



Transmitted via e-mail

January 30, 2014

Mr. Mark Cowin, Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Mr. Cowin:

Final Report—California Urban Water Conservation Council, Proposition 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the California Urban Water Conservation Council's (Council) grants 4600004192, 4600004193, 4600004228, 4600004230, 4600007871, 4600007875, and 4600007882. These grants were issued by the California Department of Water Resources (Department) under Proposition 50.

The enclosed report is for your information and use. The Council's response to the draft report observations and our evaluation of the response have been incorporated into this final report. In addition, the Department's response to the draft report is also incorporated into this final report. This report will be placed on our website.

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

Sincerely,

Original signed by:

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Laura King Moon, Chief Deputy Director, California Department of Water Resources
Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources
Ms. Diana S. Brooks, Chief, Water Use and Efficiency Branch, California Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
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
Mr. Chris Brown, Executive Director, California Urban Water Conservation Council
Ms. Mary Lou Cotton, Treasurer, Board of Directors, California Urban Water Conservation Council

California Urban Water Conservation Council
Proposition 50 Bond Program
Grant Agreements 4600004192, 4600004193, 4600004228,
4600004230, 4600007871, 4600007875, 4600007882

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50). The \$3.44 billion in bond proceeds finance a variety of natural resource programs.

The California Urban Water Conservation Council's (Council) mission is to increase urban water use efficiency statewide via collaborative partnerships with urban water suppliers, environmental interest groups, and other interested parties. The Council received the following seven Proposition 50 grants from the California Department of Water Resources (DWR):

Urban Water Efficiency Technical Assistance Program (4600004192) – \$506,913 grant to provide technical assistance to water agencies to help them establish conservation programs for their customers.

Smart From the Start (4600004193) – \$104,496 grant to develop model home specifications for both indoor and outdoor water use, and home design improvements to ensure new homes in California are constructed more water efficiently.

Statewide Rebate Program for Cooling Tower Conductivity Controllers (4600004228) – \$349,714 grant to offer rebate incentives to install and maintain conductivity controllers on existing cooling towers where no controllers currently exist.

Statewide Urban Water Agency One-Stop Rebate Program (4600004230) – \$1,250,000 grant to enable small to mid-size water agencies to offer rebate incentives to their customers for water efficient products.

Making the Connections: Comprehensive Urban Water Efficiency Training Program (4600007871) – \$99,649 grant to provide the most current and comprehensive information on water use efficiency programs, policies, retrofits, practices, appliances, fixtures, and economic analysis through a series of statewide workshops.

Reaching Out: Comprehensive Urban Water Use Efficiency Technical Assistance Program (4600007875) – \$197,320 grant to provide the most current and comprehensive information on water use efficiency programs, policies, retrofits, practices, appliances, fixtures, and economic analysis through a technical assistance program.

Innovations That Work: Evaluating New Technologies for Urban Water Use Efficiency (4600007882) – \$147,779 grant to conduct a study that will evaluate, based on good science, at least 12 new technologies, products, and processes for their potential as statewide Best Management Practices (BMPs), to increase water savings over three years that are quantifiable and cost-effective.

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>	<u>Awarded</u>
4600004192	March 6, 2006 through December 31, 2009	\$ 506,913
4600004193	May 1, 2006 through September 17, 2009	\$ 104,496
4600004228	May 1, 2006 through July 31, 2008	\$ 349,714
4600004230	September 7, 2006 through December 1, 2010	\$ 1,250,000
4600007871	January 1, 2008 through December 31, 2009	\$ 99,649
4600007875	January 1, 2008 through December 31, 2010	\$ 197,320
4600007882	January 1, 2008 through March 31, 2011	\$ 147,779

Interim audits were performed because the grants were still in progress or were pending grant agreement amendments. The audit period ending date represents the last reimbursed claim at the time of the audit. The audit objectives were to determine whether the Council'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.

The Council's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR 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 the grant deliverables were completed as required, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the Council's accounting records, timesheets, vendor invoices, and bank statements.
- 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.
- Performed a subcontractor site visit to determine if the subcontractor maintained adequate supporting documentation, charged the Council reasonable administrative fees, and met the required deliverables.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- On a sample basis, evaluated whether 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 observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations 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 complied with the grant agreement requirements. Additionally, the grant deliverables were in progress, except as noted in Observation 2. The Schedules of Claimed and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed and Questioned Amounts

Grant Agreement 4600004192		
For the Period March 6, 2006 through December 31, 2009		
Category	Claimed	Questioned
Statewide Technical Assistance	\$ 276,827	\$ 399
Statewide Communication & Educational Web Support	177,167	0
Research (PMBPs only)	14,280	0
Report Preparation	4,862	0
Total Expenditures	\$ 473,136	\$ 399

Grant Agreement 4600004193		
For the Period May 1, 2006 through September 17, 2009		
Category	Claimed	Questioned
New Home Construction Standards	\$ 17,411	\$ 0
Total Expenditures	\$ 17,411	\$ 0

Grant Agreement 4600004228		
For the Period May 1, 2006 through July 31, 2008		
Category	Claimed	Questioned
Administration	\$ 67,878	\$ 0
Materials/Installation/Implementation	58,850	0
Monitoring and Assessment	712	0
Report Preparation	1,363	0
Total Expenditures	\$ 128,803	\$ 0

Grant Agreement 4600004230		
For the Period September 7, 2006 through December 1, 2010		
Category	Claimed	Questioned
Administration	\$ 197,226	\$ 0
Rebates	856,490	0
Report Preparation	10,000	0
Total Expenditures	\$ 1,063,716	\$ 0

Grant Agreement 4600007871		
For the Period January 1, 2008 through December 31, 2009		
Category	Claimed	Questioned
Administration/Management	\$ 2,549	
Workshops	21,873	\$ 1,047
Total Expenditures	\$ 24,422	\$ 1,047

Grant Agreement 4600007875		
For the Period January 1, 2008 through December 31, 2010		
Category	Claimed	Questioned
Administration/Management	\$ 8,263	\$ 341
BMP Implementation	63,699	106
Cost Effectiveness Analysis	145	0
Landscape Water Use Efficiency	27,900	1,427
Conservation Pricing	115	0
BMP Revisions	20,590	0
UWMP Support	76,608	0
Total Expenditures	\$ 197,320	\$1,874

Grant Agreement 4600007882		
For the Period January 1, 2008 through March 31, 2011		
Category	Claimed	Questioned
Administration/Management	\$ 1,043	\$ 0
Evaluation/Research	34,923	0
Commercial Product Testing	229	0
Total Expenditures	\$ 36,195	\$ 0

Observation 1: Grant Fiscal Controls Need Improvement

The Council needs to improve its grant fiscal controls. Fiscal control deficiencies resulted in questioned grant costs totaling \$3,320 and questioned cost share of \$20,191 under grant 4600007871. The questioned costs were either ineligible per the grant agreement or unsupported.

Additionally, the Council did not maintain a clear audit trail between claimed expenditures and the accounting records. Specifically:

- *Incomplete Accounting Records:* Reimbursed grant expenditures of \$73,630 were not recorded in the grant general ledger accounts. The costs were not questioned because supporting documentation was provided indicating the costs were incurred and paid.
- *Inconsistent Benefit Mark-Up:* The allocation method for payroll mark-up is not clearly documented or consistent. For example, payroll mark-up rates varied from zero to 42 percent for staff hours on grants 4600007871 and 4600007875. The payroll mark-up claimed should be based on actual expenditures incurred and distributed to projects based on the relative benefits received.
- *Inadequate Documentation of Personnel Time Charges:* Council staff time on projects is not adequately documented. The links between projects listed on the timesheets and the personnel costs allocated to various bond funded projects are not readily identifiable.

The grant agreements require detailed invoices with supporting documentation for both state and local share costs. They also require the grantee to maintain and make available for inspection accurate records for all costs, disbursements, and receipts related to its grant activities.

Recommendations:

- A. Remit \$3,320 to DWR for the questioned costs claimed. DWR will make the final determination regarding the disposition of these questioned costs.
- B. Review and approve all project costs to ensure they are eligible, supported, and properly recorded in the Council's accounting records.
- C. Ensure cash match expenditures are adequately supported and appropriate documentation is maintained.
- D. Develop and implement a consistent fringe benefit cost distribution methodology and procedures to ensure staff costs charged to grants are consistent with approved timesheets.

Observation 2: Grant Project Monitoring Needs Improvement

The Council does not adequately monitor and document project activities. The following project monitoring weaknesses were noted during the audit:

- *Inactive and Expired Grants:* There was little or no grant activity being performed on grants 4600004193 and 4600004228, and therefore grant deliverables were not being met. Specifically, according to the Council, due to the economic and housing market downturn, the objectives of grant 4600004193 could not be achieved. In addition, for grant 4600004228, the Council states that due to advances in technology and changes in water meter requirements, the goal of 150 rebates for cooling tower conductivity controllers could not be realized, despite the Council hiring a consultant, a marketing firm, and contracting with water agencies to perform community outreach. Lastly, grant agreement 4600004230 expired on January 31, 2011; however, grant activity was still being performed after this date. The Council states it is currently working with DWR to amend and/or extend the grant agreements.
- *Untimely Quarterly Progress Reporting:* Quarterly progress reports were untimely for all seven grants reviewed. The reports ranged from 1 to 37 months late.

The grant agreements require the grantee to submit quarterly progress reports and statements of costs as a requirement for continued disbursement of grant funds. The progress reports should summarize the work completed during the reporting period and provide a comparison of costs to date with the approved scope of work and project budget.

Recommendations:

- A. Ensure all grant project requirements are met. If grant tasks cannot be accomplished, timely notify the grantor to determine the best course of action, including grant amendment or grant termination.
- B. Develop and implement grant management practices to adequately track project tasks completed and submit timely progress reports. Additionally, reconcile project performance data to ensure accuracy prior to reporting to DWR.

Observation 3: Lack of Valid Consultant Contract

The Council claimed and was reimbursed for consultant costs; however, the consultant's contract expired prior to the grants' beginning dates. Although the Council had an original consultant contract effective October 20, 2004, this contract required all work to be completed by January 31, 2006, which was prior to the DWR grant awards. The Council subsequently provided us a letter dated October 11, 2011 claiming there was a verbal agreement between the Council and the consultant extending the original contract, including an Agreement for Professional Services backdated to July 2, 2007. However, the updated agreement lacked a clear scope of work or final deliverables.

Without evidence of a valid contract that clearly defines the scope of work, allowable and unallowable costs, and final deliverables, there is an increased risk that expenditures are not in compliance with program requirements and final deliverables are not completed as intended.

Grant agreement, section 12, requires the grantee to comply with all applicable federal, state, and local laws, rules, or regulations. Also, DWR's Final 2007 Water Use Efficiency Proposal Solicitation Package states the applicant must comply with all applicable laws when it hires private consultants to implement its project partially or fully. Further, per the State Contracting Manual, a contract must contain a performance term or contract completion dates, the maximum amount to be paid, a clear scope of work, and a performance schedule.

Recommendation:

Execute complete valid contracts with all subcontractors and consultants performing state-funded services and ensure the work performed complies with the grant agreements.

January 3, 2014

Richard R. Sierra, CPA
Acting Chief
Office of State Audits and Evaluations
915 L Street
Sacramento CA 95814

Transmitted Via Email to: OSAEReports@dof.ca.gov

Dear Mr. Sierra:

The California Urban Water Conservation Council ("Council") is in receipt of the Office of State Audits and Evaluations' draft audit report (*California Urban Water Conservation Council - Proposition 50 Bond Program*), dated December 11, 2013. We are pleased to provide the following responses to the report's three observations.

Observation 1: Grant Fiscal Controls Need Improvement

While we agree that the documents we provided did not support the questioned costs in Table 1, we can demonstrate that we have exceeded the cost share for each of the grants which were audited. We are happy to work with DWR staff on resolving the questioned costs in whatever way they feel appropriate.

During the audit, the Council was unable to locate the specific supporting documentation for the questioned cost share in the amount \$20,191 under grant 4600007871. As a result, Council management reversed the cost share in question, and the adjusting entries were recorded for inclusion in the Council's 2011 December year-end financial reporting. In 2011, during the Department of Finance's on-site audit of Council records, Council staff provided documentation supporting the cost share incurred in excess of the contract requirement.

Previous Council management did not include cost share backup documentation expenditures in the project file. However, current policy is to attach backup documentation for both the reimbursable costs and the Council's cost share to the billing packet saved in the grant file.

All grant program expenditures, whether reimbursable or cost share, are reviewed and approved by both the project manager and the executive director prior to submission to the accounting department for billing and inclusion in the Council's CYMA accounting application.

Incomplete Accounting Records - Initially, the process to record all grant expenditure and revenue detail was maintained in Excel worksheets. Only summary information was posted to the Council's CYMA accounting software. The current policy is to post all detailed grant activity to the Accounts Payable and Accounts Receivable applications. The grant revenue and expense detail is then posted through to the General Ledger application.



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Inconsistent Benefit Mark-Up - The reasons for the inconsistencies is that the specifications for payroll benefit mark-ups are indicated in each contract agreement, and the benefit mark-up bases differed among the contracts. In compliance with the signed contract agreements, the Council applied mark-ups as defined in each grant contract. In 2009, prior to the Department of Finance audit, the Council developed a consistent methodology for benefit mark up and we have proposed the use of this methodology in subsequent contracts.

Inadequate Documentation of Personnel Time Charges -Previously, at the start of the grant program, the Council procedure was to maintain the original timesheets, filed chronologically, in a secure location and not attached to the grant billing packet. The policy implemented, post the grant project initiation to which this audit is subject, is to include a copy of timesheets as backup to each grant billing in the grant file and tie the hourly billing rate to the time spent on the specific project. This process associated with each periodic grant billing is still in practice.

During the audit process, Council staff pulled the original timesheets from the secured payroll files and created Excel worksheets defining the labor flow and to ensure staff time had not been double counted. These labor flow worksheets were presented to the audit staff with the specific timesheets referenced and attached as proof of backup.

Observation 2: Grant Project Monitoring Needs Improvement

Financial reporting of grant activity is reviewed monthly by Council staff, and financial statements are produced quarterly for review by both Council staff and the Council Board. Detailed grant revenue and expenditure activity is analyzed, and a comparison to the grant budget is performed, along with a reconciliation, if necessary.

Inactive and Expired Grants - The economic downturn that adversely affected homebuilding led to the inactivity on grant 4600004193. However, in 2012, a new project manager was assigned to this grant, and progress has been made since that time. The Council requested and received a contract extension and an amended scope of work that more accurately reflects what can be achieved in the current housing market. The Council is currently working with a member agency on this project and expects to complete this grant pursuant to the revised scope and with all funds being utilized.

The original scope of work for grant 4600004228, rebates for cooling tower conductivity controllers, called for the use of technology that has since been superseded. In 2012, the Council asked for and received an amended scope of work and a no-cost extension for this grant. Since that time, an agency has been identified with a large-scale project in its service area that meets the grant criteria and will save an estimated 13.2 million gallons of water per year. Council expects to complete this project in 2014.

In regard to grant 4600004230, the Council had been functioning under the understanding that this grant had been extended. Rebates were issued to member agency participants, and reimbursement requests for the subsidized portion of the rebate was submitted by the Council and approved for reimbursement. In 2011, the Council had simultaneously requested an extension to both grants 4600004228 and

4600004230. During the audit, the Council staff could only find evidence of the grant 4600004228 extension. Due to changes in the Council staffing, the follow-through of attaining a signed contract extension for both grants did not occur timely. The situation was rectified in 2012, and a signed contract extension is in effect for both grants.

Untimely Quarterly Progress Reporting - Due to the state Stop Work Order in 2009, gaps of activity, and changes in Council staff, timely grant reporting was not submitted on a consistent basis. This issue has been rectified, and the current Council procedure is to file quarterly reporting and statements of costs in compliance with the grant contract, regardless of the level of activity.

Lack of Adequate Rebate Tracking - The Council practice is to review the Rebate program revenue and expenses, prior to preparation of each quarterly financial statement to ensure that grant revenue is invoiced quarterly and that monthly rebate reports are issued to each agency, along with reconciliation to the individual agency's records. Each Agency is responsible for validating the information in the report, and informing the Council of any discrepancies or questions they may have. In the second half of calendar year 2012, a complete reconstruction of the Rebate program deposits, expenses and grant billings was performed by Council staff. Agency balances were thoroughly examined and adjustments entered as needed. Each Agency was asked to review and approve the reconciliation for their portion of the program, and a meeting was held with DWR program managers to update them to the results.

Observation 3: Lack of Valid Consultant Contract

As a result of the audit, current management learned that the consultant in question was operating under a verbal contract made with previous management. This practice is no longer supported by the Council. Current management requires written contracts with all consultants. The October 11, 2011, letter was to document the oral agreement for the change of rate and extension of the consultant contract period of time. The Council's current practice is to ensure that every grant subcontractor's contracts are current. The original signed contract is stored in a file cabinet in the accounting office, alphabetically in a section designated for contracts. A copy of the contract and addendums are filed in each grant project file for which the subcontractor performs work.

As stated above, the Council is prepared to work with DWR staff on any remaining resolution to these issues. Thank you for the opportunity to respond to the department's observations. Please contact me if you have any questions regarding this information.

