



Transmitted via e-mail

September 23, 2015

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

Dear Mr. Laird:

Final Report—Capitol Area Development Authority, Proposition 84 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Capitol Area Development Authority's (CADA) grant U59234-0. This grant was issued by the California Natural Resources Agency.

The enclosed report is for your information and use. CADA's response to the report observation 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 CADA. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Alma Ramirez, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Polly Escovedo, Program Manager, California Natural Resources Agency
Ms. Ann Bailey, Chair, Capitol Area Development Authority
Mr. Bob Lagomarsino, Vice-Chair, Capitol Area Development Authority
Ms. Wendy Saunders, Executive Director, Capitol Area Development Authority
Mr. Todd Leon, Project Manager, Capitol Area Development Authority
Ms. Noelle Mussen, Controller, Capitol Area Development Authority

Capitol Area Development Authority
Proposition 84 Bond Program
Grant Agreement U59234-0



Storm Water Drain at 16th and O Streets in Sacramento, CA
Provided by Capitol Area Development Authority

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

MEMBERS OF THE TEAM

Kimberly Tarvin, CPA
Manager

Alma Ramirez, CPA
Supervisor

Staff
Rosalie Bradley

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

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
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(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

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

The California Natural Resources Agency (Resources) administers the Urban Greening for Sustainable Communities Grant Program which provides funding to preserve, enhance, increase, or establish community green areas such as urban forest, open spaces, wetlands, and community spaces.¹

The Capitol Area Development Authority (CADA) is a joint powers authority created by a partnership between the California Department of General Services and the City of Sacramento. CADA administers the state housing and retail elements of the Capitol Area Plan.² CADA is governed by a five member Board of Directors.

CADA received a \$795,000 Proposition 84 grant from Resources to develop the sidewalk and curb area of five city blocks in Sacramento, along 16th Street, between S and N Streets, into an urban greenscape to reduce air and water pollution, increase permeable space, promote infill development, and improve pedestrian safety. The greenscape development comprises offsite improvements of adjoining housing development projects at East End Gateway and the Fremont Building and Park.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement U59234-0 for the period November 1, 2012 through January 31, 2014.³

The audit objectives were to determine whether CADA'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 adequacy of the design plans, structural integrity, or quality of the construction work completed. Further, we did not audit the adjoining housing development projects, or assess the efficiency or effectiveness of program operations.

CADA management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. Resources is responsible for the state-level administration of the bond program.

¹ Grant Agreement U59234-0.

² Joint Powers Agreement, Page 1.

³ An interim audit was conducted because the grant period ends May 1, 2016.

METHODOLOGY

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

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed CADA's accounting records, vendor invoices, and bank statements.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreement.
- Evaluated whether a sample of grant deliverables were met by reviewing design plans, quarterly performance reports, photographs, and certificates of occupancy; and conducted a site visit to verify existence of the completed segments of the greenscape project.

In conducting our audit, we obtained an understanding of CADA's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

We conducted this audit in accordance with generally accepted government performance 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 audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

As of the end of fieldwork, the Capitol Area Development Agency (CADA) claimed costs for two of the four East End Gateway (EEG) sites, and completed construction for three of these sites. The additional EEG site and the Fremont Building and Park projects are awaiting design plan approval by the City of Sacramento before construction can begin.

Except as noted below, the grant expenditures claimed as of January 31, 2014 complied with the grant agreement requirements. The Schedule of Claimed and Questioned Amounts is presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement U59234-0		
Project Element/Location	Claimed ¹	Questioned
Project Management	\$ 45,665	\$ 0
Construction General	8,415	0
East End Gateway Sites 2 and 3	180,312	25,241
Total Project Expenditures	\$ 234,392	\$ 25,241

Observation 1: Inadequate Grant Administration

CADA did not execute proper contractual agreements with its developers for grant work performed, or require adequate supporting documentation for grant-related construction costs prior to paying the developers. Specifically, we identified the following grant administration weaknesses:

1. CADA awarded grant-funded construction work to developers of adjoining housing projects without executing change orders or supplemental agreements incorporating the grant scope of work into the existing developer agreements. Although the developer obtained change orders from its general contractor and subcontractors, these change orders were unsigned, were not formally agreed to or approved in writing by all relevant parties, and did not ensure the grant's work activities, terms, and conditions were required of all parties involved in the project. As a result, a risk exists that future work performed and costs claimed may not comply with grant agreement requirements.

