

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

THE LAKE ELSINORE MANAGEMENT PROJECT



Kurt R. Sjoberg, Auditor General (acting)

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Office of the Auditor General
660 J Street, Suite 300, Sacramento, CA 95814
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August 1, 1991

P-042

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

Summary The Lake Elsinore Management Project (project) is intended to stabilize the level of Lake Elsinore and to enhance the lake's potential for irrigation, recreation, and flood control. Since the United States Bureau of Reclamation (bureau) approved funding in 1985, the design of the project has changed in part because the City of Lake Elsinore (city) requested modifications to accommodate its redevelopment plan for the lake. The city agreed that with prior approval, it would pay for additional costs of the project. In September 1990, the Elsinore Valley Municipal Water District (district) reported to the city that expenditures for the project totaled \$26 million through June 1990. Our review of the project's documents indicates that expenditures for the project totaled \$25 million through June 1990. The methods the district used to report the expenditures explain this difference. We determined that all expenditures we tested appeared to have been made for purposes related to the project.

Background Fed by the San Jacinto River, Lake Elsinore lies approximately 60 miles southeast of Los Angeles. When full, the lake empties into the Santa Ana River through the Temescal Wash. Figure 1 shows the lake's location.

The lake has a history of alternately flooding and drying out. The natural outlet for lake water through the Temescal Wash is approximately 38 feet above the bottom of the lake. As a result, the lake drains through the Temescal Wash only during periods of high water, a condition that may cause floods. The lake flooded this way in 1980 and 1983. At other times, water from the lake evaporates, causing a deterioration of water quality.

ELSINORE VALLEY MUNICIPAL WATER DISTRICT VICINITY MAP

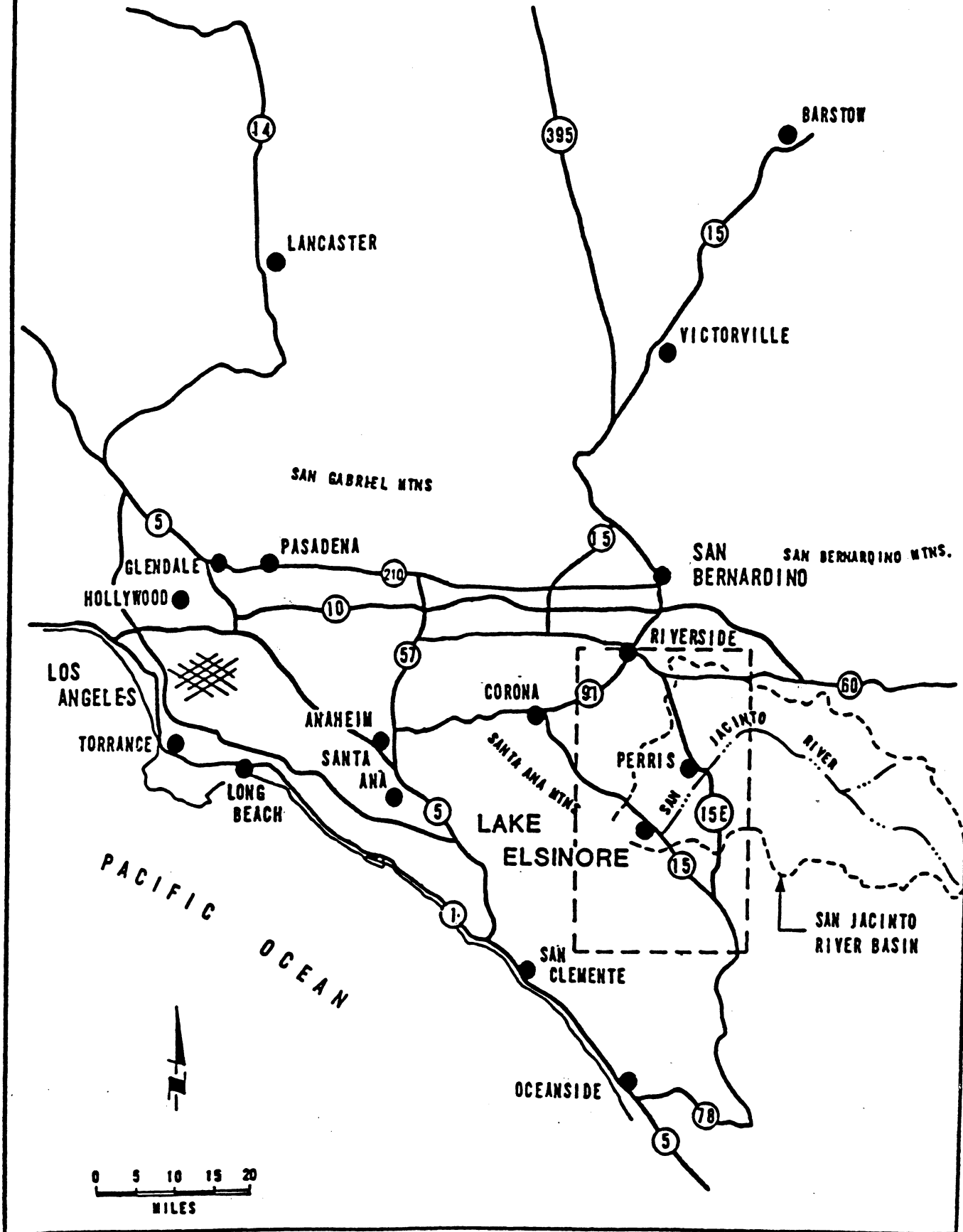


Figure 1

The district was incorporated under the provisions of the California Municipal Water District Act of 1911 to finance, construct, operate, and maintain a water system to serve the Lake Elsinore area. The act permits the district to acquire, control, and distribute water for use by the inhabitants of the water district. It also permits the district to construct, maintain, and operate public recreational facilities associated with water reservoirs operated by the district. Under these provisions, the district is authorized to construct the lake management project, which it began in 1988.

