



Transmitted via e-mail

June 24, 2013

Mr. Charlton H. Bonham, Director  
California Department of Fish and Wildlife  
1416 Ninth Street, 12<sup>th</sup> Floor  
Sacramento, CA 95814

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

Dear Mr. Bonham and Mr. Howard:

**Final Report—Bioengineering Institute, Propositions 40, 50 and 84 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of Bioengineering Institute's (BI) grants 06-284-552-0 and P0730414 issued by the State Water Resources Control Board and the Department of Fish and Wildlife under Propositions 40, 50 and 84.

The enclosed report is for your information and use. The BI's response to the report observations 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 Bioengineering Institute. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

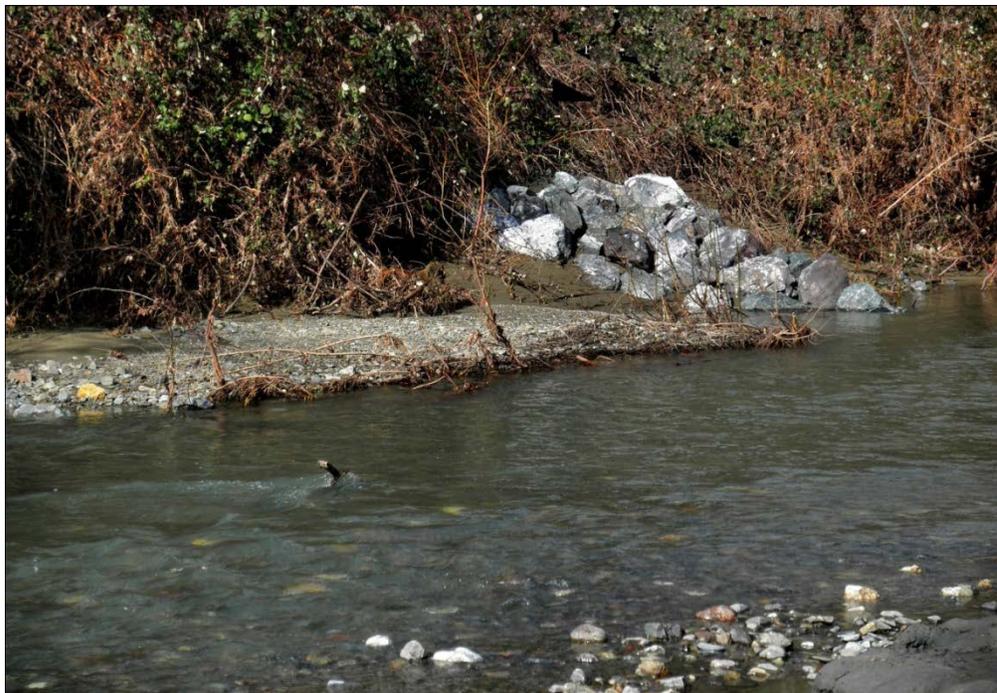
Enclosure

cc: Ms. Helen Carriker, Deputy Director, Administration, Department of Fish and Wildlife  
Mr. William Fong, Branch Chief, Accounting Services, Department of Fish and Wildlife  
Ms. Leslie Laudon, Manager, Division of Finance and Local Assistance, State Water Resources Control Board  
Ms. Monica Torres, Fiscal Unit Manager, State Water Resources Control Board  
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Polly Escovedo, Bonds and Grants Manager, California Natural Resources Agency  
Mr. Evan Engber, President, Bioengineering Institute  
Ms. Kathleen Martin, Secretary-Treasurer, Bioengineering Institute

# AUDIT REPORT

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## Bioengineering Institute Propositions 40, 50 and 84 Bond Programs Grant Agreements 06-284-552-0 and P0730414



Lower Forsythe Creek  
Source: Final Report for Grant P0730414

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

## **MEMBERS OF THE TEAM**

Susan Botkin, CGFM  
Manager

Angie Williams  
Supervisor

Staff  
Alex Balandra  
Fabiola Torres  
Dennis Williams

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

You can contact our office at:

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Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, SCOPE and METHODOLOGY

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## BACKGROUND

California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) for \$2.6 billion and \$3.4 billion, respectively. California voters also approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$5.4 billion. The bond proceeds finance a variety of resource programs and are administered by several state agencies that provide grants to local government and non-profit organizations.