Sincerely,

Original Signed By

Chris Brown
Executive Director

Memorandum

Date: December 19, 2013

To: Mr. Richard R. Sierra, CPA
Acting Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, California 95814

From: Diana S. Brooks, Chief
Water Use and Efficiency Branch
Department of Water Resources

Subject: California Urban Water Conservation Council's Grants 4600004192, 4600004193, 4600004228, 4600004230, 4600007871, 4600007875, and 4600007882 under Proposition 50

This is in response to the DOF draft audit report of December 11, 2013 on the California Urban Water Conservation Council's (CUWCC) grants 4600004192, 4600004193, 4600004228, 4600004230, 4600007871, 4600007875, and 4600007882. These grants were issued by the California Department of Water Resources (DWR) under Proposition 50.

The Department of Finance (DOF) draft audit report identified the following:

1. CUWCC Fiscal control deficiencies resulted in questioned grant costs (either ineligible per the grant agreement or unsupported) totaling \$3,320, as follow:

Grant Agreement 4600004192:	\$399
Grant Agreement 4600007871:	\$1,047
Grant Agreement 4600007875:	\$1,874
2. CUWCC did not adequately monitor and document project activities. This included inactive and expired grants, untimely reporting, and the lack of adequate tracking of rebates issued.
3. CUWCC lacked in one instance a valid consultant contract for one of their sub-contractors.

The DOF Draft audit report also recommended the following:

- CUWCC remit \$3,320 to DWR for the questioned costs claimed.
- Ensure that project costs are eligible, supported, and properly recorded in the Council's accounting records.

- Ensure cost share expenditures are adequately supported and appropriate documentation is maintained.
- Develop and implement a consistent fringe benefit cost distribution methodology and procedures.
- Ensure all grant project requirements are met. If grant tasks cannot be accomplished, timely notify DWR to determine the best course of action, including grant amendment or grant termination.
- Develop and implement grant management practices to adequately track project tasks completed and submit timely progress reports.
- Execute complete valid contracts with all subcontractors and consultants performing state funded services and ensure the work performed complies with the grant agreements.

DWR agrees with DOF findings and reiterates that DWR grant agreements require detailed invoicing with supporting documentation for both state and local cost share. Grant agreements also require timely submittal of quarterly progress reports and statements of costs as a condition for continued disbursement of grant funds. The agreements also require that the grantee ensure compliance with all applicable federal, state, and local laws, rules, or regulations.

The following course of action will be taken as part of DWR management of the CUWCC grants:

- Pending the issuance of the final DOF audit report, all questioned grant costs (\$3,320 or whichever amount is identified in the final report) will be applied against future eligible expenditures of the respective projects since all the audited grants are still active.
- DWR will work with CUWCC to ensure that agreements remain active and reports on progress are timely. DWR has since granted time extension amendments to the expiring agreements.
- DWR reminds CUWCC of its contractual obligations under the grant agreements and the requirements to comply with all applicable federal, state, and local laws, rules, or regulations.

If you have any questions or would like additional information, please contact me at (916) 651-7032 or your staff may contact Fethi BenJemaa at (916) 651-7025.

ORIGINAL SIGNED BY:

Diana Brooks, Chief
Water Use and Efficiency Branch
California Department of Water Resources

cc: Kamyar Guivetchi, Chief
Division of Statewide Integrated Water Management, DWR

Laura King Moon, Chief Deputy Director
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Gail Chong, Chief
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Jeffrey Ingles, Chief Auditor
Department of Water Resources

Julie Alvis
Deputy Assistant Secretary
California Natural Resources Agency

Bryan Cash
Deputy Assistant Secretary
California Natural Resources Agency

Mary Lou Cotton, Treasurer, Board of Directors
California Urban Water Conservation Council

EVALUATION OF RESPONSE

We reviewed the California Urban Water Conservation Council's (Council) January 3, 2014 response to the draft audit report. While the Council agreed overall with the audit report observations, the Council provided additional documentation in response to an issue included in Observation 2. The additional documentation is omitted herein for brevity and consisted of records from a third party confirming the final rebate data. After analysis of the additional documentation provided, the issue was removed from Observation 2. The remaining issues in Observation 2 remain unchanged.

The Council also responded to the timesheet issue under Observation 1. We acknowledge that timesheets were provided to support labor costs in most cases; however, there were some costs that remained unsupported. Therefore, the observation remains unchanged.