The project is intended to stabilize the wide fluctuations in the lake's water level that occur from year to year and to provide the benefits of a managed lake to all users. Specifically, the project is intended to improve water quality in the district, to supply irrigation water for agricultural use, to provide flood protection, to enhance recreational opportunities, and to enhance fish and wildlife habitats.

The project is being built with money from the federal government and from local sources. In September 1985, the district entered into a contract with the bureau to receive grants and loans totaling \$26 million to construct the project. The contract estimated that the project would cost \$39.6 million and specified that the district would provide \$13.6 million of the total from local sources. In May 1989, the district estimated that the project would ultimately cost about \$44.5 million as a result of changes to the project. Construction is almost complete.

**Scope and
Methodology**

The purpose of our review was to document the project's key events and to assess the validity of expenditures reported to the city in September 1990. To document the key events, we interviewed officials of the district and of the city, a member of the local community, an official of the State Department of Parks and Recreation, and officials of the Santa Ana Watershed Project Authority (SAWPA), which is the district's project manager. We also reviewed reports, memoranda, correspondence, and contracts and agreements among the parties involved.

To determine the validity of the expenditures that the district reported, we interviewed officials of the district's administration and of its finance and accounting departments. We reviewed reports from the accounting systems of the district and the project manager and statements of bank accounts used to pay the project's costs. We also reviewed canceled checks written to pay for the project's related expenses and invoices for approximately 98 percent of the project's expenditures.

Independent auditors audited the project's financial statements for June 27, 1989, through June 30, 1990, and reported no exceptions to the financial statements. We did not evaluate the audit during our review.

**Chronology
of the
Construction
of the Project**

In the early 1980's, officials of the city met with the directors of the district to discuss the possibility of obtaining funds for a reclamation project at Lake Elsinore. At a board meeting on March 23, 1983, a bureau official informed the directors that federal loans and grants were available to political subdivisions of the State through the Small Reclamation Projects Act and that such entities may borrow up to \$26 million provided that the entire project does not exceed \$39 million.

The Initial Loan Application Report

In April 1984, the district filed with the bureau a draft of its loan application report entitled "Proposed Lake Elsinore Management Project." The report stated that the proposed project would provide the benefits of a managed lake. These benefits would include flood control, recreation, fish and wildlife management, and supplies of agricultural water. The report also indicated that the project would consist of the following components: a main levee to stabilize and manage the lake, improved inlet and outlet channels, water supply wells, pump stations, a distribution system for irrigation water, and expanded recreational facilities.

The design plans included in the report indicated that the main levee, intended to separate the lake from its floodplain and to contain the water in the lake, would be about 11,000 feet long. The structure was to follow an approximately straight line across the middle of the lake and was to have islands around two of the three existing state-owned water wells. The third existing well was to be accessible from the main levee. The design also proposed a straight inlet channel at the east end of the lake to enable the San Jacinto River to discharge into the contained lake. Further, the design proposed deepening and widening the natural outlet channel at the lake's northeast corner to provide flood control during major storms. Figure 2 illustrates the initial design of the main levee and the inlet channel as described in the loan application report.

In the loan application report, the district stated that the project would benefit the lake's agricultural water supply. The district proposed rehabilitating the three state-owned water wells and constructing three new wells to provide water to replenish the lake. In addition, the district proposed constructing facilities to pump water out of the lake into the outlet channel and from the floodplain back into the lake when excess runoff collected on the floodplain.

