



Transmitted via e-mail

May 11, 2012

Mr. Mark Nechodom, Director
Department of Conservation
801 K Street, MS 24-01
Sacramento, CA 95814

Dear Mr. Nechodom:

Final Report—Audit of Department of Conservation's Bond Funds

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Conservation's (DOC) Propositions 12, 40, 50 and 84 bond funds for the period July 1, 2007 through June 30, 2011.

DOC's response to the report observations are incorporated into this final report. DOC agreed with our observations and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

A detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 90 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies.

We appreciate the assistance and cooperation of DOC. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or John Chapple, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. Tom Gibbs, Deputy Director, Department of Conservation
Mr. John Lowrie, Acting Assistant Director, Division of Land Resource Protection,
Department of Conservation
Mr. David Thesell, Deputy Chief, Division of Land Resource Protection, Department of
Conservation
Mr. Gregory Lee, Accounting Administrator, Department of Conservation
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Patrick Kemp, Secretary for Administration and Finance, California Natural Resources
Agency

AN AUDIT OF BOND FUNDS

Department of Conservation Propositions 12, 40, 50 and 84 Bond Programs



Source: www.conservation.ca.gov

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

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EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the Department of Conservation's (DOC) Propositions 12, 40, 50 and 84 funding as of June 30, 2011. The audit objectives were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, if adequate project monitoring processes are in place, and if projects and activities funded from bond proceeds are being reported accurately and timely. Specifically, our audit focused on the California Farmland Conservancy Program and the Watershed Coordinator Grant Program. Additionally, we followed-up on a prior observation included in our April 2008 audit report.

In general, DOC awarded funds in compliance with applicable legal requirements and established criteria. DOC established several key accountability processes, including comprehensive grant guidelines, competitive awarding processes, and established project reporting requirements. However, we noted the following observations:

- Monitoring controls over the Watershed Program should be improved.
- Long-term monitoring procedures for agricultural conservation easements have not been finalized.

DOC'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

BACKGROUND¹

Between March 2000 and November 2006, California voters passed four bond measures totaling \$13.5 billion:

Table 1: Bond Measures

March 2000 ballot	March and November 2002 ballots	November 2006 ballot
<ul style="list-style-type: none">•Proposition 12: Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	<ul style="list-style-type: none">•Proposition 40: California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002•Proposition 50: Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	<ul style="list-style-type: none">•Proposition 84: Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006

These propositions authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from these bonds support 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 also disbursed to federal, state, local, and non-profit entities in the form of grants, contracts, and loans.

Department of Conservation

The Department of Conservation (DOC) administers programs to preserve agricultural and open space lands, evaluate geology and seismology, and regulate mineral, oil, and gas development activities. Three major agricultural and open space land programs administered by DOC (through its Division of Land Resource Protection) are:

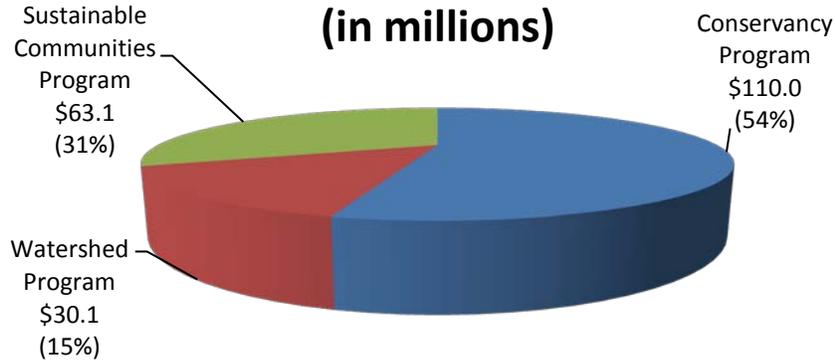
- California Farmland Conservancy Program
- Watershed Coordinator Grant Program
- Sustainable Communities Planning Grants and Incentives Program

DOC was allocated \$203.2 million of bond funds to support these three programs (see Figure 1) and as of March 31, 2011, a total of \$54.7 million was expended (see Figure 2).

¹ Sections of the *Background* are from the Department of Conservation's website, www.conservation.ca.gov.

FIGURE 1

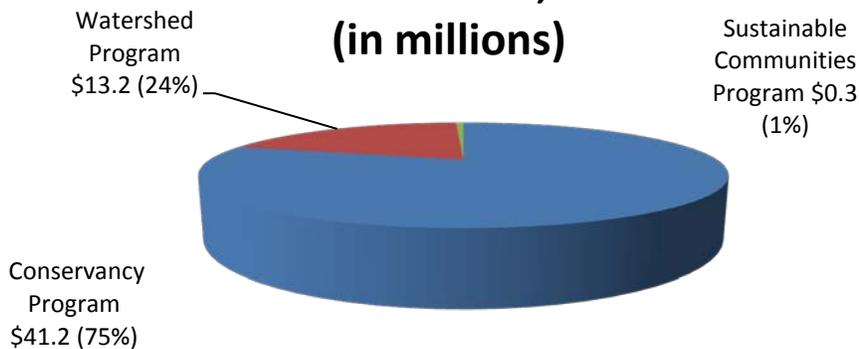
**Bond Funds Allocated by Program
As of March 31, 2011
(in millions)**



