



Transmitted via e-mail

March 7, 2017

Mr. John Donnelly
Executive Director
California Wildlife Conservation Board
1700 9th Street, 4th Floor
Sacramento, CA 95811

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

Dear Mr. Donnelly and Mr. Branham:

Final Report—California Rangeland Trust, Propositions 1E and 84 Grant Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Rangeland Trust's (CRT) Propositions 1E and 84 grants, issued by the California Wildlife Conservation Board (WCB), and the Sierra Nevada Conservancy (SNC) listed below:

<u>Grantor</u>	<u>Grant Agreement</u>	<u>Award Amount</u>
WCB	WC-1148BG	\$2,204,500
WCB	WC-1002BG	\$1,993,500
WCB	WC-1245TM	\$560,000
WCB	WC-7088CC	\$1,148,492
WCB	WC-1250LY	\$265,000
SNC	SNC No. 158	\$920,000
SNC	SNC No. 159	\$1,000,000

The enclosed report is for your information and use. CRT's response to the report finding and our evaluation of the response is incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of CRT. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Robert Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Peter Perrine, Assistant Executive Director, California Wildlife Conservation Board
Ms. Joan Keegan, Assistant Executive Officer, Sierra Nevada Conservancy
Ms. Amy Lussier, Chief Administrative Services Division, Sierra Nevada Conservancy
Mr. Patrick Eidman, Grant Administrator, Sierra Nevada Conservancy
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
Ms. Nita Vail, Executive Officer, California Rangeland Trust
Mr. Michael Delbar, Chief Operating Officer, California Rangeland Trust

California Rangeland Trust
Propositions 1E and 84 Bond Program
Grant Agreements WC-1148BG, WC-1002BG, WC-1245TM
WC-7088CC, WC-1250LY, SNC No.158, and SNC No. 159

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

MEMBERS OF THE TEAM

Susan Botkin, CGFM
Frances Parmelee, CPA
Managers

Robert Scott, MSA, CPA, CGMA
Supervisor

Staff
Alice Yip

Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

California 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), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), for \$4.09 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The California Rangeland Trust (CRT) is a non-profit rancher-governed, statewide land trust created in 1998. CRT's mission is to provide, promote and safeguard the long-term viability, and stewardship of rangeland agriculture and California natural lands.¹

CRT received five grants from the California Wildlife Conservation Board (WCB) and two grants from the Sierra Nevada Conservancy (SNC) for the amounts and purpose summarized below:

- **Grant WC-1148BG** - \$2.2 million of Proposition 1E funds for the acquisition of a conservation easement on 2,946 acres of land known as Goodwin Sierra Valley Ranch, located in the County of Plumas, California.
- **Grant WC-1002BG** - \$2 million of Proposition 84 funds for the acquisition of a conservation easement on 3,904 acres of land known as Goodwin Red Clover Valley Ranch, located in the County of Plumas, California.
- **Grant WC-1245TM** - \$560,000 of Proposition 84 funds for the acquisition of a conservation easement on 575 acres of land known as Bufford Ranch, located in the County of Kern, California.
- **Grant WC-7088CC** - \$1.1 million of Proposition 84 funds for the acquisition of a conservation easement on 1,080 acres of land known as Ecker Ranch, located in the County of Madera, California.
- **Grant WC-1250LY** - \$265,000 of Proposition 84 funds for the acquisition of a conservation easement on 2,114 acres of land known as Wilmar Ranch, located in the County of Monterey, California.
- **Grant SNC No. 58** - \$920,000 of Proposition 84 funds for the acquisition of a conservation easement on 6,862 acres of land known as Goodwin Ranch, located in the County of Plumas, California.
- **Grant SNC No. 159** - \$1 million of Proposition 84 funds for the acquisition of a conservation easement on 743 acres of land known as Maddelena Ranch, located in the County of Sierra, California.

¹ Excerpt from the California Rangeland Trust website.

SCOPE

In accordance with the California Department of Finance's bond oversight responsibilities, we audited the following grants:

Grant	Conservation Easement Acquisition Projects	Audit Period
WC-1148BG	Goodwin Sierra Valley Ranch (GSVR)	December 8, 2011 through December 8, 2012
WC-1002BG	Goodwin Red Clover Valley Ranch (GRCVR)	June 26, 2010 through June 26, 2011
WC-1245TM	Bufford Ranch	June 4, 2013 through June 4, 2014
WC-7088CC	Millerton Preserve (Ecker Ranch)	May 22, 2008 through May 22, 2009
WC-1250LY	Wilmar Ranch	June 4, 2013 through December 13, 2013
SNC No. 158	Goodwin Properties	October 25, 2010 through October 31, 2013
SNC No. 159	Maddalena Ranch	October 25, 2010 through October 31, 2013

The audit objectives were to determine whether CRT'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. Further, no assessment was performed on the reasonableness of the conservation easement value paid for each project.

CRT's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. WCB, SNC, and the California Natural Resources Agency are responsible for the state-level administration of the bond programs.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and grant requirements; and if the grant deliverables were completed as required, we performed the following procedures:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed CRT's accounting records, contracts, invoices, and payment records.
- 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.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreements.
- Evaluated whether the grant deliverables were met by reviewing supporting documents.

- Conducted a site visit to verify existence and condition of the conservation easement.

In conducting our audit, we obtained an understanding of CRT's internal controls, including any information systems controls 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 our audit and determined to be significant within the context of our audit objectives are included in this report.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, the grant expenditures claimed complied with the grant agreements' requirements. Additionally, the grant deliverables were completed as specified in the grant agreements. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant	Tasks	Claimed	Questioned
WC-1148BG	Conservation Easement Acquisition	\$2,204,500	-
WC-1002BG	Conservation Easement Acquisition	1,993,500	-
WC-1245TM	Conservation Easement Acquisition	560,000	-
WC-7088CC	Conservation Easement Acquisition	1,148,492	-
WC-1250LY	Conservation Easement Acquisition	265,000	-
SNC No. 158			
	Conservation Easement Acquisition	\$ 873,000	-
	Escrow, Title Insurance, Closing Costs	13,918	-
	Directly Related Administrative Costs	33,082	\$ 8,172
	Total	\$ 920,000	\$ 8,172
SNC No. 159			
	Conservation Easement Acquisition	\$ 953,000	-
	Escrow, Title Insurance, Closing Costs	4,232	-
	Directly Related Administrative Costs	42,714	\$10,918
	Total	\$ 999,946	\$10,918
Grand Total¹		\$8,091,438	\$19,090

Finding 1: Administrative Expenditures Totaling \$19,090 Were Unsupported

CRT claimed unsupported and ineligible personnel costs totaling \$19,090. CRT included costs in their labor rate that were not documented as directly related to the grant or were costs not yet incurred and paid. Specifically, CRT included in their labor rate direct salary/wages and benefits, an allocation of administration costs not documented as directly related to SNC grants, and a contingency amount not yet incurred and paid by CRT. Allocated indirect costs and costs not yet incurred by CRT are unsupported. Therefore, the \$19,090 unsupported amount is not eligible for reimbursement.

¹ The California Wildlife Conservation Board and SNC total awards equaled \$8,091,492; however CRT only claimed a total of \$8,091,438.

SNC Grant Agreement section J requires the grantee to maintain adequate supporting documentation to provide an audit trail that permits tracing transactions from support documentation to the accounting records to the financial reports and billings. In addition, SNC's *Managing Your Grant Handbook* (Handbook) requires personnel costs to be based on actual costs paid, time worked, and documented, approved, and signed by an official of the agency.

Recommendations:

- A. Remit \$19,090 to SNC.
- B. Ensure personnel costs reflect actual costs incurred, are supported, and conform to the requirements of the grant agreement.

CALIFORNIA
RANGELAND
Trust

January 30, 2017

Ms. Jennifer Whitaker
Chief, Office of State Audits and Evaluations
State of California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Whitaker:

The California Rangeland Trust appreciates the opportunity to respond to the Department of Finance (Department) audit report for funds received through Propositions 1E and 84. The Rangeland Trust also appreciates the work performed by Department staff in reviewing the records and documentation pertaining to the seven grants received, which totaled \$8,091,438. We believe that a thorough accounting for public funds expended in support of Propositions 1E and 84 is critical to ensure the people of California that their dollars are spent appropriately.

The California Rangeland Trust is a 501(c)(3) nonprofit corporation whose mission is to conserve California's working ranches that provide stewardship, open space, and natural habitat for future generations. To date, the Rangeland Trust has permanently conserved over 291,000 of working California rangelands, protecting the open space, air and water quality, wildlife habitat, and economic and cultural benefits they provide to the people of the Golden State.

The Rangeland Trust was awarded the seven grants in the years 2008, 2010, and 2013. Collectively, these grants allowed the Rangeland Trust to conserve 11,374 acres of working acres on six family ranches in five counties. This was possible due to the support of the people of California through the passage of Proposition 1E and Proposition 84, both from 2006.

While Rangeland Trust appreciates the work performed by the Department's audit team, we respectfully disagree with the report's finding (Finding 1). We will note that, of the \$8,091,438 received, only \$19,090 is in dispute. This amount pertains to the administrative costs claimed through Grants SNC No. 158 and SNC No. 159.

During the field work performed in our Sacramento office by the Department's audit staff, a question was raised regarding the method in which Rangeland Trust determines the hourly billing rates for staff working on the projects covered by these grants. Rangeland Trust provided

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the auditor with a breakdown that included the salary, benefits, taxes, and administrative expenses that collectively determine the billing rates. Subsequent to the completion of the field work, Rangeland Trust was informed by the auditor that a portion of the personnel costs claimed through the grants was done so incorrectly. We were referred to the Sierra Nevada Conservancy's (SNC) "Managing Your Prop 84 Grant Handbook" (Handbook), located on the SNC website. The Handbook does in fact state on page 13, that personnel costs should contain only the direct compensation for salaries and fringe benefits. The Handbook further defines on page 14, the eligibility of administrative costs. Rangeland Trust acknowledges the reporting error by combining the eligible administrative costs with the personnel costs.