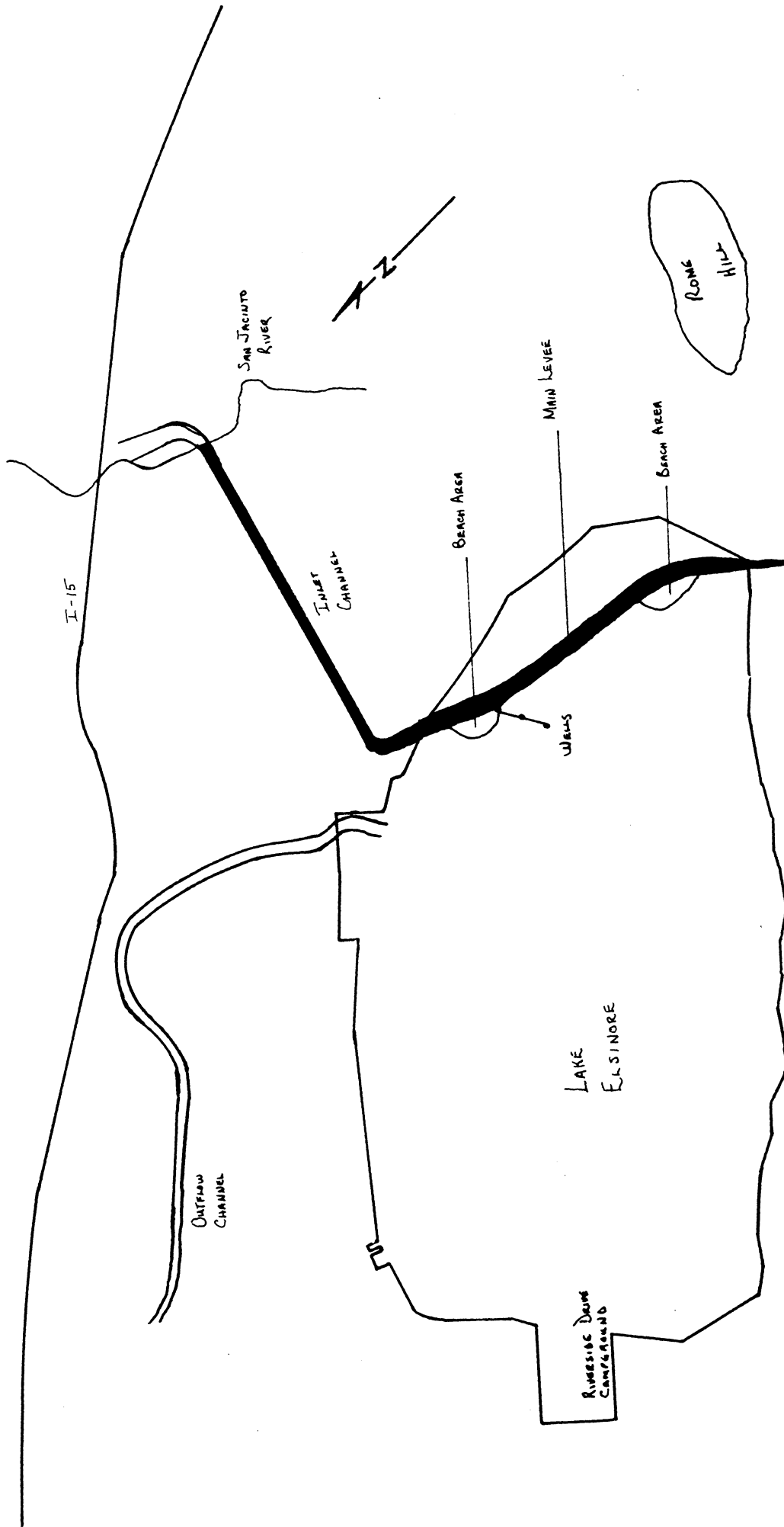


Figure 2
Initial Design

Furthermore, the district noted in the report that the State owned the majority of the land under Lake Elsinore. To use this land, the report proposed enlarging an existing campground owned by the State and constructing a new state park. It also proposed constructing beaches along the main levee.

The loan application report included a breakdown of the project's financing. The report specified that the district and the State Department of Parks and Recreation would contribute \$13.8 million to purchase rights-of-way and to pay for the required environmental reports, the district's administrative costs, design and engineering services, interest on the federal funds, and construction of recreational facilities. In addition, the report specified that the bureau would provide \$26 million for constructing the project's facilities: \$22.7 million in grants and \$3.3 million in loans. The report also proposed that revenues from agricultural water sales, surcharges on recreation, portions of sales and property taxes, and surcharges on new developments in the lake area be used to pay for project operations and maintenance and to repay the federal loan.

The District Amended the Loan Application Based on the Bureau's Response

In May 1984, the bureau responded to the district's loan application report. In its response, the bureau commented on the proposed plans for the project. For example, the bureau noted that the intent of the Small Reclamation Project Act was to fund projects in which flood control was only incidental to the overall purpose of the project, whereas the proposed plan suggested that flood control was a significant part of the project. The bureau also noted that the district's proposal for the project included only relatively minor agricultural benefits. In addition, the bureau asked the district to provide confirmation of the State Department of Parks and Recreation's support for the project and its willingness to finance its share of the local contribution. It also questioned whether the district would need to hold a local election to obtain authority to enter into a contract requiring the district to repay the federal loan.

The district responded to the bureau's comments in July 1984 with an addendum to the loan application report. In the addendum, the district noted that, after a review of the project proposal by the United States Army Corps of Engineers, the flood control component of the project would be reduced to qualify flood control as incidental to the project's overall goals. To further respond to the bureau's concerns about the proportion of flood control to be paid for with federal funds, the district offered to repay \$9.4 million of the grant funding rather than the \$3.3 million it had originally proposed. The district also increased the agricultural component of the project by annexing land lying outside the district's boundaries to increase the amount of agricultural land served by the project.

In response to the bureau's request, the district provided the bureau with a letter dated April 29, 1981, from the State Department of Parks and Recreation stating that Chapter 372, Statutes of 1980, provided \$6 million for the acquisition of land and leases and for the acquisition and development of recreational facilities at Lake Elsinore and that the approval of the California State Park and Recreation Commission would be needed before the funds could be spent. The district also included in its response a letter from its counsel stating that the district could enter into a contract to repay the federal loan without the approval of the voters provided that the contract did not cause the district's indebtedness for any year during the term of the contract to exceed its revenues for that year.

The District's Contract With the Bureau

In September 1985, the district entered into a contract with the United States, administered by the bureau, for funds to construct the project. The contract authorized the expenditure of the funds for the construction of a project that was substantially in accordance with the plans proposed by the district with the provision that the project could be modified upon agreement of the district and the bureau. The contract also specified that the project would include facilities to use the project's water for the district's municipal and industrial water system.

The contract estimated that the total cost of the project would be \$39.6 million. The district would contribute goods and services consisting of rights-of-way, the application report for the federal loan, an environmental assessment, and administration, collectively valued at \$2.9 million. The district would contribute another \$10.4 million in cash for design and construction of the project and would pay \$333,000 for interest on the federal loan during construction of the project, for federal costs to administer the loan, and for fees for filing the loan application. The contract also required the district to use funds from the federal government in the form of a loan not to exceed \$7.2 million, and the contract provided federal grants of \$18.8 million.