Source: *Public Resources Code and Water Code for Propositions 12, 40, 50 and 84; Strategic Growth Council 2011 Annual Report; Department of Conservation, Budget Office*

FIGURE 2

**Bond Expenditures by Program
As of March 31, 2011
(in millions)**



Source: *Department of Conservation, Division of Land Resource Protection*

California Farmland Conservancy Program

The California Farmland Conservancy Program (Conservancy Program) provides grants to local governments and qualified nonprofit organizations to purchase conservation easements on agricultural lands. The easements protect agricultural land from conversion into a residential, commercial, or industrial real estate development. These easements allow for agricultural management and improvements while restricting nonagricultural construction. With the easements in place, DOC can plan and develop land use policy and projects. The Conservancy Program is designed to work in concert with local planning and zoning strategies to conserve agricultural land. In addition, the planning/technical assistance grants further facilitate local

efforts in developing and expanding farmland conservation strategies, including facilitating strategic easement acquisitions. The Conservancy Program continues to complete additional agricultural land conservation projects utilizing bond grant funding.

Watershed Coordinator Grant Program

The Watershed Coordinator Grant Program (Watershed Program) funds watershed coordinator positions in order to facilitate collaboration among diverse stakeholders, build coalitions for watershed work, secure additional funding for watershed projects, and initiate watershed improvement projects. The Watershed Program uses a coordinated approach to planning and management to improve and sustain watersheds throughout the state, offering organizations a unique opportunity to work cooperatively with other organizations.

Sustainable Communities Planning Grants and Incentives Program

The Sustainable Communities Planning Grants and Incentives Program (Sustainable Communities Program) provides Proposition 84 grant funds to foster the development of sustainable communities throughout California. The program is administered by DOC on behalf of the Strategic Growth Council and is designed to help local governments meet the challenges of adopting land use plans and integrating strategies in order to transform communities and create long term prosperity. Sustainable communities shall promote equity, strengthen the economy, protect the environment and promote healthy, safe communities. A primary goal of this program is to develop and implement plans that reduce greenhouse gas emissions.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we conducted this audit to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, if adequate project monitoring processes are in place, and if bond-funded projects and activities are being reported accurately and timely.

Our scope was limited to two programs: the Conservancy Program and the Watershed Program. Although we gained an understanding of the Sustainable Communities Program, this program was not part of our scope because only a minimal amount of bond funds was expended at the time of our audit. The audit period included transactions and controls from July 1, 2007 through June 30, 2011.

Our previous audit focused on the Conservancy Program due to the large amount of expenditures. As such, our focus was to determine if awarded bond funds of completed projects were expended in accordance with the Conservancy Program requirements and if expended grant funds resulted in the purchase of conservation easements. We also followed-up on the prior observation to determine if it was adequately addressed. For the Watershed Program, the audit focused on the award process and whether bond funds were expended in compliance with grant guidelines and other relevant criteria. In addition, we determined if expected deliverables were completed as required.

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. Further, no assessment was performed of the reasonableness of the land acquisition/easement costs, conservation value of land acquired, or projects completed.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, whether adequate project monitoring processes are in place, and whether information is timely and accurately reported, we performed the following procedures:

- Reviewed applicable bond acts, legal provisions, regulations and DOC's grant management policies, procedures, and program guidelines.
- Reviewed internet resources including DOC's website to gain an understanding of the bond-funded programs.
- Interviewed key personnel responsible for administering bond funds to obtain an understanding of how DOC oversees various project stages: pre-award, award, interim monitoring, close-out, and post-close monitoring.
- Followed up on the observation included in our April 2008 audit.
- Reviewed bond administrative costs for reasonableness.
- Verified the information reported on the Strategic Growth Plan Bond Accountability website.²
- Reviewed a sample of DOC and grantee grant project files and accounting records.
- Identified and assessed DOC project tracking methods to determine their adequacy for monitoring projects.
- Performed site visits of 16 selected grantees which encompassed 17 bond-funded projects, conducted interviews of key grantee staff, and reviewed supporting documentation for compliance with the grant agreements.
- Assessed key controls—at DOC and selected grantees—to ensure the controls were working as intended over bond expenditures.

Recommendations were developed based on review of documentation made available to us and interviews with DOC's management and key staff directly responsible for administering bond funds. This audit was conducted from July 2011 through March 2012.

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 DOC, as both are part of the State of California's Executive Branch.

² Bond accountability website address is www.bondaccountability.com.

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.

During our audit, we determined bond funds were awarded in compliance with applicable legal requirements and established criteria. DOC has established several key accountability processes, such as comprehensive grant guidelines, competitive awarding processes, and established project reporting requirements. In addition, good lines of communication exist between the grantees and DOC. For the Conservancy Program, expended bond funds resulted in the purchase of conservation easements.

