CALIFORNIA DEPARTMENT OF WATER RESOURCES

Audit Report

CENTRAL VALLEY WATER PROJECT CONSTRUCTION FUND

July 1, 2000, through June 30, 2008

JOHN CHIANG
California State Controller

August 2009

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California State Controller

August 28, 2009

Perla Netto-Brown, Division Chief of Fiscal Services
California Department of Water Resources
1416 Ninth Street
P.O. Box 942836
Sacramento, CA 94236-0001

Dear Ms. Netto-Brown:

The State Controller's Office has completed an audit of the California Department of Water Resources' Central Valley Water Project Construction Fund. The audit was for the period of July 1, 2000, though June 30, 2008.

The department has kept the construction fund to proper standards, properly accounted for bond proceeds and interest, ensured that costs incurred under the revenue bonds were eligible and reasonable, and is implementing proper accountability and reporting methods. Our audit did not disclose any reportable conditions.

If you have any questions, please call Andrew M. Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk:vb

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Audit Report

Summary

The State Controller's Office completed an audit of the California Department of Water Resources' Central Valley Water Project Construction Fund. The audit was for the period of July 1, 2000, through June 30, 2008.

We determined that the Department of Water Resources has kept the construction fund to proper standards, properly accounted for bond proceeds and interest, ensured that costs incurred under these revenue bonds are eligible and reasonable, and is implementing proper accountability and reporting. Our audit did not disclose any reportable conditions.

Background

The State Water Resources Development System, a component unit of the State of California, includes the State Water Project, the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program. The system was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s that provided various financing mechanisms. The project is a complex of dams, water storage facilities, aqueducts, pumping stations, and electric generation facilities that were constructed to develop water supply and convey water to areas of need within the state, and to provide flood control, recreation, fish and wildlife enhancement, and hydroelectric power. The system entered into long-term water supply contracts with 29 customers (water contractors) in order to recover costs. The 29 water contractors are principally located in the San Francisco Bay Area, the Central Valley, and Southern California, and their service areas encompass approximately 25% of the state's land area and 70% of its population.

The system is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The system uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. As allowed by governmental accounting standards, the system has elected not to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The system is administered by the State of California Department of Water Resources.

The department administers the system in three funds: the California Water Resources Development Bond Fund, the Central Valley Water Project Construction Fund, and the Central Valley Water Project Revenue Fund. Each fund is accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The funds are combined to form the system's financial statements.

Objectives, Scope, and Methodology

The objectives of the audit were to determine whether the department:

- Kept construction fund and accounts to proper standards;
- Properly accounted for bond proceeds and interest; and
- Implemented proper accountability and reporting for the construction fund.

Additional objectives of the audit were to determine:

- Whether the department was improperly charging its water contractor for recreation and fish and wildlife enhancement facilities.
- The amount of any capital costs for recreation and fish and wildlife enhancement facilities that was paid through the revenue bonds.
- Whether loans related to the construction fund were used for its intended purposes.

We conducted this performance audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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 objectives.

Conclusion

We determined that the California Department of Water Resources has kept the construction fund and accounts to proper standards, complied with the applicable rules and regulations regarding the sale of revenue bonds, and is implementing proper accountability and reporting relative to the construction fund. Our audit did not disclose any reportable conditions.

Views of Responsible Official

We conducted an exit conference on May 22, 2009, and discussed the audit result with the Perla Netto-Brown, Division Chief of Fiscal Services, California Department of Water Resources. Ms. Netto-Brown agreed with the audit results; therefore, a draft report is not necessary and the report will be issued as final.

Restricted Use

This report is solely for the information and use of the California Department of Water Resources and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD
Chief, Division of Audits

August 28, 2009