The contract specified that the district would complete construction on the project within four years of the initial advance of federal funds. It further specified that the district was obligated to repay the loan and that the district may assign its contractual responsibilities to others with the written approval of the bureau.

The Design of the Project Has Changed

On October 28, 1987, representatives of the district, the city and its redevelopment agency, the State Department of Parks and Recreation, the Riverside County Flood Control District, and SAWPA, together known as the Lake Elsinore Lake Management Technical Task Force Committee, met with private consultants to discuss the project. A representative of the bureau was also present. Minutes of the meeting indicated that those present discussed a plan to include commercial and recreational development within the project area presented by the consultant. The consultant's plan included a meandering rather than straight inlet channel, a regional mall, and recreational development in the area to the southeast of the levee. The minutes also indicated that Lake Elsinore's city manager requested the group to consider amending the project's original design to include the changes proposed by the consultant.

Minutes of the January 25, 1988, meeting indicated that the task force unanimously approved changes to the project as proposed by the city. The minutes of the March 21, 1988, meeting indicated that funds for the redesign of the project would be forthcoming from the city's redevelopment agency. The minutes also indicated that the task force learned that the bureau might cease funding the project if construction was not started by October of that year.

In August 1988, the city presented to the task force a memorandum containing details of the proposed changes to the project. The memorandum stated that the city would be most affected by the construction of the project, by the increases in traffic and the wear and tear on city facilities, and by the need for additional city services. The memorandum further stated that while the project would have many positive benefits for the community, none would be as important in the long run as the potential for economic development. The memorandum stated that even with the successful implementation of the existing plan, however, little economic activity would be likely to result around the lake since most of the land would have to remain a floodplain and the fragmented ownership of the land around the lake would preclude the consolidation that could help establish meaningful opportunities for development. In addition, the memorandum stated that it would be important for the city to understand the effects of the project and to establish ways to ensure that revenues generated by the project would offset any economic hardship brought about by the project.

To offset the project's potentially negative effects, the memorandum included a proposal to redesign the levee to follow a meandering course and to construct an inlet that was a waterway rather than a channel. The memorandum also noted that the redesign would enhance such things as recreational opportunities and the project's goals of economic and community development. Figure 3 illustrates the new design proposed by the city plan.