To further improve bond accountability, we noted the following observations and recommendations:

Observation 1: Watershed Program's Project Monitoring Needs Improvement

Although project monitoring controls are designed and implemented, we found instances where such controls were not always working as intended, resulting in questioned costs. Specifically, we questioned \$476,221 (19 percent of claimed amounts) because the reimbursements were for over-claimed, unsupported, and/or ineligible expenditures. Grantees were not always in compliance with grant agreement requirements.

Based on established criteria (see Appendix B), our review of 17 grants under the Watershed Program identified key areas needing improvement. See Appendix A for a summary of our results and Appendix C for individual grant results.

- *Match expenditures were not adequately supported and/or untimely reported.* 6 of 17 projects (35 percent) did not have adequate support for claimed match expenditures. For example, Central Coast Wine Growers and Coastal San Luis Resource Conservation District did not provide adequate supporting documentation for reported match expenditures of \$205,849 and \$105,466, respectively. The grant agreements require documentation proving all match contributions. Additionally, 4 of 17 (24 percent) projects did not report match expenditures in a timely manner. The grant agreements require grantees to report match expenditures as they are expended. Although the grantees incurred match expenditures as projects were ongoing, grantees did not report the expenditures to DOC. Instead, the grantees waited to report match expenditures at or near the project's completion date. This practice does not provide DOC timely assurance the project will be completed within scope and costs.

- *Salaries and benefits were over-claimed and/or not adequately supported.* 5 of 17 projects (29 percent) over-claimed or did not have adequate supporting documentation for claimed salary and benefits expenditures. For example, Sonoma Ecology Center reported hourly rates for reimbursement which were higher than the actual rates paid, resulting in over-claimed salaries of \$11,900. For the Arroyo Seco Foundation, we could not reconcile amounts reported for reimbursement to accounting records and bank statements to confirm actual payment of the expenditures, resulting in unsupported salaries and benefits of \$32,083.
- *Administrative costs were not adequately supported.* For 3 of 17 projects (18 percent), administrative costs were not supported with adequate documentation.

According to DOC's *Watershed Coordinator Grants Request for Proposals* (2007 version), administrative costs are allowable up to 15 percent of funding, subject to verification. However, at the time of our site visits, the grantees could not provide supporting documentation, such as a cost allocation plan. Therefore, we were unable to determine reasonableness and equitable distribution of administrative costs charged to bond-funded projects.

- *Deliverables were not fully met.* For 3 of 17 projects (18 percent), deliverables were not completed or grantees do not anticipate completing them, as required by the grant agreements. Specifically:
 - Deer Creek Watershed Conservancy: This grantee expressed difficulty in completing work plan objectives due to a lack of support from its match vendors. For example, the grantee will not be able to complete its flood management plan because the match vendor is unable to offer vital assistance with the work efforts.
 - Arroyo Seco Foundation: This grantee expressed concerns over completing some of its work plan objectives as a result of the bond funding freeze³ and high turnover in its watershed coordinator position.
 - El Dorado Irrigation District: Similar to Arroyo Seco Foundation, this grantee has expressed concerns over completing several work plan objectives due to the bond funding freeze. The grantee expressed these concerns to DOC in a letter outlining the objectives that would not be met.

As the administrator of bond funds, it is imperative DOC monitor these projects to ensure funds are used for the intended purposes and that deliverables are met. Without proper oversight, DOC is at risk that its projects are not within scope and costs, or do not achieve the intended outcomes.

Recommendations

- A. Determine whether to recover or offset the questioned costs against any future reimbursement claims.

³ On December 18, 2008, the Department of Conservation was directed to cease all bond-funded disbursements. Although disbursements were eventually allowed, this caused many projects to be delayed, suspended, or modified.

- B. Prior to payment approval, ensure submitted reimbursement claims are supported and valid.
- C. Continue to work with the grantees to ensure work plan objectives are completed as required. Amend the work plan objectives, if necessary.

Observation 2: Uncorrected Previous Observation Related to the Conservancy Program

As previously identified in our April 2008 audit report, DOC's Conservancy Program lacks monitoring procedures to protect the state's long-term interest in the agricultural conservation easements. Since then, DOC has worked on procedures to correct our observation. DOC indicated it has developed proposed procedures which are currently being reviewed by its management team.

As the administrator of bond funds, DOC should take a proactive role in ensuring long-term monitoring over bond-funded land acquisitions. With proper ongoing monitoring in place, prompt corrective actions can be taken and costly expenses may be avoided.

Recommendation

- A. Once approved by management, implement policies and procedures regarding the state's long-term interest in agricultural conservation easements. Monitor/reassess the procedures on a periodic basis and revise, if necessary.