Bioengineering Institute (BI) has been organized since 1996 as a California non-profit corporation. The board of directors agreed to sponsor a number of projects of local ad hoc watershed groups and/or private landowners seeking to enhance and/or rehabilitate their local stream and riparian habitats.<sup>1</sup> BI consists of a five member board of directors, no employees, one consultant, and no physical address.

For these bond grants awarded, BI partnered with Bioengineering Associates (BA). BA is a for-profit company, whose Chief Operating Officer and President have dual roles as both the BI's and BA's executive team. BI awarded \$385,212 (or 81 percent) of the Propositions 40 and 50 grant and \$264,218 (or 98 percent) of the Proposition 84 grant to BA.

BI received the following Propositions 40 and 50 grant from the State Water Resources Control Board (Board):

- **Grant 06-284-552-0**—Selby Creek Stream Restoration and Riparian Revegetation (Selby Grant). The purpose of this \$475,000 grant was to restore, stabilize, and revegetate sites on the entire length of Selby Creek. The grant also provided funding for improving water quality and providing an ecologically healthy connection between the upper reaches of the watershed and the Napa River.

BI also received the following Proposition 84 grant from the Department of Fish and Game (DFG):

- **Grant P0730414**—Lower Forsythe Creek Restoration Project (Forsythe Grant). The purpose of this \$269,964 grant was to provide restoration, including shelter for migrating salmonids, establish pools for rearing salmonids, provide overlying shade to lower water temperatures, and improve habitat by stopping eroding banks and preventing sediment from entering the stream.

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<sup>1</sup> Source: Attachment B- Project Team and Administration from Selby Grant Application

## SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>
06-284-552-0 P0730414	December 15, 2006 through March 16, 2011 June 1, 2008 through March 31, 2012

The audit objectives were to determine whether BI'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.

BI management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board, DFG, 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 the grant requirements; and if grant deliverables were completed as required, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of grant-related internal controls.
- Examined grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the grantee's accounting records and vendor invoices.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether a sample of grant deliverables required by the grant agreements were met.

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.

The results of the audits are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Except as noted below, the grant expenditures claimed by Bioengineering Institute (BI) were in compliance with the requirements of the grant agreement; and grant deliverables were completed as required. The Schedules of Claimed and Questioned Amounts are presented in Table 1.

**Table 1: Schedules of Claimed and Questioned Amounts**

<b>Grant Agreement 06-284-552-0</b>		
<b>Task</b>	<b>Claimed</b>	<b>Questioned</b>
<b>Grant Funds</b>		
Personnel Services	\$ 37,099	\$ -
Operating Expenses	96,218	-
Professional/Consultant Services	43,672	-
Restoration	298,010	43,382
<b>Total Grant Funds</b>	<b>474,999</b>	<b>43,382</b>
<b>Matching Funds</b>		
Personnel Services	27,375	-
Operating Expenses	26,001	-
Professional/Consultant Services	11,468	-
Restoration	75,795	-
<b>Total Match</b>	<b>140,639</b>	<b>0</b>
<b>Total Expenditures</b>	<b>\$ 615,638</b>	<b>\$ 43,382</b>

<b>Grant Agreement P0730414</b>		
<b>Task</b>	<b>Claimed</b>	<b>Questioned</b>
<b>Grant Funds</b>		
Personnel Services	\$ 2,949	\$ 2,949
Operating Expenses/Subcontractor	124,931	15,538
Equipment Rental	75,280	-
Materials	29,568	-
Administrative and Overhead	37,236	37,236
<b>Total Grant Funds</b>	<b>269,964</b>	<b>55,723</b>
<b>Matching Funds</b>		
Personnel Services	2,400	2,400
Operating Expenses/Subcontractor	136,627	15,699
Equipment Rental	57,836	-
Materials	47,506	12,496
Administrative and Overhead	58,753	58,753
<b>Total Match</b>	<b>303,122</b>	<b>89,468</b>
<b>Total Expenditures</b>	<b>\$ 573,086</b>	<b>\$ 145,071</b>

As noted in the Background section of this report, daily operations at both BI and BA are overseen by the same executive team. As a result, these executives are ultimately responsible for contract performance as both grantor and grantee. Although formed as separate legal entities, the lack of operational independence between BI and BA compromises bond fiscal oversight, as illustrated by the fiscal weaknesses found during this audit.

The following observations are intended to assist BI in its fiduciary responsibility over bond funds.