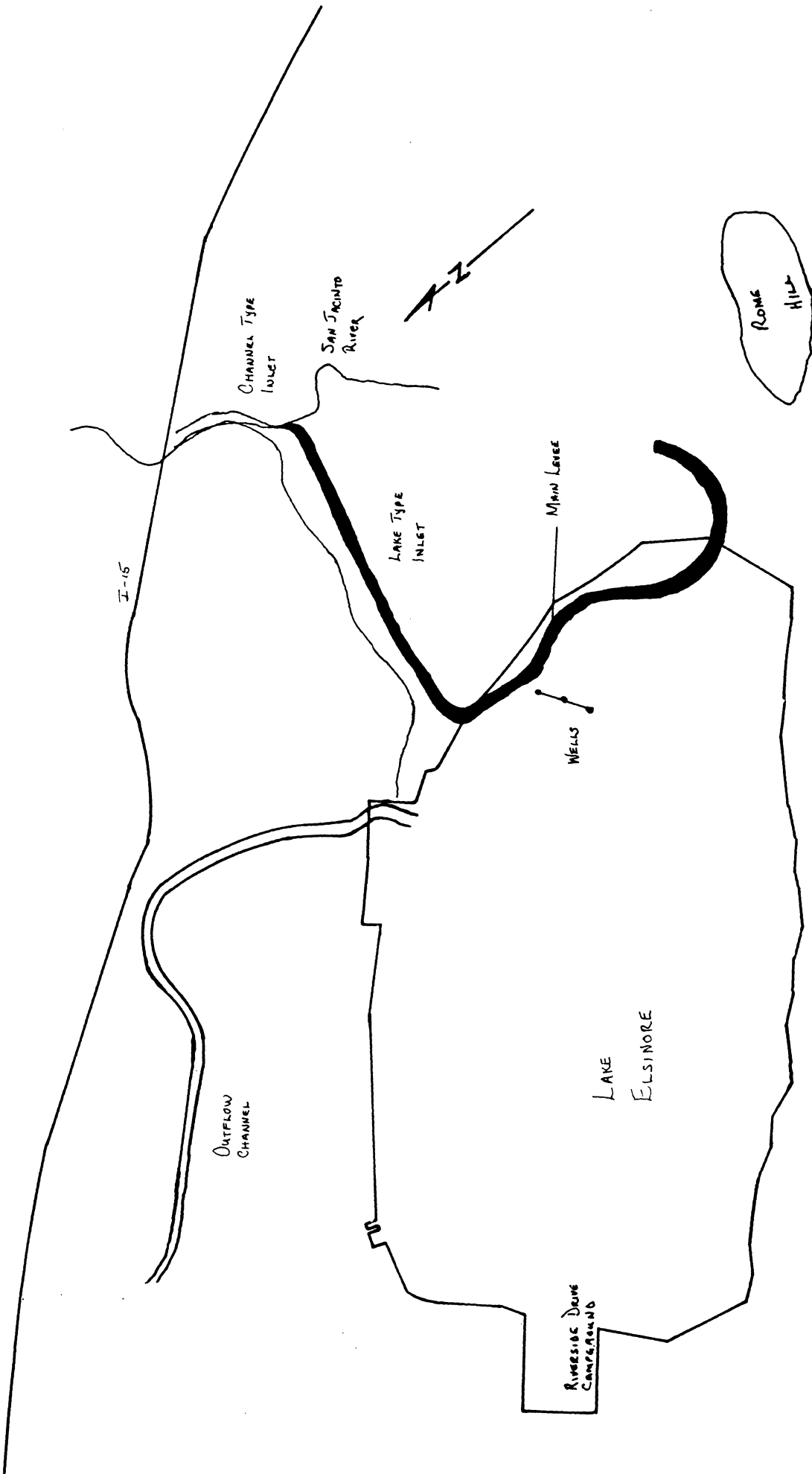


Figure 3
Alternative Lake Management Plan

By September 1988, construction had begun on the inlet channel. The task force was informed that completion of that work was scheduled for mid-October 1988.

On October 20, 1988, the chairman of the city's redevelopment agency informed the district in a letter that an engineering study done for the city concluded that the redesign and construction of the modified plan could be completed at the cost of the original plan or less. The letter also stated that the city's redevelopment agency was prepared to fund any redesign work beyond the project's existing budget. Furthermore, in a letter dated November 10, 1988, the city manager asked that SAWPA, the district's project manager, inform the city of any amounts required from the city as soon as any additional costs over the approved grant for the project were known. Finally, on December 9, 1988, the chairman of the city's redevelopment agency informed SAWPA that the agency had submitted to the bureau a letter and a resolution assuring the bureau that it would participate in any additional costs that might result from the modifications to the original design of the levee and the inlet channel.

On May 9, 1989, the city and its redevelopment agency signed an agreement with the district regarding their financial participation in the project. The agreement stated that the city was actively formulating alternative plans that, if implemented, would modify the design of the levee, the inlet channel, and other features of the project and would result in substantial benefits to the city.

The agreement specified that the city would provide \$250,000 to defray expenses incurred in connection with the design and construction of plans to implement the changes desired by the city. It also specified that \$76,685 of the \$250,000 was to reimburse the district and its project manager, SAWPA, for work performed before the execution of the agreement. Furthermore, the agreement specified that from time to time, as requested by the district, the city would provide additional funds, with prior approval, to pay for expenses incurred in connection with the

implementation of the modifications requested by the city. However, the agreement did not specify the design and construction expenses the city would pay for, nor did it specify the amount the city would pay in addition to the \$250,000. On May 11, 1989, the city provided the district with \$250,000 for additional costs associated with the project.

The Bureau Approved Design Changes

On May 25, 1989, the district submitted to the bureau a report entitled "Lake Elsinore Management Project: Approval Request for Minor Change." The report, which the district submitted in compliance with the terms of the contract with the bureau, noted that the project had been modified to accommodate local needs. It provided the bureau with details of the modifications, which included the longer levee with a meandering alignment and a wider inlet channel similar to the design described in the city's modified plan. It also noted that, while the modifications to the outlet channel were still planned, they would be paid for by the United States Army Corps of Engineers. Finally, the report noted that the area to be set aside to accommodate the mitigation of the project's adverse effects on fish and wildlife would be increased from approximately 138 acres to 300 acres as a result of new requirements placed on the project by the United States Fish and Wildlife Service, the United States Army Corps of Engineers, the California Department of Fish and Game, the State Department of Parks and Recreation, and the Riverside County Flood Control District.

The report noted that the estimated cost of the project had increased from a total of \$39.6 million to \$44.5 million, an increase which resulted from increases in construction costs to build the modified main levee and the inlet channel and from new costs associated with the wetlands area. The report also noted that the costs for engineering and administration of the project and for obtaining rights-of-way for the project had increased, while allowances for contingencies during construction, projected

cost increases, costs of the modifications to the outlet channel, and costs associated with the water supply wells decreased. As a result of these changes, the estimated total project cost increased by almost \$5 million. Table 1 shows a comparison of the original project costs with the costs of the modified project that the district presented to the bureau in the report. The bureau approved the changes as detailed in the report on June 22, 1989. In approving the changes, the bureau noted that the proposed modifications to the project would not result in the need for additional federal funds nor would they significantly affect the authorized functions of the project. The bureau also noted that the proposed modifications did not conflict with the bureau's contract with the district and, as a result, did not require amendments to the contract.

**Table 1 Comparison of 1984 and 1989
Estimated Project Costs**

Item	1984	1989
Main levee	\$ 6,158,000	\$10,880,244
Inlet channel	3,230,000	8,912,388
Outlet channel	5,935,000	250,000
Pumping stations	1,000,000	1,300,000
Water supply wells	2,100,000	1,360,000
Recreational improvements	5,204,000	5,204,000
Wetlands	N/A	1,714,000
Contingencies	4,725,000	1,736,990
Projected cost increases	4,536,000	N/A
Engineering and administration	3,449,000	6,223,528
Rights-of-way	2,700,000	6,445,000
Interest during construction	282,000	282,000
United States Bureau of Reclamation costs	300,000	191,387
Total	\$39,610,000	\$44,499,537

Source: "Lake Elsinore Management Project: Approval Request for Minor Change," 1989.

The City Has Paid Additional Amounts To Implement the Project

On May 12, 1989, the city manager of Lake Elsinore notified the president of the district's board of directors that the city's redevelopment agency and the city council had approved the contribution to the district of \$2.2 million for the project. On June 8, 1989, the city paid that amount for the acquisition of land for the project. Furthermore, on August 16, 1990, in response to an invoice from the district for engineering redesign services in the amount of \$692,790, the city paid the district \$352,777. The invoice included a credit to the city for the \$250,000 already paid. In a report to the city's redevelopment agency, the city's administrative services director, with the approval of the city manager, determined that the invoice included acceptably supported costs of \$602,772. The report noted that charges on the invoice totaling \$90,018 are either not related to the city or cannot be determined to be related to the city.

