



Transmitted via e-mail

March 8, 2017

Mr. John Laird, Agency Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812

Dear Mr. Laird and Mr. Howard:

Final Report—City of Pacific Grove, Proposition 84 Grant Audit

The California Department of Finance, Office of State Audits and Evaluations, has completed its audits of the following City of Pacific Grove (City) grants awarded by the State Water Resources Control Board (SWRCB) and the California Natural Resources Agency (Resources):

<u>Grantor</u>	<u>Agreement Number</u>	<u>Award Amount</u>
Resources	U59213-0	\$ 240,000
SWRCB	10-406-550	\$2,143,828
SWRCB	14-456-550	\$3,289,276

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

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Chikako Takagi-Galamba, Manager, or Sherry Ma, 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. 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. Leslie Laudon, Assistant Deputy Director, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Ms. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board
Mr. Josh Ziese, Loans and Grants Section, Division of Financial Assistance, State Water Resources Control Board
Mr. Lance Reese, Loans and Grants Administration, Division of Financial Assistance, State Water Resources Control Board
Mr. Ben Harvey, City Manager, City of Pacific Grove
Mr. Daniel Gho, Public Works Director, City of Pacific Grove
Ms. Patricia Maitland, Finance Director, City of Pacific Grove

City of Pacific Grove
Proposition 84 Bond Program
Grant Agreements U59213-0,
10-406-550, and 14-456-550



Hopkins Marine Lab in Pacific Grove, CA

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

MEMBERS OF THE TEAM

Chikako Takagi-Galamba, CGPM
Manager

Sherry Ma, CRP
Supervisor

Staff
Erick Ramirez
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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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915 L Street, 6th Floor
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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

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

The City of Pacific Grove (City) received the following grants:

- **Urban Greening Program (Grant U59213-0)**—The California Natural Resources Agency (Resources) awarded \$240,000 to develop an Urban Greening plan to include watershed modeling to identify opportunities to include trees, bio-retention, and water catchment features to reduce storm water runoff and improve water quality. In addition, the plan will inventory the existing urban forest and identify areas that can be irrigated via captured storm water.
- **Urban Runoff Diversion-Phase III (Grant 10-406-550)**—The State Water Resources Control Board (SWRCB) awarded \$2,143,828 to reduce the volume of storm water entering the Hopkins Marine Lab and the Pacific Marine Gardens Area of Special Biological Significance at the City of Pacific Grove on the Monterey Bay, to improve water quality.
- **Lovers Point Beach Water Quality Improvement Initiative (Grant 14-456-550)**—SWRCB awarded \$3,289,276 to complete storm drain infrastructure and sanitary sewer infrastructure improvements including replacing storm drains, manholes, catch basins, and a portion of sanitary sewers within the Lovers Point watershed.

SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>
U59213-0	December 1, 2012 through November 30, 2016 ¹
10-406-550	May 15, 2011 through November 30, 2016 ²
14-456-550	September 1, 2014 through November 30, 2016 ¹

The audit objectives were to determine whether the City’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. Due to projects in progress at the time of

¹ An interim audit was conducted on grants U59213-0, and 14-456-550 as the grant period ends March 1, 2017, and October 31, 2017, respectively.

² An interim audit was conducted on grant 10-406-550 as the grant period ended October 31, 2016; however, final payment was not processed as of December 2016, the date of our fieldwork.

our fieldwork in December 2016, Final Delivery Reports were not available for our review. We did not assess the efficiency or effectiveness of program operations.

The City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. SWRCB and Resources are responsible for the state-level administration of the bond program.

METHODOLOGY

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

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the City's accounting records, contractor invoices, contracts, and check registers.
- 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 a sample of grant deliverables available for review were met by reviewing documentation, such as designs stamped by the City Engineer and Notice of Completions, and performing site visits.

In conducting our audit, we obtained an understanding of the City'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, implemented, and operating effectively. 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 grants' requirements. Additionally, the grant deliverables available for review at the time of our fieldwork in December 2016 were completed as specified in the grant agreements. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Grant Agreement U59213-0		
Task	Claimed ¹	Questioned
Tree Inventory	\$ 72,674	\$ 3,173
Landscape Guidelines and Plant Palette	10,060	0
Draft Landscape Ordinance	29,995	1,020
Total Grant Funds*	\$ 112,729	\$ 4,193

* No match funds have been claimed.