¹ The California Natural Resources Agency awarded \$795,000 and CADA claimed \$234,392 as of January 31, 2014.

2. CADA did not require the developer to maintain and provide documentation of actual construction costs incurred and paid. Instead, CADA relied on the contractor's cost estimate documentation for payment approval. Further, the developer did not require the general contractor to provide subcontractor invoices to support the actual construction costs incurred. While CADA was able to obtain adequate documentation from the subcontractors for most of the costs claimed during the audit period, \$25,241 in costs claimed remain unsupported.

CADA's Board Resolution 12-67 requires all contracts be formal written agreements executed by the Executive Director or designee. Public works contracts of more than \$50,000 and change orders/supplemental agreements of more than \$25,000 or 20 percent of the original contract amount require Board of Directors approval.

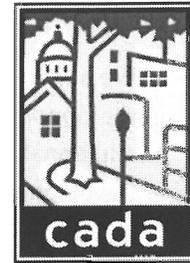
Grant Agreement, section G.1, requires the grantee to maintain satisfactory financial accounts, documents, and records for the project. The Grant Program Guidelines state that the grantee must provide a good audit trail, including original source documents such as purchase orders, receipts, progress payments, invoices, time cards, evidence of payment, etc. The guidelines further state that contracted services may be reimbursed if invoices are presented with payment requests that identify the specific project activities and are supported by evidence of payment.

Recommendations:

- A. Execute new contract agreements or amendments to existing agreements for completion of the remaining grant construction projects incorporating the required grant scope of work.
- B. Require developers to retain and submit documentation to support the actual costs incurred and paid prior to processing the reimbursement payments.
- C. Remit \$25,241 to Resources. Resources will make the final determination on the appropriate method to recover the questioned costs.

August 31, 2015

Richard R. Sierra CPA
Chief, Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706



Transmitted via e-mail

RE: Draft Report – CADA, Proposition 84 Grant Audit

Dear Richard R. Sierra:

Thank you for giving the Capitol Area Development Authority (CADA) the opportunity to review the Draft Audit Report for the 16th Street Greenscape Project, which received grant funding from the State of California Natural Resources Agency as a part of the Urban Greening for Sustainable Communities Grant Program. CADA received the Draft Audit Report on August 19, 2015.

The Draft Audit Report questioned \$25,241 in claims for completed work and found that CADA did not execute proper contractual agreements with the project developer for work performed, and did not receive sufficient documentation of actual costs incurred for completed grant work. Upon review of the Draft Audit Report observations, CADA concurs that it should have incorporated the grant audit guidelines into the Disposition and Development Agreement (DDA) between CADA and the project developer, and should have obtained additional documentation to support the claim for expenditures incurred in execution of grant-funded work from the developer's general contractor and sub-contractors.

In order to address the identified lapses, for the remainder of the grant project, CADA intends to incorporate the grant audit guidelines into contracts for the grant work, as recommended in the Draft Report.

With regard to the recommendation to remit \$25,241 to the Resources Agency, CADA intends to provide documentation to the Resources Agency that demonstrates the grant-funded project's actual costs and expenditures paid. CADA will confer with the Resources Agency to make certain the documentation to be provided is consistent with the grant audit requirements. Having observed the project construction and reviewed project costs, CADA is confident that the distributions in question were made for eligible costs and spent appropriately.

**CAPITOL AREA
DEVELOPMENT AUTHORITY**

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We appreciate the cooperation of your office throughout this audit process and look forward to the opportunity to improve our performance as a result of your review. Should you need any additional information or if we can be of further assistance, please contact Todd Leon, CADA Development Manager, at 913-322-1272.

Sincerely

Original signed by Wendy Saunders

Wendy Saunders
Executive Director

Copied:

Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Polly Escovedo, Program Manager, California Natural Resources Agency
Ms. Ann Bailey, Chair, Capitol Area Development Authority
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EVALUATION OF RESPONSE

The Capitol Area Development Authority's (CADA) response to the draft report has been reviewed and incorporated into the final report.

CADA agrees with the observation and intends to incorporate the grant audit guidelines into contracts for the remaining grant work. In addition, CADA should also incorporate the grant scope of work into the contracts as indicated in the report recommendation.