The District Reported Project Expenditures to the City

In September 1990, the district prepared a report entitled "Lake Elsinore Management Project: Estimated Total Project Cost/ Estimated Total Cost Increase." The report noted that the district has spent \$16.6 million in federal funds and \$9.5 million in local funds for the project through June 30, 1990. We reviewed the documents supporting the amounts that the district reported had been spent and determined that the district actually spent \$16.6 million in federal funds and \$8.4 million in local funds through June 1990. These differences resulted primarily from the method the district used to present expenditures for design and inspection, for purchases of rights-of-way, and for costs the district incurred to administer the project. Table 2 compares the expenditures reported by the district with the expenditures we calculated from the supporting documents.

Table 2 A Comparison of Reported and Actual Expenditures of the Lake Elsinore Management Project

	Reported Through June 30, 1990	Actual Through June 30, 1990	Actual Through April 30, 1991
FEDERAL FUNDS			
Inlet channel	\$ 479,315	\$ 482,104	\$ 482,104
Main levee	10,676,247	10,677,266	10,727,266
Island wetlands	0	0	5,130,760
Irrigation facilities	1,174,369	1,174,435	1,174,435
Inspection	798,816	564,949	1,259,294
Design	2,639,016	2,867,656	3,501,016
Environmental commitments	41,221	43,621	43,621
Santa Ana Watershed Project			
Authority administration	358,537	358,337	503,124
Elsinore Valley Municipal			
Water District	249,267	249,267	249,267
United States Bureau of Reclamation costs	146,222	184,765	221,543
Subtotal	16,563,010	16,602,401	23,292,431
LOCAL FUNDS			
Inspection	35,834	38,144	38,144
Redesign	680,149	275,416	627,329
Rights-of-way	8,344,453	7,527,915	8,466,140
SAWPA administration	87,210	87,010	131,381
District administration	146,304	212,955	243,536
Planning	160,000	197,069	375,369
USBR costs	51,387	51,387	51,387
Interest during construction	27,006	27,006	27,006
Subtotal	9,532,343	8,416,902	9,960,292
TOTAL PROJECT COSTS	\$26,095,353	\$25,019,303	\$33,252,720

Sources: "Lake Elsinore Management Project: Estimated Total Project Cost/Estimated Total Cost Increase," 1990, and calculations by the Office of the Auditor General.

The district's report to the city indicates that expenditures from federal funds for inspection of project construction totaled \$798,816, while supporting data indicated that \$564,949 was actually spent for inspection. Likewise, the report indicated that design costs were \$2,639,016, while records we reviewed indicated that \$2,867,656 was spent for design. The method the district used to classify expenditures may explain these differences. For example, the district's contract with one contractor included requirements for both inspection and design work. We did not

review all expenditures for inspection and design work separately for each invoice from this contractor, but on one invoice we reviewed, the contractor submitted the amount of \$205,214 that actually included costs of \$137,272 for design and \$67,942 for inspection work. However, the district had reported to the city that the entire amount was for design. This and other misclassifications such as this would explain the above discrepancies.

The report also indicated that local expenditures associated with redesigning the project totaled \$680,149. However, we found that the district paid invoices for design work of only \$275,416 through June 1990. The explanation for this discrepancy may be that the expenditures the district reported in the total cost report included over \$350,000 for which contractors had submitted invoices that the district did not pay until September 1990. However, we could not verify \$52,800 of the expenditures for redesign. The district did not include in the other amounts it reported to the city costs incurred but not yet paid.

The district also reported in error that local funds spent to acquire rights-of-way for the project total \$8.3 million. The district over reported the amount spent for acquiring rights-of-way by \$827,187. The district included that amount in the total because on August 14, 1989, its project manager, SAWPA, erroneously deposited \$827,127 into the account for local funds, noting that it was to be used to acquire land for the project. Actually, the project manager had recognized the error and on August 31, 1989, had transferred the amount to the federal account for other project expenditures. However, the district had not reduced the amount reported in the account for local funds.

Finally, the district reported that it had spent \$146,304 for costs it incurred for the administration of the project through June 30, 1990. However, we found support for expenditures for district administration of \$212,955 through June 30, 1990.

Table 2 also includes the total expenditures for the project through April 30, 1991, the latest date for which sufficient data were available to enable us to validate project expenditures. The table indicates that expenditures of federal funds for the project total \$23.3 million, while expenditures of local funds total \$9.9 million to April 30, 1991. During our review, we determined that all of the expenditures we tested appeared to have been made for purposes related to the project.

Records of SAWPA indicated that \$266,000 has been spent on the project from May 1, 1991, through June 28, 1991. However, because the expenditures occurred after we completed our fieldwork, we could not validate these amounts.

**The Project
Is Almost
Completed**

The district's general manager has said that the total estimated cost of the project is about \$43.3 million. In addition to the \$33.5 million spent through June 28, 1991, the estimated remaining expenditures total about \$9.8 million. The remaining expenditures include expenditures for additional wells and pipelines, engineering and inspection, plantings in the wetlands, a weir, land acquisition, administrative costs for the district and its contract manager, costs of the bureau, interest on the federal loan during construction, and costs of recreational improvements. Table 3 shows the estimated costs of completing the project. Figure 4 illustrates the project's final design. Figure 5 shows an aerial view of the project taken in May 1991.