Grant Agreement 10-406-550		
Task	Claimed ²	Questioned
Personnel Services	\$ 121,995	\$ 121,995
Operating Expenses	1,272	0
Professional and Consultant Services/Construction	1,446,273	0
Total Grant Funds	\$ 1,569,540	\$ 121,995
Match Funds	\$ 1,425,000	0
Total Project Expenditures	\$ 2,994,540	\$ 121,995

Grant Agreement 14-456-550		
Task	Claimed ³	Questioned
Direct Project Administration	\$ 24,155	\$ 24,155
Planning/Design/Engineering/Environmental	201,133	26,566
Construction/Implementation	669,373	0
Total Grant Funds	\$ 894,661	\$ 50,721
Match Funds	\$ 58,646	0
Total Project Expenditures	\$ 953,307	\$ 50,721

Finding 1: Labor Costs Not Adequately Supported

The City claimed a total of \$150,343 in labor costs that were not adequately supported. Specifically, timesheets submitted did not track labor hours by grant projects; therefore, the City

¹ Resources awarded \$240,000; however, the grantee claimed \$112,729 as of November 30, 2016.

² SWRCB awarded \$2,143,828; however, the grantee claimed \$1,569,540 as of November 30, 2016.

³ SWRCB awarded \$3,289,276; however, the grantee claimed \$894,661 as of November 30, 2016.

cannot ensure that hours charged to the grant projects were spent working on grant-related activities. Calendars were used by employees to track time spent on grant projects; however, they were not available because the employees were no longer employed with the City and copies were not retained. The City does not have formal timekeeping policies and procedures that require employees to track time spent on projects. As a result, claimed labor costs totaling \$150,343 were questioned as unsupported.

Grant Agreement	Questioned Labor Costs
U59213-0	\$ 4,193
10-406-550	\$121,995
14-456-550	\$ 24,155
Total	\$150,343

Grant 10-406-550, Exhibit B states reimbursements must be adequately supported. Grant 14-456-550 Program Guidelines, Appendix A, Reimbursable Costs, also state that reimbursable costs must be directly related to the Project and adequately supported. Additionally, grant U59213-0 Program Guidelines, Appendix E, Eligible Costs state that costs charged to the plan development must be computed on actual time spent on the plan development and evidenced by time and attendance records describing the work performed on the plan development as well as payroll records. Further, the grant agreements state supporting documentation should be maintained by the grantee for audit for a minimum of three years after the final payment has been issued.

Recommendations:

- A. Remit \$4,193 to Resources and \$146,150 (\$121,995 + \$24,155) to SWRCB, respectively, for unsupported labor costs.
- B. Ensure labor costs claimed are supported with documentation that accurately reflects actual employee time spent working on grant projects. Documentation should be maintained and available for audit per the record retention requirements of the grant agreements.

Finding 2: Expenditure Claimed Twice for Reimbursement

A contractor invoice for grant 14-456-550 was claimed twice for reimbursement. The same contractor invoice totaling \$26,566 (dated February 16, 2016 for work performed October 2015 through December 2015) was claimed on reimbursement invoice Nos. 5 and 6 submitted to SWRCB. The City does not perform secondary level reviews of reimbursement invoices before submitting to the grantor. A secondary review would provide additional oversight and assist in detecting errors. The grant agreement states that reimbursement for grant funds must be adequately supported.

Recommendations:

- A. Remit \$26,566 to SWRCB for duplicate claimed expenditures.
- B. Develop and implement review and approval processes over the reimbursement claim, such as a secondary level of review, to ensure expenditures reported to the grantor are accurate, eligible, incurred, and supported.



CITY OF PACIFIC GROVE

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February 22, 2017

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

Re: Draft Report – City of Pacific Grove, Proposition 84 Grant Audit

Dear Ms. Whitaker:

This responds to your letter of February 15, 2017 regarding the Draft Report for the City of Pacific Grove Proposition 84 Grant Audit, Grant Agreements U59213-0, 10-406-550, and 14-456-550 (the Draft Report). The following replies to the specific findings listed in the Draft Report prepared by Erick Ramirez and Kathleen Wong of your office who conducted the audit in the City of Pacific Grove on December 13-15, 2016 and December 19-20, 2016.