**Observation 1: Ineligible and Unsupported Costs and Cash Match**

BI claimed and received reimbursement for expenditures that were either ineligible or unsupported. We also questioned cash match in the Forsythe grant for the same reasons. See the chart below:

**Summary of Questioned Costs and Questioned Cash Match**

	Selby Grant <sup>1</sup> 06-284-552-0		Forsythe Grant P0730414	
	Grant Funds		Grant Funds	Cash Match
Administration	-		37,236	58,753
Salaries	5,700		10,487	10,989
Travel	32,006		8,000	7,110
Equipment	5,676		-	-
Material	-		-	12,496
<b>Total</b>	<b>\$ 43,382</b>	<b>\$</b>	<b>55,723</b>	<b>\$ 89,348</b>

<sup>1</sup> – Selby Grant does not have any questioned cash match.

- **Unsupported Administrative Costs**—BI charged the state 16 percent in administrative and overhead costs per invoice. However, BI could not provide an allocation methodology to ensure costs are reasonable and equitably distributed to bond projects.
- **Unsupported Salaries**—Some labor expenses claimed were not supported by timesheets. BI’s consultant did not maintain any records of her time (i.e. timesheets) on the Forsythe grant. The President of BI could not provide any record to support his payroll costs charged to either grant.
- **Ineligible Travel Costs**—There was no support for per diem, lodging, and travel costs. The travel was less than 50 miles from headquarters, but the employees received per diem, which violates state regulations.
- **Unsupported Equipment Costs**—In most instances, BI was able to provide supporting documentation and justification for the rates and costs charged for equipment. However, in the case of the excavator used in the Selby grant, BI was unable to provide justification for \$5,676 charged to the grant.
- **Ineligible Material Surcharges**—There was no support for surcharges added to material costs charged to the Forsythe grant.

Grant Agreement 06-284-552-0, Exhibit C, Item 15, states "Grantee agrees that, at a minimum, its fiscal control and accounting procedures will be sufficient to permit tracing of grant funds to a level of expenditures adequate to establish that such funds have not been used in violation of state law or this agreement." Also, Grant Agreement 06-284-552-0, page 2, grantee representations, states "Grantee shall comply with and require its contractors and subcontractors to comply with all applicable laws, policies, and regulations."

Grant Agreement P0730414, Item 19, states "the Grantee shall maintain complete and accurate records of its actual project costs and shall retain said records." Furthermore, "expenditures not documented, and expenditures not allowed under the Grant or otherwise authorized by the Grantor shall be borne by the Grantee."

Grant Agreement P0730414, Item 15, states "Grantee agrees that all travel and per diem paid its employees shall be at rates not to exceed those amounts paid to the State's represented employees."

See Observation 2 for additional comments.

### **Recommendations:**

- A. Remit \$43,382 to the Board and \$55,723 to DFG for ineligible and unsupported costs claimed. The Board and DFG will make the final determination regarding collection of the questioned costs.
- B. Review supporting documentation to ensure claimed expenditures are eligible for reimbursement.
- C. Develop and implement an independent review and approval process to ensure expenditures reported to the state are eligible, incurred, and supported.
- D. Develop a cost allocation plan for administrative and overhead costs. Further, maintain supporting documentation for the plan and related allocations.
- E. Ensure cash match expenditures are adequately supported and appropriate documentation is maintained as required by the grant agreement. DFG will determine the effect, if any, of the unsupported match.

### **Observation 2: Grant Fiscal Controls Need Improvement**

Fiscal control deficiencies resulted in the above-mentioned unsupported and ineligible costs claimed. Examples of control deficiencies include:

- There is no review of the consultant's invoices before they are submitted to the state for reimbursement. This is especially critical because the consultant prepares the documents for BI and BA.
- During the grant period, the consultant was responsible for paying herself with BI's checks, thus creating a serious segregation of duties weakness. As of 2010, controls have been put in place to help mitigate this weakness.
- Grant project files were incomplete and expenditures charged to the grants were not easily traceable.
- The time tracking system was difficult to follow when tracing hours claimed by the consultant to BI. Monthly calendars were illegible or unclear in some instances.
- BI does not have adequate written policies and procedures to ensure expenditures are allowable, eligible, properly reviewed, and authorized.

