



Transmitted via e-mail

April 22, 2011

Mr. Jim Branham, Executive Officer
Sierra Nevada Conservancy
11521 Blocker Drive, Suite 205
Auburn, CA 95603

Dear Mr. Branham:

Final Report—Audit of Sierra Nevada Conservancy's Proposition 84 Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Sierra Nevada Conservancy's (Conservancy) Proposition 84 bond funds for the period ending June 2009.

The enclosed report is for your information and use. The Conservancy's response to the report finding is incorporated into this final report. The Conservancy agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

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

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Joan Keegan, Assistant Executive Officer, Sierra Nevada Conservancy
Ms. Kerri Timmer, Program Manager, Sierra Nevada Conservancy
Ms. Angela Avery, Grants Administrator, Sierra Nevada Conservancy
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency

AN AUDIT OF BOND FUNDS

Sierra Nevada Conservancy Proposition 84



Source: Sierra Nevada Conservancy website

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

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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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EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the Sierra Nevada Conservancy's (Conservancy) Proposition 84 funding as of June 2009. The audit objectives were to determine if (1) bond funds are awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate monitoring processes are in place to ensure projects are within scope and cost.

Overall, the Conservancy awarded bond funds in compliance with applicable legal requirements and established criteria; however, the Conservancy's fiscal monitoring of bond funds can be improved. Specifically, limited controls exist to mitigate potential duplicate billing, project monitoring is inconsistent, documentation of site monitoring activities is limited, and the Conservancy does not ensure that interest earned on advanced funds is spent on the project or returned to the Conservancy.

The Conservancy's fiscal and administrative controls over bond funds would be strengthened if it develops a corrective action plan to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) authorizes \$5.388 billion in general obligation bonds to fund safe drinking water, water quality and supply, flood control, waterway and natural resource protection, water pollution and contamination control, state and local park improvements, public access to natural resources, and water conservation efforts.

Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from the bond supports a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects and are disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

Figure 1

Sierra Nevada Conservancy

The Sierra Nevada Conservancy (Conservancy) is a state agency created by Public Resources Code section 33300. The mission of the Conservancy is to initiate, encourage, and support efforts that improve the environmental, economic and social well-being of the Sierra Nevada Region, its communities and the citizens of California. The Conservancy Region is comprised of all or part of 22 counties and over 25 million acres (see Figure 1).

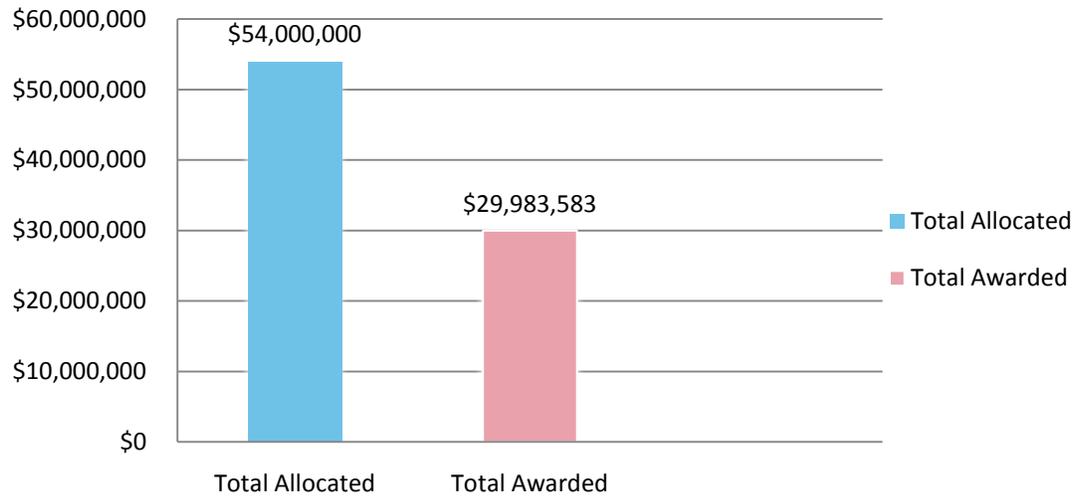
Implementation of the Conservancy's programs is primarily funded by Proposition 84. The Conservancy has been allocated a total of \$54 million of Proposition 84 funds for grant distribution and administration. The Conservancy distributed nearly \$30 million to 193 projects throughout the Sierra Nevada as of June 30, 2009 (Figure 2).



Source: Conservancy Strategic Plan

Figure 2

Bond Funds Allocated and Awarded as of June 30, 2009



Source: Bond Act and the Conservancy's accounting records

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we conducted an audit to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place.

The audit focused on three phases of the grant life cycle—pre-award, award, and interim monitoring. A limited review of the closeout and post-closing phases was conducted to determine if processes were in place. The audit period included transactions and controls from program inception through June 30, 2009.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Furthermore, no assessment was performed for the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether the Conservancy had adequate monitoring processes, we performed the following procedures:

- Reviewed applicable bond acts and the Conservancy's grant management policies, and procedures, including the strategic plan and other legal provisions and regulations.
- Interviewed key personnel responsible for administering bond funds to obtain an understanding of how the Conservancy oversees various project stages: pre-award, award, interim monitoring, closeout, and post-close monitoring.

- Sampled project files and conducted site visits to determine if the projects stayed within scope and cost, and to ensure that grant expenditures were allowable and supported (see Appendix A for list of projects reviewed).
- Identified and assessed the project tracking methods to determine their adequacy for monitoring projects.
- Verified the information reported to the Strategic Growth Plan Bond Accountability website¹.
- Reviewed a sample of expenditures to verify accuracy of recorded and reported financial information.
- Reviewed the reasonableness of Conservancy's administrative expenditures charged to bond funds.

We held multiple discussions with Conservancy staff throughout our audit fieldwork to discuss and provide specific project review details. Recommendations were developed based on review of documentation and interviews with Conservancy management and staff. This audit was conducted during the period May 2010 through January 2011.

Except as noted, this audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. Finance is not independent of the audited entity, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

¹ Bond accountability website address is www.bondaccountability.ca.gov .

In general, the Sierra Nevada Conservancy (Conservancy) awarded funds in compliance with applicable legal requirements and established criteria. The Conservancy has developed an annual plan, program and grant guidelines, and a strategic plan. We also noted that the Conservancy initiated efforts to improve its process by implementing a new grant management system and by hiring an auditor to assess its grant administration process and provide recommendations for improvement. Additionally, the Conservancy requires grantees to report performance measures for all projects (see Figure 3). However, we identified the following areas for improvement.

PERFORMANCE MEASURES

All grantees are required to report on performance measures for their projects.

- *Number of People Reached*
- *Dollar Value of Resources Leveraged for the Sierra Nevada*
- *Number and Type of Jobs Created*
- *Number of New, Improved or Preserved Economic Activities*

Observation 1: Monitoring Needs Improvement

The Conservancy’s project monitoring efforts need improvement to ensure compliance with Executive Order S-02-07. This requires departments to document ongoing actions necessary to ensure bond-funded projects or activities stay within the contract’s scope and cost. Our review of 25 projects disclosed the following areas for improvement:

- All 25-project files reviewed received multiple funding sources. Projects with multiple funding sources pose an inherent risk because an invoice submitted for payment could potentially be submitted to a project’s other funding source for payment as well. While the Conservancy requires applicants to disclose other project funding sources, including federal, local, and cash or in-kind contributions, there are limited controls in place to mitigate the potential for duplicate billing. The Conservancy should require grantees to specify which funding source pays for specific tasks/costs and to report information on subsequent reimbursement requests.
- The Conservancy does not ensure that earned interest on advanced funds is used towards the project or returned to the Conservancy. During site visits in Butte County, we noted a grantee retained \$448 in earned interest and was unaware of its proper disposition.
- The Conservancy’s project monitoring is inconsistent and documentation of its site monitoring activities is limited. Several project files (15 of 25) reviewed lacked complete progress or final reports. The Conservancy’s grant guidelines and grant agreements require grantees to provide progress reports every six months and a final report upon project completion documenting important milestones achieved. Additionally, while project managers are responsible for performing site visits to ensure that projects stay

within scope and cost, there is no guidance defining visit intervals, areas to review, or documentation required. Some files contained an email acknowledging that a site visit occurred, but lacked detailed information. Site visits with descriptive monitoring notations would provide the Conservancy timely and accessible information on grant performance and deliverables, and help identify, prioritize, and manage potential at-risk grantees.

Recommendations:

- A. Require grantees to specify which funding source pays for which tasks and related costs and to report earned interest on advanced funds. The Conservancy should update its reimbursement request form designating areas for other funding sources and earned interest reporting.
- B. Monitor grantees to ensure compliance with all progress and final reporting requirements.
- C. Develop and implement monitoring procedures outlining site visit intervals, areas to review, and file documentation.