After discussing this error with Department staff on October 24, 2016, Rangeland Trust submitted documentation developed by our Certified Public Accountant in accordance with the Handbook, specifically Addendum G. The documentation taken from the Organization's audited financial reports, showed the Rangeland Trust administrative expense, less all payroll related expenses, to be \$235,582. When proportioned to the conservation unit of the organization (52%), the administrative costs for conservation activities is \$122,503. Please refer to the attached Cost Allocation Plan for the financial details.

However, the Handbook does specifically allow administrative expenses to be charged to the grants. While Rangeland Trust did claim the administrative costs, we erred in the manner in which we reported them. The administrative costs themselves are allowed. Therefore, we believe we our request of \$19,090 was an allowable expense and was calculated as follows:

The Rangeland Trust processed and closed eight conservation projects that time period, and the Maddalena and Goodwin Ranches accounted for 33% of the direct staff costs with these eight projects. Therefore, the administrative costs proportionately allocated to the projects covered by the SNC grants is \$39,916. The amount of administrative costs charged against both Grants is \$19,090, \$20,826 less than what was actually allocated internally to these projects. In terms of the total grants awarded, this equates to an administrative expense of approximately 1%. These administrative costs include office building costs, maintenance, utilities, insurance, supplies, etc., all necessary for the Rangeland Trust staff to exist and complete the conservation projects that support the organization's mission.

Exhibit A of the Grant Agreements show a table of costs allocated by the grant, including "Rangeland Trust Directly Related Administrative Costs". While the Handbook clearly provides for the inclusion of administrative costs, the Department is taking a restrictive interpretation of

Ms. Jennifer Whitaker

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the Grant Agreement as only allowing "Directly Related" administrative costs when in fact the Handbook and the Grant Agreements indicate the amount allowed in this line item includes personnel and administrative costs. We therefore respectfully disagree with this restrictive interpretation and refer to the SNC's own Handbook and permissive allowance of administrative costs for reimbursement under the Grants.

The California Rangeland Trust believes that we have provided the necessary documentation to justify the administrative costs applied to SNC Grants 158 and 159. We thank the Department again for their work to ensure responsible disposition of the grant funding, but reiterate that we respectfully disagree with Finding 1 and rely upon the Handbook for the definition of allowed administrative costs. Should you have any questions, please contact Michael Delbar, COO, at 916.444.2096.

Sincerely,

// Original Signed By: //

Nita Vail

Chief Executive Officer

2010-2011 Administration Cost Allocation

Project	Staff Trans Costs	Percent of Total
SLO	\$ 6,088	7%
Madera	\$ 19,150	21%
Yolo	\$ 6,375	7%
Monterey	\$ 4,000	4%
Merced	\$ 25,752	28%
<i>Maddalena</i>	\$ 13,158	14%
<i>Goodwin Red Clover</i>	\$ 10,365	11%
<i>Goodwin Sierra Valley</i>	\$ 6,136	7%
Total for Grant Projects		33%
Total	\$ 91,024	100%

Per 2010-11 Audited Financial Statements

Total Administrative Expenses	\$ 826,308.00
Less Allocated to Program Expense	<u>(126,065.00)</u>
Total Admin Expenses	700,243.00
Less Payroll and Benefits	<u>(464,661.00)</u>
Net Administrative Cost	<u><u>235,582.00</u></u>

Organizational Cost Distribution

Conservation Projects Unit	52%
Stewardship Unit	16%
Fund Development Unit	32%

Administrative Costs Allocated to Grant Projects

Net Administrative Cost for Year	\$ 235,582
Multiplied by Conservation Projects Unit	<u>52%</u>
Net Admin Costs to be Allocated	\$ 122,503
Proportional to Grant Projects	<u>33%</u>
Administrative Costs Allocated to Grant Projects	\$ 39,916
Applied to Grants	<u>\$ 19,090</u>
Administrative Costs Not Reimbursed	<u><u>\$ 20,826</u></u>

EVALUATION OF RESPONSE

CRT's response to the draft report has been reviewed and incorporated into the final report. In evaluating CRT's response, we provide the following comments:

Finding 1: Administrative Expenditures Totaling \$19,090 Were Unsupported

CRT disagrees with our finding stating that indirect administrative expenditures are an allowable reimbursable expense per the Handbook. While the Handbook may specify that indirect administrative expenditures are allowable; the CRT's grant agreement does not include a budget line item for these types of expenses. Per the Handbook, CRT's budget line item "Directly Related Administrative Expenses" limits reimbursement to only directly related administration costs, which includes salaries, wages, and benefits paid for staff time spent directly on grant related activities. Therefore, the report finding and recommendation will remain unchanged. For clarity, we revised the Results Schedule of Claimed and Questioned Amounts "Tasks" line items to specify Directly Related Administrative Costs for grants SNC No. 158 and SNC No. 159.