Grant Agreement 06-284-552-0, Exhibit C, item 15, states "Grantee agrees that, at a minimum, its fiscal control and accounting procedures will be sufficient to permit tracing of grant funds to a level of expenditures adequate to establish that such funds have not been used in violation of state law or this agreement." Also, Item 29 states "Grantee agrees to: a. Establish an official file for the Project which shall adequately document all significant actions relative to the project."

**Recommendations:**

- A. Establish grant management policies consistent with grant agreements to ensure expenditures incurred are allowable and eligible.
- B. Develop and implement written policies and procedures for reviewing and authorizing grant related expenditures.

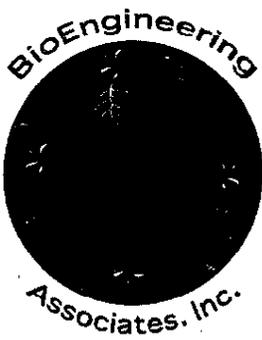
**Observation 3: No Contract for Consultant**

The consultant has no written contract with BI. Grant agreement P0730414 states, "if a subcontractor is used, then a written copy of the sub agreement must be submitted to the Grant Manager, prior to the commencement of work by the subcontractor."

**Recommendation:**

Obtain valid written agreements with all subcontractors and consultants performing state funded services.





**Live Building Systems**  
AN ENGINEERING CONTRACTOR SPECIALIZING IN WATERSHED RESTORATION  
California Class A License # 599522  
Oregon Commercial General Contractor Level 1, License Number: 19244

May 7, 2013

**RE: Bioengineering Institute, Propositions 40, 50, and 84 Grant Audits  
Selby Grant 06-284-552-0 & Lower Forsythe Grant P0730414**

Response to Observations: Observation(s) #1:

During the audit, we understood that there was some confusion on Equipment Cost and Operators Charges. Bioengineering Associates, Inc. feels it is necessary to readdress on how we developed our equipment rates charge to our clients (rate sheet attached). As a for-profit company with standard industry practice, we charge the construction jobs at a rate consistent with a company adopted charge-out rate for using its own equipment as well as rented equipment. Those rates are applied to both grant and private jobs.

The unique Bioengineering tech knowledge implemented in our business requires us to use certain special pieces of equipment. For example, we had specially built a 4WD stake-side flatbed dump for transporting freshly cut willow used in all our structures. The wooden body (not metal) is required because it keeps the willow cooler and allows air to flow during transportation; the 4WD is required as we often go off road to cut willow; the hydraulic dump is to efficiently off-load large amount of willow.

BA charges a set of flat hourly and daily rate on most machines without including the operators hourly rate due to the reason that it could be operated by various employees with different hourly rates at one project; therefore, in order to bill our clients accurately, we separate the machine costs from the labor costs in our invoice. For example, we charge \$75 per hour for the 4WD Flatbed equipment itself. The operator cost is billed separately under construction costs. However, there is an exception on the Excavator and Loader/Backhoe which we charge a flat hourly rate that already includes the operator's hourly rate because we assign only qualified operators for operating these two equipments. For those equipment services, you will not see a separate billing for equipment and labor, instead they are all billed at one flat rate. For example, we charge \$90 per hour on Loader/Backhoe, this rate has already included the operator's hourly rate.

Before commencement of the Lower Forsythe Project, all of our equipment rates were reviewed and approved by the Contract managers and the Fisheries Restoration Technical Review Team of California Department of Fish and Game on the original grant agreement, stated in the agreement P0730414, item 16. Same is applied to the Selby Project and the budget was approved by the State Water Resources Control Board, Division of Administration Services, signed by Deputy Director, dated Jan. 5, 2007.

- 1) Duplicate Billing: \$ 5,180.00 - Selby Grant 06-284-552-0  
\$5,200.00 - Forsythe Grant P0730414  
\$3,120.00 - Forsythe Grant P0730414 (Cash Match)

These amounts are associated with the 4WD Flatbed Dump which was used in both the Selby Project and Lower Forsythe Project. This equipment is owned by Bioengineering Associates, Inc. and it is a special piece of equipment rather than regular flatbed. We charge our client a flat rate of \$75 per hour for the 4WD Flatbed, the rate includes fuel, maintenance, insurance as well as the recuperation of its capital costs and depreciation costs, etc. but it does not include the operator's hourly rate. Operator's costs in this case are charged separately under construction labors because it was operated by multiple labors with different hourly wages. We do not believe that we have double billed the State, perhaps it was a misunderstanding or confusion on certain equipment rate charges. To prevent the confusion in the future, Bioengineering Associates, Inc. has improved their original adopted internal control policy as State recommended.