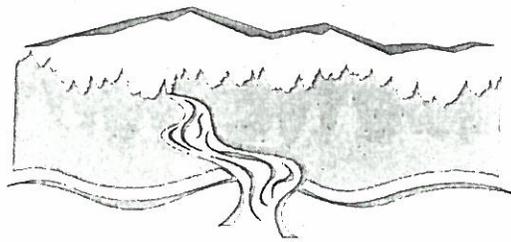
APPENDIX A

List of Projects Reviewed at the Sierra Nevada Conservancy

Project Ref #	Grantee	Project Title	Project Category	Total Project Amount
SNC 070072	High Sierra Resource Conservation and Development Council	Inventory and Geographic Reference of Firefighting Water Resources	Monitoring/Research	\$ 64,900
SNC 070133	Nevada County Resource Conservation District	Nevada County (FIRST) Community Shaded Fuelbreak and Riparian Forest Restoration Project	Site Improvement	\$ 406,000
SNC 070145	Lassen County Fire Safe Council	Susanville Fuel Reduction & Watershed Restoration Project	Site Improvement	\$ 99,999
SNC 070146	Lassen County Fire Safe Council	South Knob Sagebrush Steppe Watershed Restoration Project/Ash Valley	Site Improvement	\$ 99,999
SNC 070162	The Regents of the University of California, Berkeley, Center for Forestry	Sierra Nevada Adaptive Management Project	Planning	\$ 123,000
SNC 070167	Resources for Humanity	Filippini Ranch Riparian Restoration	Site Improvement	\$ 92,000
SNC 070176	Amador Community Foundation	Amador County Watershed Stewardship Project	Planning	\$ 173,780
SNC 070208	Alpine Springs County Water District/Alpine Meadows Fire Safe Council	Alpine Meadows Community Consolidated Fuels Reduction Project	Site Improvement	\$ 176,375
SNC 070219	Butte County Fire Safe Council	Feather Falls Shaded Fuel Break Phase III	Site Improvement	\$ 98,980
SNC 070221	Black Oak Mine Unified School District	Green Fields of Golden Sierra	Site Improvement	\$ 300,000
SNC 070222	Placer Land Trust	Canyon View Watershed and Habitat Restoration Project	Site Improvement	\$ 298,550
SNC 070225	Placer County	Squaw Valley Park Fuels Reduction and Related FireSafe Activities	Site Improvement	\$ 245,500

SNC 070229	Truckee River Watershed Council	Merrill Davies Stream and Meadow Restoration	Site Improvement	\$ 152,000
SNC 070236	California Department of Parks and Recreation	Vegetation Management: Forest Thinning, Brush Mastication and Prescribed Burning	Site Improvement	\$ 214,044
SNC 070245	Placer County Department of Public Works	US Hwy. 40 (Donner Pass Road) Shoulder Rehabilitation	Site Improvement	\$ 500,000
SNC 070246	Placer County	Hidden Falls Regional Park - Fuel Load Reduction and Related Fire Safe Activities	Site Improvement	\$ 506,207
SNC 070253	Feather River College	Feather River College Hatchery	Site Improvement	\$ 70,000
SNC 070271	Community Services Employment Training, Inc.	Tule River Environmental Review	Pre-Project Due Diligence	\$ 140,000
SNC 070295	Butte County Fire Safe Council	Defensible Space Chipper Program	Site Improvement	\$ 98,445
SNC 070311	Sierra Valley Resource Conservation District	Sierra Valley RCD Watershed Outreach Event Proposal	Education/Interpretation	\$ 8,445
SNC 070327	Mono County Community Development Department & Inyo County Planning Department	Inyo and Mono Counties Community Based Land Tenure Planning	Planning	\$ 157,550
SNC 070344	Student Conservation Association	Sierra Nevada Trails and Recreation Initiative - Planning	Planning	\$ 33,750
SNC 070345	Plumas County Fire Safe Council	Grizzly Creek Hazardous Fuel Reduction Project	Site Improvement	\$ 12,300
SNC 070357	California Trout	Eastern Sierra IRWMP Launch Project	Planning	\$ 49,663
SNC 080092	Friends of Deer Creek	Nevada City Environs Trail and Restoration Project	Site Improvement	\$ 207,345
			Total	\$4,328,832

SIERRA NEVADA CONSERVANCY



April 19, 2011

Mr. David Botelho, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

RE: DRAFT REPORT – AUDIT OF SIERRA NEVADA CONSERVANCY'S PROPOSITION 84 BOND FUNDS

Thank you for the opportunity to review and comment on the draft audit report of the Sierra Nevada Conservancy's (SNC) Proposition 84 grant program from its inception through June 2009. We appreciate your staff's review of our management practices and look forward to making recommended changes discussed below to improve the operation of our program in the future.

The SNC appreciates the report's identification of steps we've taken to improve our processes through planning, technology upgrades and a pre-audit assessment. The Conservancy accepts and welcomes the additional findings regarding the need to improve fiscal monitoring and progress tracking for our funded projects and develop more detailed controls for billing, project site visit documentation and earned interest tracking.

In keeping with the audit report recommendations, the Conservancy is reviewing existing policies and procedures and will institute corrective actions to address the draft report's observations and recommendations. For example:

Recommendation A: We are amending our reimbursement request forms within our new grant management system to require more detailed reporting on the receipt and use of non-SNC funds and/or earned interest for eligible project costs;

Recommendation B: We are reviewing our grant management policies to identify ways to become more proactive in tracking the interim and final report schedules, both as a means of gauging project progress against the timeline and as a mechanism to identify potential at-risk projects so that we may work more closely with those grantees to help them meet their project objectives and outcomes; and

Mr. David Botelho, Chief
April 19, 2011
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Recommendation C: We are developing additional internal policy guidelines, procedures and documentation tools for staff to better identify, record and make accessible critical project information gathered during pre-project site inspections and ongoing monitoring visits.

If you have any questions or require additional information regarding the SNC's response, please contact me at (530) 823-4667, or Kerri Timmer, Program Manager, at (530) 823-4683.

Sincerely,

Original signed by:

JIM BRANHAM
Executive Officer

cc: Diana Antony, Manager, DOF Office of State Audits and Evaluations
Joan Keegan, Assistant Executive Officer, Sierra Nevada Conservancy
Kerri Timmer, Program Manager, Sierra Nevada Conservancy
Angela Avery, Grants Administrator, Sierra Nevada Conservancy
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