Table 3 Estimated Costs To Complete the Project

Wells, outfitting, and pipelines	\$2,300,000
Wetlands' plantings	400,000
Engineering/inspection	587,000
Weir	50,000
United States Bureau of Reclamation costs	110,000
Santa Ana Watershed Project Authority administration	250,000
Elsinore Valley Municipal Water District administration	120,000
Interest during construction	120,000
Land acquisition (settlement)	700,000
Recreational facilities	5,200,000
Total	\$9,837,000

Source: General Manager, Elsinore Valley Municipal Water District

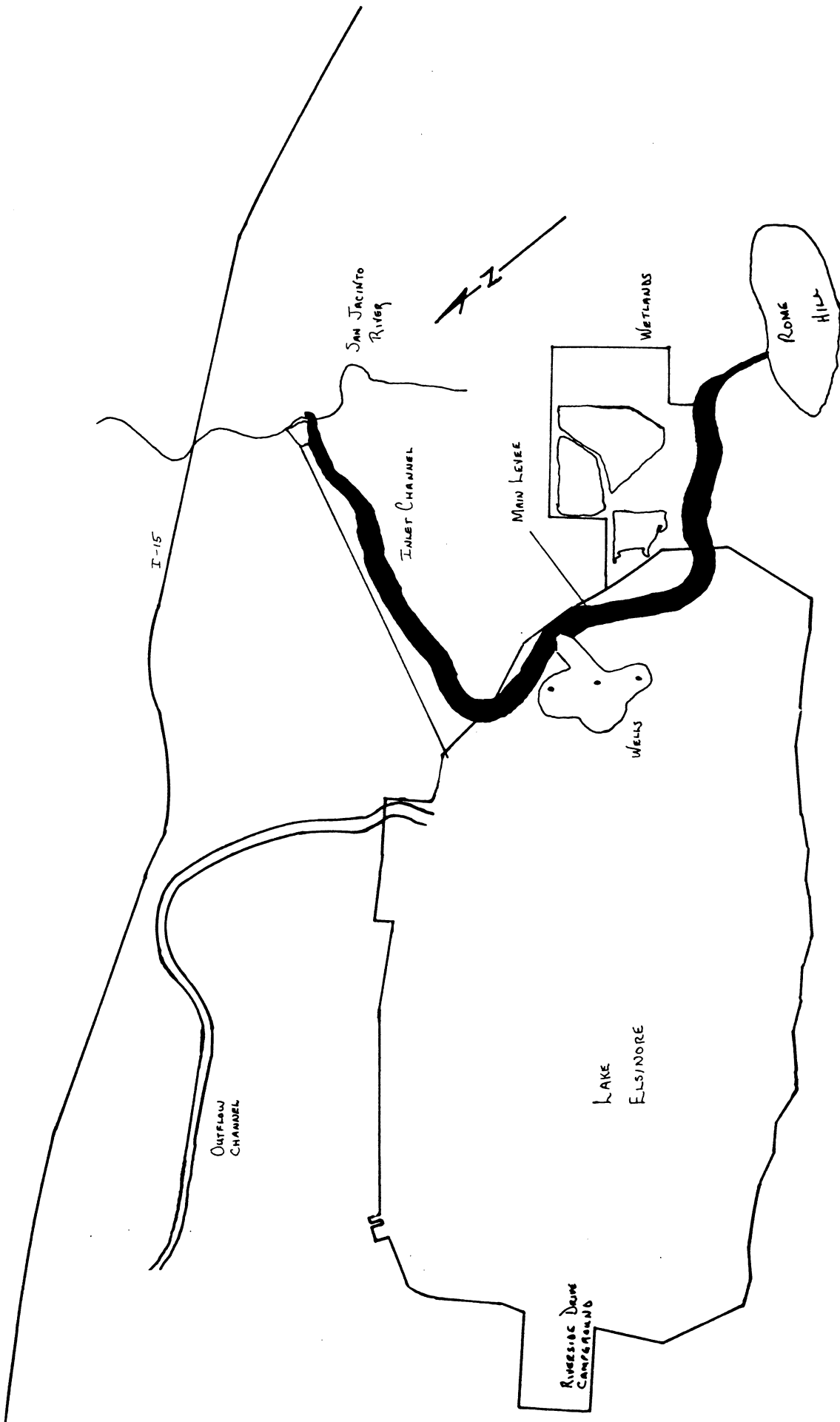



Figure 4
Final Design



Figure 5
Lake Management Project: February 1991

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit section of this letter report.

Respectfully submitted,



KURT R. SJOBERG
Auditor General (acting)

Staff: Robert E. Christophel, Audit Manager
Anthony F. Majewski

**Responses to
the Audit**

City of Lake Elsinore
Office of the Auditor General's Comments on
the Response From the City of Lake Elsinore

Elsinore Valley Municipal Water District

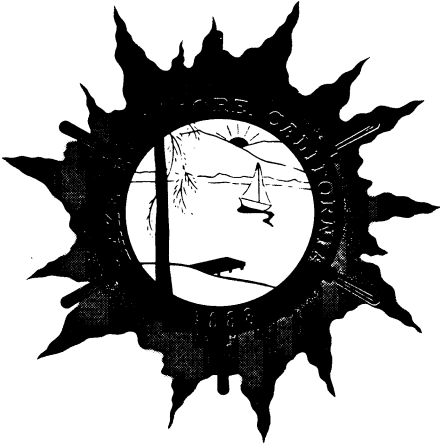
City of Lake Elsinore

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July 26, 1991

Mr. Kuri R. Sjoberg
Auditor General (Acting)
State of California
Office of the Auditor General
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Sacramento, CA 95814