- 2) Administration: \$37,236.00 - Lower Forsythe Project P0730414

Bioengineering Associates, Inc. is a California Corporation and a for-profit company. In 2009 we had four full time employees and forty seasonal employees as well as several legal and engineering consultants. Lower Forsythe project was a near five months long project which covers BA's entire construction season. The charge is based on 16% of the total project and it represents the costs incurred by BA for providing administration project support services as well as overhead costs. This cost was charged by BA to the project grant and was not charged by the Bioengineering Institute to the project grant. In the grant budgets submitted in the application for both projects, the administrative costs, including all indirect and overhead costs, were determined based upon the total construction costs of sub-contractor, (BA), as they were contracted with BI to perform all project activities and tasks. This charge was reflected in the final budget, appeared in the grant contract; and invoiced accordingly; finally, the allocation was reviewed and paid by grant funds. BI did not carry the burden of the overhead for either project and only charged the grants for wages paid to perform grant management and reporting activities. The California Department of Fish & Game guideline used stated that up to 16% was an allowed administrative and overhead charge. Bioengineering Associates, Inc. (BA) administrative and overhead rate for the year of 2009 was 21%. BA's indirect and overhead costs vary each year. However, we have developed a cost allocation for administrative and overhead costs as recommended by the State.

- 3) Salaries: \$5,700.00 - Selby Grant 06-284-552-0  
\$10,487.00 - Lower Forsythe Grant P0730414  
\$10,989.00 - Lower Forsythe Grant P0730414 (Cash Match)

**Grant Administration:**

Forsythe Grant: BI's Project Director (independent contractor/non-profit consultant) recorded on a calendar notes for specific activities performed. These notes were translated into two invoices submitted for the Forsythe Project. However, the invoice was not complete as it only recorded the over-all time period of the grant management services covered by the invoice, the specific tasks completed, and the total number of hours assigned to each tasks. The invoice did not record the exact dates of the work performed. During the audit, an effort to find the originating dates on the original calendar was unsuccessful. All the grant management tasks were completed satisfactorily. With completion of the audit, it is understood that the recording and reporting of hours was incomplete on the invoice(s) because it could not "stand alone" and did not contain all the necessary details. Invoicing has changed and improved since 2010 so that all grant management invoices originate from a Daytimer calendar, which reports daily specific tasks, and the time spent on each specific task. The invoice reports all the calendared details and is reviewed for payment by the BI Director (treasurer) responsible for approving all disbursements.

Project Manager: The Project Manager for both the Selby Project and the Forsythe Project is Evan Engber; in this position, he did not receive any income from either grant. He is also the Chief BioEngineer for BA, sub-contractor for all construction and on-the ground services in the project scope of work. Mr. Engber's contribution as Chief Bioengineer for the projects was paid for by BA, and subsequently invoiced by BA to BI for reimbursement. The Chief Bioengineer's primary responsibility is oversight of all design, permits, and implementation of the construction scope of work. Besides office time, as Chief Bioengineer, Mr. Engber's responsibility during construction season was to visit the project construction site at least one day a week, meet with the field supervisor and review all work completed; adjust design, and balance construction expenses; in addition, he was available to meet with any regulatory/agency/funding representative, as well as the landowner/landowner representative as needed. He was also on-call to help problem solve whenever necessary. The hours invoiced for Selby and Forsythe Projects reflect only a once a week site visit as well as any design and planning meetings prior to construction. In actuality, because we had a newly hired field supervisor, the Chief Bioengineer's time on the projects was greatly undercharged as he spent several days a week during construction at the Selby project site. At the Forsythe project there was a great deal of time spent with the (9) different landowners and their needs as this was a coalition formed just to complete the project. However, (incorrectly) Mr. Engber did not keep a daily log of site visits, nor did he fill-in a time sheet, as he is salaried in his position as Chief Bioengineer for BA. We acknowledge this was an incorrect practice and have changed the procedure. Mr. Engber has implemented a new system for tracking his hours to include date of each site visit and

hours attended. Any hours spent on design are reviewed against the project scope of work/budget and recorded to the grant monthly. The site visit log, and recording of design hours (timesheet), is the originating source for preparation of invoices for the Chief Bioengineer position and back-up for grant funding reimbursement.