The following responds to the specific findings for each of the three grants audited. Although the Draft Report consolidates the findings under Finding 1, there are three distinct grant agreements that control and require separate treatment for each questioned amount.

FINDING 1: LABOR COSTS NOT ADEQUATELY SUPPORTED

Grant Agreement U59213-0, Pacific Grove Urban Greening Plan

Finding 1 states that the City claimed labor costs that were not adequately supported in the amount of \$4,193. The amount was questioned because:

“...labor costs that were not adequately supported. Specifically, timesheets submitted did not track labor hours by grant projects; therefore, the City

cannot ensure that hours charged to the grant projects were spent working on grant-related activities. Calendars were used by employees to track time spent on grant projects; however, they were not available because the employees were no longer employed with the City and copies were not retained. The City does not have formal timekeeping policies and procedures that require employees to track time spent on projects.”

Section C.2.b. of the U59213-0 Grant Agreement, Project Costs, Payment Documentation states:

“...any payment request that is submitted without the required itemization and documentation will not be authorized. If the payment request package is incomplete, inadequate or inaccurate, the State will inform the Grantee and hold the payment request until all required information is received or corrected.”

Tree Inventory Amount Questioned = \$3,173

The City submitted two Payment Request Forms to the Grantor, the California Natural Resources Agency (CNRA). The initial payment request in the amount of \$72,674 was for the Tree Inventory prepared by the contractor Davey Resources Group (excluding a \$2,326 reserve of funds for completion of a Tree Inventory Database to be completed by City Staff). This payment request was accompanied by a Grantee Labor Cost Form of hours worked from May 22, 2015 through September 16, 2015 by City staff Daniel Gho, Public Works Director, Jessica Kahn, City Environmental Programs Manager, and Caleb Schneider, City Administrative Technician in the amount of \$3,172.83. On November 6, 2015, Patty Maitland, Finance Director and Chief Financial Officer for the City, certified the compensation and direct Project Management costs for the Grantee Labor. In a letter dated December 28, 2016 to Brad Juarros, Grant Administrator for the CNRA, Jessica Kahn provided clarification regarding City Staff Timesheets and provided the shared calendar view that tracked Grantee Labor direct project hours.

No additional information or documentation was requested of the City, and payment for Grantee Labor in the amount of \$3,173 was included in the reimbursement received from Grantee on February 17, 2016. At no time after December 28, 2016, did Grantor indicate that the City’s labor costs tracking methodology was in any way deficient. Had Grantee made such an indication, the City would have promptly complied with Grantor’s request. Therefore, the City respectfully declines to remit the \$3,173 in question.

Draft Landscape Ordinance Amount Questioned = \$1,020

The City submitted the second Payment Request Form to CNRA on April 19, 2016. The payment request included a Grantee Labor Cost Form in the amount of \$1,019.84 stating direct project hours worked by Jessica Kahn, for the period July 1, 2015 through April 7, 2016. On April 11, 2106, the Finance Director certified the compensation and direct Project Management costs for Grantee Labor. Again, no additional clarification or documentation was requested by Grantor, and the City would have provided such documentation in order to cure any deficiencies in its submission had it know of its existence. The Grant Agreement specifies the manner and form of payment requests. Pursuant to Section C.2.b. of the Grant Agreement, the City relied on the

“...State to inform” it that payment would be held until “...all required information [was] received or corrected”. The City received no such request from Grantor.

As rationale for Finding 1 as it pertains to the U59213-0 grant, the Draft Audit states:

“U59213-0 Program Guidelines, Appendix E, Eligible Costs state that costs charged to the plan development must be computed on actual time spent on the plan development and evidenced by time and attendance records describing the work performed on the plan development as well as payroll records. Further, the grant agreements state supporting documentation should be maintained by the grantee for audit for a minimum of three years after the final payment has been issued.”

The City challenges this rationale as specious. During the audit period, the City provided approximately 6.5GB of data to the audit team, approximately 300 pages of original documents, and finance system generated reports for accounts payable and payroll. This compendium of documentation is not only physical proof of direct project hours, but was retained by the City in compliance with the three year requirement specified in the Program Guidelines. The City takes exception to this inaccurate characterization of its records and respectfully declines to remit the \$1,020 in question.

Grant Agreement 10-406-550, Proposition 84 ASBS

Personnel Services Amount Questioned = \$121,995

Finding 1 includes Grant Agreement 10-406-550 and questions Personnel Services in the amount of \$121,995. As rationale for Finding 1 (as it pertains to the 10-406-550 grant), the Draft Audit states: “Grant 10-406-550, Exhibit B states reimbursements must be adequately supported.” The term “adequately supported” is not further defined in the agreement.

From the period of May 2012 through September 2016, the City submitted 19 quarterly progress reports that included requests for reimbursements. Submitted with each progress report was, pursuant to State Water Board Grant Agreement No. 10-406-550, Exhibit B, Section G. Reports, Subsection 1b., as amended, an invoice that reflected “charges for the work completed during the reporting period covered by the progress report.” The quarterly reports over the four years and four months in which they were filed, included Grantee Labor Certification statements. The City surmises the documentation it provided was deemed “adequately supported” by the State as it received approximately \$1.9M in reimbursement funds and expended \$1,425,000 in matching funds to complete the project work.

State Water Board Grant Agreement No. 10-406-550, Exhibit C, General Terms and Conditions, Subsection 36, Termination, Immediate Repayment, Interest, as amended, provides the State with a remedy for violation of the agreement that has been brought to the City’s attention and continues to be non-complaint. At no time during the term of the agreement was the City informed that it was in any manner non-compliant with either the agreement or any requirements the Grantor might request. Had the City been made aware of any deficiencies in the 19 progress reports and invoices it submitted to the State, it would have cured the deficiencies. Further,

pursuant to Subsection 48, if the City "...materially violated, or threatens to materially violate, any term, provision, condition, or commitment" of the agreement the Grantor could have withheld grant disbursements. The State did not invoke this right and therefore, the City surmised that it was in full compliance with its obligations under State Water Board Grant Agreement No. 10-406-550. The City finds the attempt by the State to recover \$122K in funds, post-completion, and after the expenditure of over \$3.5M disingenuous. Therefore, the City respectfully declines to remit the \$121,995 in question.

FINDING 2: EXPENDITURE CLAIMED TWICE FOR REIMBURSEMENT

The City is in agreement with this finding for the Clean Beaches Grant Agreement 14-456-550 (total grant amount \$3,289,276). A reimbursement request for a single contractor invoice in the amount of \$26,566 was inadvertently submitted twice for reimbursement. The City will remit \$26,566 to the State Water Resources Control Board.

If you have any questions regarding the above, please contact Patricia Maitland, the City of Pacific Grove's Finance Director, at pmaitland@cityofpacificgrove.org, or, 831-648-3103.

Sincerely,

Signed By:

[ORIGINAL SIGNED BY B.J. HARVEY]

B. J. Harvey, City Manager

Prepared By:

[ORIGINAL SIGNED BY P. A. MAITLAND]

P.A. Maitland, Finance Director

EVALUATION OF RESPONSE

The City's response to the draft report has been reviewed and incorporated into the final report. We acknowledge the City's willingness to implement our recommendations specific to Finding 2. In evaluating the City's response, we provide the following comments:

Finding 1: Labor Costs not Adequately Supported

The City disagrees that supporting documentation of labor costs were not provided. The City states Resources and SWRCB had not informed them of non-compliance with either the agreements or any requirements regarding their labor costs tracking methodology during the grant period. However, all grant agreements contain language in which the City is required to maintain adequate supporting documentation for costs claimed. Because the City did not provide additional supporting documentation to support the labor costs, the finding and recommendations will remain unchanged.

Additionally, to provide further clarity, the Results were modified to state that the grant deliverables available for review at the time of our fieldwork in December 2016 were completed as specified in the grant agreements. The Background, Scope and Methodology section has been updated accordingly. No other changes to the final report were made.