RE: Confidential Draft Report - P-042
Lake Elsinore Management Project

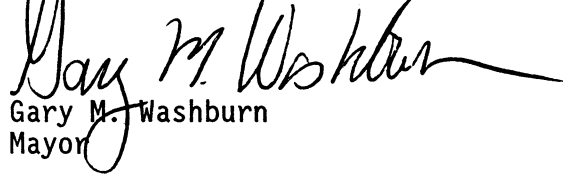
Dear Mr. Sjoberg:

Thank you for sending us the "draft copy" of the Lake Elsinore Management Project for review and comment.

Attached you will find our comments addressed by page reference. We appreciate this opportunity to respond and should you need further information, please don't hesitate to call me.

Sincerely,

CITY OF LAKE ELSINORE


Gary M. Washburn
Mayor

GMW:ld

cc: City Council
City Manager
Assistant City Manager
Anthony F. Majewski, State Auditor's Office

**LAKE ELSINORE MANAGEMENT PROJECT
P-042 CONFIDENTIAL DRAFT REPORT**

Page 1: As a result of local concerns regarding the original design of the levy, the Water District introduced an alternate M-1 Plan, which the City felt would better meet the needs of the community and redevelopment program. With this in mind, the City agreed to pay redesign costs for levy spearheaded by Andy Schlange, Santa Ana Watershed Authority (SAWPA); Nancy Schafer, Elsinore Valley Municipal Water District (EVMWD); and John Morris, Engineering Science.

Referring to the consultant's plan. The consultant designed conceptual use of flood plain based on meandering levy introduced by EVMWD. City agreed to pay for redesign of levy, but levy concept was introduced by Engineering Science.

We were told that if City agreed to pay for redesign of levy, the costs of the construction on bid of levy should be the same or less. Commercial and recreational development was designed behind M-1 Plan introduced by Engineering Science and EVMWD.

As stated, the meandering levy was agreed upon and selected by EVMWD and SAWPA. The City was to pay for redesign. Project was bid with straight levy and meandering levy. The Water District awarded meandering levy as it was within proposed budget. No written correspondence from SAWPA or Water District that levy came in over budget.

Refer to longer levy with a meandering alignment and wider inlet channel. Channel was modified at this time because SAWPA and the Water District needed dirt to build levy.

Page 3: Existing grant allowed \$5 Million for Outflow Channel.

Page 4: Indicates what project components were in ground. Does not say original grant included \$5 Million of \$39 Million for Outflow Channel.

Page 7: State Park improvements to be paid by \$6 Million allocated to Lake Elsinore as part of 1976 Bond Act.

Page 7: Original grant stated, "pay back tax increment, sales tax, property tax, etc., not surcharges". EVMWD has never received approval from City, Redevelopment Agency, County or State on use of these revenue sources.

Footnote:

** In original application to Bureau of Reclamation it implies City would assist in payback of loan. EVMWD is only signature to loan. No formal agreement has ever been reached.

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*The Office of the Auditor General's comments on the response begin on page 25.

**Comments The Office of the Auditor General's Comments on
the Response From the City of Lake Elsinore**

- ① As we point out on page 10 of our report, on October 28, 1987, at a meeting of the Lake Elsinore Lake Management Task Force Committee, the city manager requested that those present consider amending the project's original design to include the changes proposed by the consultant. It should be noted also that the minutes of that meeting indicate that the city manager introduced the consultant's proposal for amending the original design.
- ② On page 5 of our report, we point out that the loan application report included an improved outlet channel for the project.
- ③ On page 9 of our report, we point out that the district responded to the bureau, citing a letter from the State Department of Parks and Recreation. The letter stated that Chapter 372 of the Statutes of 1980 provided \$6 million for acquisition of land and leases and for the acquisition and development of recreational facilities at Lake Elsinore.
- ④ On page 8 of the report, we note that the district's loan application report stated the sources the district proposed using to operate and maintain the project and to repay the federal loan. We did not state or imply that the City of Lake Elsinore would assist in repaying the loan.



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July 26, 1991

Mr. Kurt R. Sjoberg
Office of the Auditor General (Acting)
California Legislature
660 J Street, Suite 300
Sacramento, California 95814

Response to Audit Report, Lake Elsinore Management Project

Dear Mr. Sjoberg:

The District has reviewed the draft audit report. Though we might have worded the report differently we feel that the report is accurate, unbiased, and presents a sound understanding of the facts. Much of the audit report focuses on the report of September 17, 1990, entitled "*Lake Elsinore Management Project, Estimated Total Project Cost, Estimated Total Cost Increase*". EVMWD would like to clarify that the report was prepared by its special projects engineer in response to an inquiry by the City of Lake Elsinore. The City needed to know how much additional funding would be required to complete the project. Even though EVMWD's special projects engineer used sufficient accuracy to determine estimated total project costs, his goal was limited to determining the additional funding requirements. As generally accepted accounting principals were not applied in this report, differences would exist in any total project costs comparisons. We regret any misunderstandings this may have caused.

We appreciate the opportunity to review and comment on the draft audit report. We hope the final report can be used by EVMWD and the City of Lake Elsinore to resolve the current differences in project participation. We believe this report will be a positive contribution in that direction.

Sincerely,

D. J. Laughlin
General Manager

DJL:jks

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps**