws and regulations.

Government Code section 4526 requires local agency heads to select private engineering or environmental services firms for professional services based on demonstrated competence and professional qualifications necessary for the satisfactory performance of the services required. Additionally, Government Code section 4529.12 states all architectural and engineering services shall be procured pursuant to a fair, and competitive selection process.

Contract administrative laws exist to protect the public from misuse or waste of public funds, provide qualified service organizations with a fair opportunity, stimulate competition, and help prevent favoritism, fraud, and abuse in selecting firms for service. Additionally, securing professional services without confirmation of demonstrated competence and professional qualifications increases the risk that bond funds may not be expended in the most prudent and economical manner, which may impact the quality and/or completion of the project deliverables.

Recommendations:

- A. Maintain all documentation to support the rationale for selecting a particular candidate for professional services for the duration required by the grant agreements.
- B. Revise internal policies and procedures for maintaining procurement records to include compliance with the grant agreements' record retention requirements.

**Department of Water
Resources**

Matt Satow
Director



Divisions
Water Supply
Drainage

Administrative Services/Finance

County of Sacramento

California Department of Finance
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Subject: Sacramento County Department of Water Resources (DWR)
Management Response to Findings for the Audit of Proposition 1E Bond
Program Grant Agreements 4600012093, 4600012097, 4600012100,
4600012111, and 4600012112

The Department of Water Resources has mitigated the risk associated with personnel changes and insufficient record retention by standardizing the procurement process through the use of the Countywide OpenGov platform for all requests for proposals (RFPs) and requests for quotes (RFQs), even in instances where closed solicitation is appropriate. Solicitations using the Countywide OpenGov platform go through a formalized process and the OpenGov database retains all procurement related documentation in one place for a minimum of five years from the date of contract award.

Sincerely,

Matt Satow, Director