APPENDIX A

Summary of Grants Reviewed and Questioned Costs

Grantee Name	Grant Amount	Claimed Amount	Questioned Amount	Deliverables Met	Questioned Match	Match Timely Reported	Appendix C Page
Arroyo Seco Foundation	\$ 343,629	\$ 175,725	\$ 55,004	P	\$ -	Y	C-1
California Land Stewardship Institute	143,520	111,699	-	Y	7,079	Y	C-2
Central Coast Wine Growers Association Foundation, Inc.	337,003	81,095	42,343	Y	205,849	Y	C-3
Coastal San Luis Resource Conservation District	244,027	198,995	7,887	Y	105,466	Y	C-4
Deer Creek Watershed Conservancy	207,561	149,533	19,504	P	2,540	N	C-5
El Dorado Irrigation District	240,350	97,472	-	P	-	Y	C-6
Friends of Deer Creek	230,396	168,285	-	Y	-	Y	C-7
Napa County Resource Conservation District	268,843	104,773	-	Y	-	Y	C-8
Natural Heritage Institute	240,177	169,156	-	Y	-	N	C-9
San Gabriel Valley Council of Governments	223,819	140,873	-	Y	-	Y	C-10
Sonoma Ecology Center	288,805	172,329	11,900	Y	-	Y	C-11
South Yuba River Citizens League	226,748	134,416	-	Y	-	N	C-12
Tehama County Resource Conservation District	211,567	169,401	693	Y	5,400	N	C-13
The Watershed Project	214,064	192,437	5,884	Y	6,672	Y	C-14
Urban Creeks Council	318,933	229,916	-	Y	-	Y	C-15
Western Shasta Resource Conservation District-Eastern	254,135	142,103	-	Y	-	Y	C-16
Western Shasta Resource Conservation District-Western	223,463	125,408	-	Y	-	Y	C-17
Total	\$ 4,217,040	\$ 2,563,616	\$ 143,215		\$ 333,006		

Y = Yes, N = No, P = Partially

Criteria for Evaluating Watershed Program Projects⁴

Category	Grant Requirements
Salaries and Benefits	<ul style="list-style-type: none"> • Salary for the watershed coordinator (employee or contractor). • Benefits for the watershed coordinator (up to 32 percent of salary, based on actual costs).
Operating Costs	<ul style="list-style-type: none"> • Rent for the watershed coordinator’s office space. • Required equipment, such as a personal computer and software (up to \$2,000 maximum). • Operating expenses, such as transportation costs, telephone service, etc. • Technical software other than basic word processing programs (if supported by the work plan). • Attendance at seminars, training workshops, and conferences (up to \$3,000 maximum). • Office supplies. • Minor meeting expenses, such as printing and mailing costs (excluding food and drinks). • Minor testing, sampling, monitoring equipment, or other similar expenditures (up to \$1,500).
Administrative Costs	<ul style="list-style-type: none"> • Administrative costs (up to 15 percent of funding, subject to justification).
Matching Funds	<ul style="list-style-type: none"> • Match must come from a non-Proposition 50 source. • Match must provide portions of salary or direct costs. • Cash match contributions must be evidenced by a specific, designated bank account, a letter of grant award, or other binding financial documents. • In-kind (or non-cash) contributions include the use of non-Proposition 50 or third party contributions (whether real or personal property or equipment that supports the grant). Documentation must exist to validate this connection. • Match contributions, whether cash or in-kind contributions, shall be reflected in quarterly invoices as they are expended by the Grantee.

⁴ As noted in the Department of Conservation’s *Watershed Coordinator Grants Request for Proposals* (2007 version) and standard grant agreement language.

Category	Grant Requirements
Reporting Requirements	<ul style="list-style-type: none"> • Grantees must provide DOC with quarterly written reports that demonstrate progress and compliance with the grant agreement. • At the end of each 12-month period, an annual report must be submitted. • At the end of the 3-year grant period, a final report will be required.
Work Plan Objectives (Deliverables)	<ul style="list-style-type: none"> • Grantee shall meet work plan goals and objectives by substantially following the work plan included in the grantee's proposal.
Recordkeeping Requirements	<ul style="list-style-type: none"> • Grantee shall maintain financial records in accordance with generally accepted accounting principles. Grantee shall maintain adequate supporting documentation in such detail as to provide an audit trail of receipts, expenditures, and disbursements. Grantee's records will permit tracing transactions from support documentation to the accounting records to financial reports and billings. Such documentation shall include proof of all match contributions, including identification of the source of each and every contribution, and may include, but shall not necessarily be limited to, subsidiary ledgers, payroll records, vendor invoices, canceled checks, bank or other financial account records, consultant contracts and billings, volunteer rosters and work logs, lease or rental agreements.

Results of Grantee Reviews

Grant Number: 3007-201

Grantee Name: Arroyo Seco Foundation

Project Description: To work with local schools and community organizations to develop water conservation programs and decrease reliance on imported water. To strengthen community involvement in local and statewide watershed issues. To continue to develop an effective water quality monitoring program.

Grant Amount: \$343,629

Grant Term: June 9, 2008 through June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$343,629	\$175,725	\$55,004
Match Funds	115,180	23,411	0
Total:	\$458,809	\$199,136	\$55,004

Audit Results:

Compliance

Claimed grant expenditures of \$55,004 were not in compliance with the grant agreement and were not properly supported. The grantee could not provide adequate supporting documents relating to watershed coordinator salaries of \$12,911 and benefits of \$19,172. We could not reconcile amounts reported to DOC to the grantee's accounting records and bank statements to confirm actual payments made. Additionally, the grantee did not provide an allocation methodology relating to \$22,921 in claimed administrative costs. This prevented the grantee from demonstrating a reasonable and equitable distribution of administrative costs to the bond-funded project.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement. However, the grantee stated not all objectives will be completed by the end of the grant period due to the bond freeze and high turnover of the watershed coordinator position.

Grantee Response

The grantee provided documents and information subsequent to our site visit.

Evaluation of Response

The documents and information provided did not modify our analysis and our observation remains as stated. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-204

Grantee Name: California Land Stewardship Institute

Project Description: To improve and increase the ecological functions and habitat of the Suisun Creek Watershed and sustain the threatened steelhead trout and other riparian and aquatic species. The program coordinates public and private parties to increase cooperation and activities to protect local fish and wildlife, including removing invasive non-native plant species and re-plant native species.

Grant Amount: \$143,520

Grant Term: June 9, 2008 through January 31, 2012

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$143,520	\$111,699	\$ 0
Match Funds	95,655	88,406	7,079
Total:	\$239,175	\$200,105	\$ 7,079

Audit Results:

Compliance

Claimed match funds of \$7,079 were not in compliance with the grant agreement and were not properly supported. The grantee over-claimed administrative costs of \$7,079 reported as cash match and did not have support for these expenditures.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

Grantee discovered an error in their claim reimbursement template resulting in over-claimed match funds. However, the grantee states it has reported sufficient administrative match as required by the grant agreement.

Evaluation of Response

We note the grantee still has sufficient eligible expenditures to meet budgeted match figures as required per the grant agreement. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-205

Grantee Name: Central Coast Wine Growers Association Foundation, Inc.

Project Description: To facilitate coordination between regulatory agencies, technical service providers, and key stakeholders in the community, assist growers with Conditional Ag Waiver and Total Maximum Daily Load regulatory compliance issues, and provide education and outreach. Local watershed goals include addressing the Santa Maria and Oso Flaco Watersheds identified as impaired by pathogens, nitrates, ammonia, and pesticides. Additional goals include addressing diverse land uses that impact water quality, water management, and water supply in this watershed region.

Grant Amount: \$337,003

Grant Term: July 1, 2008 through May 20, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$337,003	\$ 81,095	\$ 42,343
Match Funds	136,846	205,849	205,849
Total:	\$473,849	\$286,944	\$248,192

Audit Results:

Compliance

Claimed grant expenditures and match funds of \$248,192 were not in compliance with the grant agreement and were not properly supported. Questioned amounts were not supported by accounting records and bank statements to confirm actual payment of the amounts. The breakdown of questioned amounts is as follows:

- Salaries of \$29,950
- Match Funds of \$205,849
- Operating Expenses of \$1,815

Also, the grantee was not able to provide a cost allocation methodology relating to \$10,578 in administrative costs reported for reimbursement. This prevented the grantee from demonstrating a reasonable and equitable distribution of administrative costs to the bond-funded project.

Deliverables

The project is currently active. Based on our selected sample of the grantee's work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The grantee provided documents and information that we originally reviewed at the time of the site visit. Further, the grantee has noted they are still working on compiling information relating to the questioned match expenditures.

Evaluation of Response

No new information was received with the response; therefore, compliance and questioned costs will remain as stated. Regarding the match expenditures, the grantee has noted they can obtain required supporting documentation from the third parties providing the match services; however, we have not received such documentation. We will defer ultimate disposition of this issue to DOC.

Grant Number: 3007-208

Grantee Name: Coastal San Luis Resource Conservation District

Project Description: To coordinate efforts to protect soil and water resources, improve agricultural water supply and utilization, preserve and protect prime agricultural lands, and promote the conservation and protection of important natural habitats and ecosystems.

Grant Amount: \$244,027

Grant Term: June 9, 2008 through January 31, 2013

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$244,027	\$198,995	\$ 7,887
Match Funds	117,792	293,185	105,466
Total:	\$361,819	\$492,180	\$113,353

Audit Results:

Compliance

Claimed grant expenditures and match funds of \$113,353 were not in compliance with the grant agreement and were not properly supported. The grantee used hourly rates greater than the actual rates paid to the employees, resulting in \$5,464 in over-claimed salaries and \$1,368 in over-claimed administrative costs. Also, the grantee was reimbursed 100 percent for cell phone charges totaling \$1,055. Based on our discussions with the watershed coordinators, they do not use cell phones exclusively for DOC grant purposes. Because we were not provided with an allocation method of these charges, we questioned the entire amount claimed for reimbursement.

Additionally, the grantee was unable to provide adequate supporting documents relating to \$105,466 in match expenditures. We could not reconcile claimed amounts to accounting records, such as payroll records, vendor invoices, and lease or rental agreements.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The grantee states the grant agreement allows a proportionate share of paid time off, which is the reason for the higher claimed billing rates. Also, the grantee agreed to allocate the cell phone bill based on hours worked on the grant. Based on the grantee's calculations, the amount that should have been charged to the grant is \$678.

The grantee also provided signed documents for the questioned match funds, and because the grantee did not incur these expenditures, no other documents are in their possession. The grantee will contact the third party providing the match services and obtain the documentation from them.

Evaluation of Response

The grant agreement does not allow for reimbursement above actual hourly rates paid. Regarding the cell phone charges, the grantee did not provide us a methodology or allocation plan to review; as such, we could not determine if the allocation is allowable under the terms of the grant. The grantee also did not submit supporting documentation from the third party providing match services. As a result, our questioned costs remain as stated. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-211

Grantee Name: Deer Creek Watershed Conservancy

Project Description: To expand the community's knowledge and understanding of ongoing watershed management efforts that support CALFED's goals. To promote responsible land stewardship via education and outreach efforts that focus on sustaining a healthy watershed while emphasizing the importance of current land use practices. To develop and foster long-term efforts to manage the resources within the watershed.

Grant Amount: \$207,561

Grant Term: June 27, 2008 through June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$207,561	\$149,533	\$19,504
Match Funds	123,406	2,540	2,540
Total:	\$330,967	\$152,073	\$22,044

Audit Results:

Compliance

Claimed grant expenditures and match funds of \$22,044 were not in compliance with the grant agreement and were not properly supported. Administrative costs were claimed for reimbursement; however, we could not verify if the cost allocation methodology reasonably and equitably distributed those costs to bond-funded projects. As such, we questioned \$19,504 in administrative costs. Additionally, the grantee could not provide supporting documentation relating to \$2,540 in claimed match funds.

During our review, we noted match funds were either not timely reported or not reported at all. Of the total required match funds of \$123,406, \$104,644 of that amount was identified as in-kind match but only \$2,540 has been reported to DOC. The grantee stated some of the in-kind match services had been performed but not yet reported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has not completed some of the work plan objectives as stated in the grant agreement. The grantee acknowledged not all objectives will be completed by the end of the grant period due to the lack of assistance from match vendors.

Grantee Response

The accounting methods used by the grantee to track and allocate administrative costs will be reviewed internally and the results of the review will be provided to DOC. In-kind match services were provided by staff from other state agencies throughout the life of the grant, but formal documentation was not prepared in a timely fashion. Documentation of in-kind match services has been located and the grantee has commenced obtaining formal certification from other match providers.

The grantee will continue to work with DOC to achieve the desired end results for this grant. With the changing economy, tightening of budgets, and reduction or deferral of bond funds, it has become increasingly challenging for a small non-profit such as the grantee to draw in the necessary contribution in matched efforts and to work continually to achieve the end results.

Evaluation of grantee response

The grantee agreed with our observations and we appreciate its willingness to implement corrective actions. DOC will determine the final disposition of the questioned costs and whether the work plan should be amended.

Grant Number: 3007-212

Grantee Name: El Dorado Irrigation District

Project Description: To provide water quality events resulting in greater public awareness of the important social and natural connections within the South Fork American River Watershed. To increase educational outreach, knowledge and awareness to the general public regarding water quality, supply, and climate change.

Grant Amount: \$240,350

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$240,350	\$97,472	\$0
Match Funds	86,025	7,622	0
Total:	\$326,375	\$105,094	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of work plan tasks and objectives, we cannot determine if such objectives as stated in the grant agreement have been completed. The grantee has not submitted quarterly reports since the first quarter of 2010. In addition, the 2010 annual report was not prepared. Lacking these reports, it is difficult to determine work plan progress, major accomplishments and achievements, or the status on achieving performance measures.

Grantee Response

Grantee has contacted DOC and agreed to submit an annual report for 2010 and a final report for 2011.

Evaluation of Response

The grantee agreed with our observations and we appreciate its willingness to implement corrective actions.

Grant Number: 3007-213

Grantee Name: Friends of Deer Creek

Project Description: To provide regional leadership in watershed restoration by building collaborations with governmental agencies, non-profits, and the local community, using the conservation, protection, and restoration of Deer Creek as a model.

Grant Amount: \$230,396

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$230,396	\$168,285	\$0
Match Funds	53,500	95,061	0
Total:	\$283,896	\$263,346	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-219

Grantee Name: Napa County Resource Conservation District

Project Description: To improve natural resource conditions in an integrated and cooperative manner, such that benefits to ecosystem and habitat function, water quality, flood management, and water supply reliability can be realized within the context of improved community participation and capacity.

Grant Amount: \$268,843

Grant Term: June 9, 2008 through January 31, 2013

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$268,843	\$104,773	\$0
Match Funds	92,373	59,708	0
Total:	\$361,216	\$164,481	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-220

Grantee Name: Natural Heritage Institute

Project Description: To improve Delta water quality and aquatic habitats by implementing a suite of watershed programs, and engaging residents and local governments in the planning, implementation, and monitoring of several restoration and water quality improvement projects currently in the planning or implementation phase.

Grant Amount: \$240,177

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$240,177	\$169,156	\$0
Match Funds	78,200	1,302	0
Total:	\$318,377	\$170,458	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

During our review, we noted match funds were either not timely reported or not reported at all. Of the total required match funds of \$78,200, only \$1,302 has been reported to DOC. The grantee stated some of the in-kind match services had been performed but not yet reported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-225

Grantee Name: San Gabriel Valley Council of Governments

Project Description: To implement watershed goals established in the comprehensive San Gabriel and Rio Hondo Watershed Management Plans. To organize a formal framework through which to build on the momentum established in these plans and bring actual, physical improvement to major foci of the San Gabriel and Los Angeles River watersheds, and the Rio Hondo and Upper San Gabriel Subwatersheds. To utilize strategies that include community education, quality monitoring, information sharing/networking, standards development, and integration.

Grant Amount: \$223,819

Grant Term: June 30, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$223,819	\$140,873	\$0
Match Funds	109,099	61,443	0
Total:	\$332,918	\$202,316	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with grant agreement terms and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-230

Grantee Name: Sonoma Ecology Center

Project Description: To coordinate efforts to protect soil and water resources, improve agricultural water supply and utilization, preserve and protect prime agricultural lands, and promote the conservation and protection of important natural habitats and ecosystems.

Grant Amount: \$288,805

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$288,805	\$172,329	\$11,900
Match Funds	85,106	27,188	0
Total:	\$373,911	\$199,517	\$11,900

Audit Results:

Compliance

Claimed grant expenditures of \$11,900 were not in compliance with the grant agreement and were not supported. The grantee reported watershed coordinator hourly rates greater than the actual rates paid to the employees, resulting in \$9,485 in over-claimed salaries. The over-claimed salaries caused a reduction in eligible benefits of \$2,415 because the grant allows a maximum benefit rate of 32 percent.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The questioned costs of \$11,900 are based on the percentage of the grantee's indirect costs attributed to the watershed coordinator position. The grantee provided an allocation of overhead and management costs as support for the administrative costs claimed for reimbursement.

Evaluation of Grantee Response

Reimbursement for costs above the hourly rate stated in the grant agreement is not allowed. The grantee's indirect costs should be reimbursed through the administration cost line item of the budget, not within the salary or benefit line items. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-231

Grantee Name: South Yuba River Citizens League

Project Description: To improve Delta water quality and aquatic habitats by implementing a suite of watershed programs, and engaging residents and local governments in the planning, implementation, and monitoring of several restoration and water quality improvement projects currently in the planning or implementation phase.

Grant Amount: \$226,748

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$226,748	\$134,416	\$0
Match Funds	70,380	33,934	0
Total:	\$297,128	\$168,350	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

During our review, we noted match funds were either not timely reported or not reported at all. Of the total required match funds of \$70,380, \$14,100 was identified as cash and in-kind match relating to training seminars. As of our site visit, match funds for this budget category had not been reported. The grantee stated some of the match services had been performed but not yet reported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The grantee acknowledged untimely match reporting, and is working on accurately reporting all match to DOC. The grantee believes the overall project match will be adequately reported by the end of the project.

Evaluation of Grantee Response

The grantee agreed with our observations and we appreciate its willingness to implement corrective actions.

Grant Number: 3007-232

Grantee Name: Tehama County Resource Conservation District

Project Description: To address multiple projects and initiatives that restore and protect local watersheds. To implement long-range goals of improvement of upper watershed and riparian health, water quality, and water quantity. To increase the District's financial independence by developing non-grant funding sources.

Grant Amount: \$211,567

Grant Term: June 23, 2008 through June 30, 2012

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$211,567	\$169,401	\$ 693
Match Funds	134,311	68,991	5,400
Total:	\$345,878	\$238,392	\$6,093

Audit Results:

Compliance

Claimed grant expenditures and match funds of \$6,093 were not in compliance with the grant agreement and were not properly supported. A computer purchased for \$693 was claimed for reimbursement on two separate invoices resulting in duplicate reimbursement. Additionally, the grantee could not provide supporting documentation relating to \$5,400 in match funds.

During our review, we noted match funds were either not timely reported or not reported at all. Of the total required match funds of \$134,311, \$129,122 was identified as in-kind match but only \$23,364 has been reported to DOC. The grantee stated some of the in-kind match services had been performed but not yet reported.

Deliverables

The project is currently active. Based on our selected sample of the grantee's work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The duplicate reimbursement occurred due to staff turnover, and the mistake has been corrected in the accounting records. The grantee has acknowledged the lack of timely match reporting. However, the grantee believes the total required match requirement will be adequately reported by the end of the project and is contacting match providers to ensure proper records are maintained.

Evaluation of Grantee Response

The grantee agreed with our observations and we appreciate its willingness to implement corrective actions. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-233

Grantee Name: The Watershed Project

Project Description: To utilize watershed coordinator positions to facilitate watershed improvements at the local level by building consensus-based stakeholder involvement in identifying watershed conditions and developing viable solutions to enable communities to most effectively address the issues affecting their local watershed.