- 4) Travel: \$32,006.00 - Selby Grant 06-284-552-0
  - \$8,000.00 - Lower Forsythe Grant P0730414
  - \$7,110.00 - Lower Forsythe Grant P0730414 (Cash Match)

The actual job site of Selby Project is approximately 130 miles away from BA's main office. The employees who engaged in the project traveled directly to the site every day due to the locations of their residents which were closer to the site than to the BA main office. However, most of the employees still had to travel more than 50 miles to the job site from their home. With 10 hour working days and a long commute, employees stayed at motels near the job site during the work days. BA reimbursed those employees for the lodging and per diem using the California standard rate according to the guidelines posted at Government General Services Administration website. BA was not aware at the time that State Grant per diem rate is different than the Federal per diem rate; and in addition, we were advised by our accountant that as long as BA reimburse our employees the amount under or equal the federal standard rate, we do not need receipts from employees. However, we learned that is not the case with State Grant, and, no reimbursement shall be made on lodging without receipt. Since then, we have developed a comprehensive company travel and per diem policy in compliance with the California State Grant Guidelines and have addressed this policy to all employees.

For the Lower Forsythe Project, again it was a 10 hour working day and some of the employees who traveled around 40 miles or more one way and got reimbursed \$50 per day per diem which was below the federal per diem rate but four cents above the State per diem rate. Again we were not aware at the time that this is not acceptable by the State grant, and we did not realize that we cannot reimburse any per diem and/or travel expenses if it is under 50 miles one way. Since then, BA has a better understanding on the State regulations and has developed a new travel policy that is in compliance with the California State Grant Guidelines and we will comply with all State applicable laws, policies, and regulations in our practice.

5) Equipment: \$5,676.00 - Selby Grant 06-284-552-0

This amount is associated to an Excavator; Bioengineering Associates, Inc.(BA) rented this piece of excavator from a vendor. The rate charged for this piece of equipment is the standard rate charged to all our clients, it includes fees associated with rental, fuel, maintenance, insurance, etc. and it does already include the operator's hourly rate. For this particular machine, the Grant was billed at \$125/hr and this rate did not exceed the grant agreement and was approved by the State Water Resources Control Board. Again, as the State recommended, BA has improved its internal control policy to better support and justify the appropriate costs associated with grant funding.

- 6) Material: \$12,496.00 - Lower Forsythe Project P0730414 (Cash Match)  
Administration: \$58,753.00 - Lower Forsythe Project P0730414 (Cash Match)

The Coyote Valley Tribe was a landowner for the Forsythe grant and participated in the funding match to the project with a grant they secured from the USFWS, Tribal Partnership Grant Program. The Administration match in the amount of \$ 24,309 did not come to either BI or BE, but was listed as a match because it was what Coyote Valley Tribe received to administer the grant that was used to provide matching funds for the project, administered and paid totally separate from any other of the funds or BA or BI.

The Coyote Valley Tribe was invoiced twice by BA for costs of the project and they were paid directly by Coyote Valley Tribe from a grant they received from USFWS. These invoices were developed from the total expenses of the project, and were reviewed by BA against the Quickbooks accounting system that recorded the expenses as well as all income received into the project. These invoices were reviewed again in preparing for the audit and no duplication of expenses as invoiced to either DFG or Coyote Valley Tribe were identified. BI did not have a contract with Coyote Valley Tribe because they did not fiscally sponsor the grant and the funds were dispersed directly to BA for construction services that were completed on their tribal land, which was contiguous to the other properties and part of the overall project scope of work. However, when BI submitted a final accounting of the project to DF&G, they listed the grant as income to the total project and also identified the line items and cost share that BA invoiced to Coyote Valley Tribe as they were part of the total project costs. BA has a record of all expenses and income as identified as matching funds with back-up as created in the Quickbooks system. BI never had any control or management over the grant funds Coyote Valley received from USFWS.

## **Observation 2: Grant Fiscal Controls Need Improvement**

The BioEngineering Institute was organized as a pass through entity, for the purposes of assisting individual landowners (as in Lower Forsythe Project Grant P0730414)) and/or local watershed groups (as in Selby Creek Project Grant 06-284-552-0) to apply for and utilize grant funding for their restoration activities that meet the scope and intent of the grant program, primarily improving on water quality and endangered species habitat. The landowner is the true recipient and beneficiary of the grant funding as their land is restored and enhanced; as such they have not made any profit from the project(s).

BI does not have any employees and BI does not maintain an office as they determined in their initial organization to keep all overhead expenses at a minimum in order to not pass on additional expenses to the landowners whom they fiscally sponsor for grants. In fact, BI does not charge the landowner/client any fee or percentage of the grant for fiscal sponsorship of the grant or for the services they do provide, and they only invoice grant funds for reimbursement for hours spent directly on grant management, ie: preparing the invoices for grant funds that reimburse the costs incurred by all sub-contractors, tracking payments of invoices, and final reporting on project deliverables as required by the grant agreements.

After the audit review, it was determined that BI should be totally restructured to remove any appearance of conflict of interest between BI and BA, especially in the dual responsibilities carried out by both Evan Engber and Kathleen Martin. A new board of directors was installed; the by-laws were reviewed and updated, and new operating practices were initiated: (1) A BI board member approves all expenditures/invoices for reimbursement based upon grant contracts including the budget and project deliverables; (2) a project operating budget for each grant funded project is reviewed and approved by the Board of Directors, and is the basis for determining allowable costs and reviewing the accuracy of each invoice; (3) the Board President signs all contracts. (4) The duties of the Project Director are written and salary/hours approved for each grant by the Board; an updated progress on each grant is submitted to the Board of Directors by the Project Director at their quarterly board meetings, and more often if necessary and as needed; (5) The BI Treasurer approves all checks, which can be signed by either the President or Treasurer. The Board has committed to a schedule to update all BI policies in 2013 and is currently preparing written procedures for operating and management of grant funds to conform with the State and Federal grant management guidelines.

## **Observation 3: No Contract for Consultant**

A contract is now in place between BI Board of Directors and the independent contractor hired for project management with specific duties and responsibilities. A procedure is in place to review and renew this contract on an annual basis by the BI Board of Directors.

Original Signed By:

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Evan Engber, Bioengineering Institute

Original Signed By:

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Kathleen Martin, Bioengineering Institute

Original Signed By:

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Jiongyi Pierson, Bioengineering Associates, Inc. Bookkeeper

# BioEngineering Associates, Inc.

P.O. Box 1554  
Laytonville CA 95454  
707-984-6774 Tel  
707-984-8855 Fax

## Equipment Rate Sheet 2007

Dodge Flatbed	\$75/hour
Dump Truck	\$75/hour
JCB Loader/backhoe	\$90/hour incl. Operator
Excavator	\$125/hour incl. Operator
Chainsaw	\$15/day
Rock Drill	\$30/day
Chop Saw	\$15/day
Auger	\$55/day
Log Drill	\$30/day
Pumps	\$30/day
Generator	\$65/day

# BioEngineering Associates, Inc.

P.O. Box 1554  
Laytonville CA 95454  
707-984-6774 Tel  
707-984-8855 Fax

## Equipment Rate Sheet for 2009

Dodge Flatbed	\$75/hour
Ford Flatbed	\$75/hour
JCB Loader/backhoe	\$90/hour incl. Operator
Excavator	\$160/hour incl. Operator
Chainsaw	\$15/day
Rock Drill	\$30/day
Chop Saw	\$15/day
Auger	\$55/day
Log Drill	\$30/day
Pumps	\$30/day
Generator	\$65/day

## EVALUATION OF RESPONSE

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We reviewed the Bioengineering Institute's (BI) response dated May 7, 2013. The BI provided information in response to all questioned costs and an explanation of how billing rates are developed for their clients. We acknowledge the BI's willingness to implement our recommendations. However, we have adjusted only part of Observation 1 on the final audit report. Comments are not provided for Observations 2 and 3 where BI agrees with the Observations.

### **Observation 1**

The BI disagrees that they were reimbursed for multiple equipment operators and then again for the same employees' labor and benefits, specifically associated with the four-wheel drive flatbed dump truck (flatbed). BI claims the hourly rate they charge their clients of \$75 does not include the operator's hourly rate. BI provided additional information that supports their flatbed rate. We have modified the report and questioned costs related to duplicate billing and have reduced the following amounts:

- \$5,180 of grant funds on the Selby grant
- \$5,200 of grant funds on the Forsythe grant
- \$3,120 of cash match on the Forsythe grant

The BI agrees with the other ineligible and unsupported costs in Observation 1. As a result, no further adjustments were made to the report.