Grant Amount: \$214,064

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$214,064	\$192,437	\$ 5,884
Match Funds	123,594	98,291	6,672
Total:	\$337,658	\$290,728	\$12,556

Audit Results:

Compliance

Claimed grant expenditures and match funds of \$12,556 were not in compliance with the grant agreement and were not supported. Salaries of \$5,884 reimbursed by DOC and \$6,672 reported as cash match expenditures were overstated. We reviewed timesheets during the grant period and noted reimbursement was paid for hours not relating to DOC-approved watershed activities.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grantee Response

The grantee stated the hours, which were reported to DOC as vacation, sick leave, and holiday hours, are allowable as benefits under the DOC's 2007 Request for Proposals.

Evaluation of Grantee Response

DOC's 2007 Request for Proposals and the grant agreement do not include terms allowing time off to be paid from bond funds. DOC will determine the final disposition of the questioned costs.

Grant Number: 3007-236

Grantee Name: Urban Creeks Council

Project Description: Expand the Watershed Restoration Action Plan to preserve biological diversity, reduce effects of urbanization, and increase opportunities for human contact with nature. To maintain momentum of efforts to reduce flooding.

Grant Amount: \$318,933

Grant Term: June 9, 2008 through December 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$318,933	\$229,916	\$0
Match Funds	80,160	58,472	0
Total:	\$399,093	\$288,388	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-238

Grantee Name: Western Shasta Resource Conservation District-Eastern

Project Description: To facilitate the identification and implementation of projects, promote agency and landowner cooperation and collaboration, and participate in public outreach and education in support of achieving CALFED objectives. Benefit the CALFED Watershed Program by coordinating and facilitating the development of local community-based strategies to maintain and improve watershed conditions through activities that focus on riparian and fisheries habitat restoration, fish passage, natural stream morphology and its effect on downstream flows and species, and water quality.

Grant Amount: \$254,135

Grant Term: June 9, 2008 through January 31, 2013

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$254,135	\$142,103	\$0
Match Funds	71,446	81,626	0
Total:	\$325,581	\$223,729	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with grant agreement terms and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.

Grant Number: 3007-239

Grantee Name: Western Shasta Resource Conservation District - Western

Project Description: To coordinate efforts to protect soil and water resources, improve agricultural water supply and utilization, preserve and protect prime agricultural lands, and promote the conservation and protection of important natural habitats and ecosystems.

Grant Amount: \$223,463

Grant Term: June 9, 2008 through July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$223,463	\$125,408	\$0
Match Funds	70,810	17,443	0
Total:	\$294,273	\$142,851	\$0

Audit Results:

Compliance

Claimed grant expenditures and match funds were in compliance with the grant agreement and were properly supported.

Deliverables

The project is currently active. Based on our selected sample of the work plan tasks and objectives, the grantee has demonstrated they are completing the work plan objectives as stated in the grant agreement.



DEPARTMENT OF CONSERVATION

Managing California's Working Lands

DIRECTOR'S OFFICE

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

FROM: Mark Nechodom, Director ORIGINAL SIGNED BY
Department of Conservation

DATE: April 23, 2012

SUBJECT: DRAFT REPORT – AUDIT OF DEPARTMENT OF CONSERVATION'S
BOND FUNDS

Thank you for the opportunity to review and comment on the draft audit report of the bond management practices in place at the California Department of Conservation (DOC). The DOC takes its responsibility to manage the \$200 million in bond funds it has been authorized to administer very seriously, and welcomes the audit process and observations developed by your auditors.

Your report concludes that DOC awards funds in compliance with applicable legal requirements and established criteria, and notes several positive findings about the procedures and practices currently in place. This provides reassurance that we are administering our programs well. However, as recommended, we will review and refine our current procedures to maximize efficiencies to further strengthen our fiscal and administrative controls. The DOC accepts and appreciates the two reported audit observations: to improve monitoring controls over the Statewide Watershed Program and to finalize long-term monitoring procedures for agricultural conservation easements administered by the California Farmland Conservancy Program.

To address these recommendations, the Statewide Watershed Program will identify actions to improve project monitoring. We will also review grants where questioned costs were identified during your audit of the individual grantees to determine whether recovery of funds by DOC may be warranted.

Monitoring for **permanent** conservation easements provides a unique challenge for bond-funded programs: support for staff costs is limited to a small number of years during which the funds are obligated and expended. Funding for monitoring of the portfolio of easement projects was not included in the bond allocations. Regardless, program staff have developed procedures and a framework to address monitoring,

David Botelho, CPA

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including: report templates customized by project to streamline future monitoring; a risk assessment model to prioritize easement monitoring; and, as part of the application process, the requirement for applicants to provide proof of the ability to provide monitoring and enforcement of their own. Finally, the DOC is researching funding options on a more permanent basis, which will provide staff costs to implement a more formal monitoring program.

Thank you again for this opportunity to improve our processes. If you require additional information, please call Mr. David Thesell, Deputy Chief, Division of Land Resource Protection, at (916) 324-0868.