



Transmitted via e-mail

August 13, 2015

Mr. Tomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Dear Mr. Howard:

Final Report—Central Coast Water Quality Preservation, Inc., Propositions 40 and 50 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the Central Coast Water Quality Preservation, Inc.'s (CCWQP) grant agreements 05-103-553 and 05-105-553 issued by the California State Water Resources Control Board.

CCWQP'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 CCWQP. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or John Ponce, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Leslie Laudon, Manager, Division of Financial Assistance, California State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, California State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, California State Water Resources Control Board
Ms. Wendy Westerman, Staff Services Manager I, California State Water Resources Control Board
Mr. Josh Ziese, Loans and Grants Section, Division of Financial Assistance, California State Water Resources Control Board
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
Mr. Kirk Schmidt, Executive Director, Central Coast Water Quality Preservation, Inc.

Central Coast Water Quality Preservation, Inc.
Proposition 40 and 50 Bond Programs
Grant Agreements 05-103-553 and 05-105-553



Drip Irrigation on Lettuce Field
Source: Ag-Waiver Program Water Toxicity Assessment Presentation (Quail Creek Watershed)

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

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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

In 2002, California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act (Proposition 40), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act (Proposition 50). The bond proceeds of \$2.6 billion and \$3.44 billion, respectively, finance a variety of resource programs.

In 2005, the California State Water Resources Control Board (Board) awarded grants of \$499,500 (through Proposition 40) and \$999,133 (through Proposition 50) to the Central Coast Water Quality Preservation, Inc. (CCWQP). The activities associated with the grants generally consisted of improving water quality in local watersheds by supporting best management practices by the irrigated agricultural community. Both grants required a match of \$505,000 and \$266,442, respectively.

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>
05-103-553	December 15, 2005 through November 30, 2010
05-105-553	December 15, 2005 through June 30, 2009

The audit objectives were to determine whether CCWQP'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.

CCWQP management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board 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:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed CCWQP'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 already reimbursed with grant funds.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation, such as reports required by the grant agreements.

In conducting our audits, we obtained an understanding of CCWQP's internal 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 audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits 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.

Except as noted below, the grant expenditures claimed complied with the grant requirements. Additionally, the grant deliverables were completed as specified in the grants. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Grant Agreement 05-103-553		
Budget Category	Claimed	Questioned
Personnel Services	\$ 141,205	\$ 134,725
Professional and Consultant Services	358,295	-
Total Grant Funds	499,500	134,725
Match Funds¹		
Personnel Services	209,541	206,758
Operating Expenses	48,802	14,400
Equipment	54,955	-
Professional and Consultant Services	370,492	-
Total Match Funds	683,790	221,158
Total Project Expenditures	\$ 1,183,290	\$ 355,883

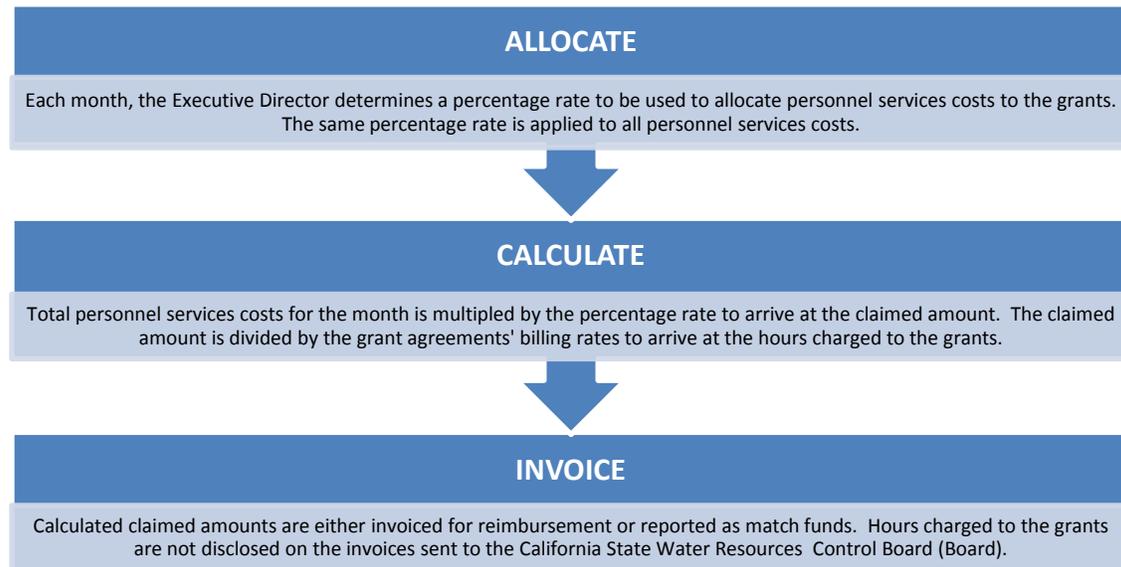
Grant Agreement 05-105-553		
Budget Category	Claimed	Questioned
Personnel Services	\$ 115,881	\$ 101,566
Professional and Consultant Services	883,252	-
Total Grant Funds	999,133	101,566
Match Funds²		
Personnel Services	103,613	81,888
Operating Expenses	52,369	-
Professional and Consultant Services	239,471	24,197
Total Match Funds	395,453	106,085
Total Project Expenditures	\$ 1,394,586	\$ 207,651

¹ CCWQP did not meet its overall match requirement by \$42,368 (refer to Observation 2 for details).

² CCWQP exceeded the overall match requirement by \$22,926 (refer to Observation 2 for details).

Observation 1: Inadequate Audit Trail for Personnel Services Costs

Claimed personnel services costs for two salaried employees (Executive Director and Technical Program Manager) are questioned due to an inadequate audit trail. The allocation of personnel services costs to the two grants was based solely on the Executive Director's observation of grant activities and the work product generated. Below is the methodology of how personnel services costs are determined:



The percentage rate determined by the Executive Director is not supported by documentation, such as timesheets, detailed calendars, activity logs, or evidence to demonstrate that time spent was grant-related. Although the Central Coast Water Quality Preservation, Inc. (CCWQP) provided documentation that the total personnel services costs were incurred and deliverables were completed, we could not verify the accuracy of \$236,291 in allocated and claimed personnel services costs due to the absence of an adequate audit trail for the allocated amounts. Because match costs were claimed under the same method stated above, we also questioned \$288,646 in related personnel services match costs.

Exhibit C, section 4, of both grant agreements stipulates the grantee will maintain project-related fiscal records for an audit. In addition, section 12 states the grantee agrees, that at a minimum, its fiscal controls and accounting procedures will be sufficient to permit tracing of grant funds to a level of expenditure adequate to establish that funds have not been used in violation of the agreement. Moreover, section 24 of grant agreement 05-103-553 and section 25 of grant agreement 05-105-553 stipulate the grantee agrees to adequately document all significant actions relative to the project.

Recommendations:

- A. The Board should determine an appropriate resolution regarding the questioned personnel services costs and related match, and whether to seek cost recovery of the \$236,291 in reimbursed costs.

- B. For future grants, CCWQP should ensure a clear audit trail exists for all claimed expenditures. The audit trail should facilitate the tracing of expenditures claimed on payment requests to the accounting records and/or source documents. Bridging documents should be developed to reconcile accounting system information with the payment requests.

Observation 2: Inadequate Fiscal Controls over Match Funds

We identified the following errors and misstatements in the reporting of claimed match funds:

- \$20,447 of overstated professional and consultant services match costs due to the lack of supporting documentation.
- \$3,750 of double-claimed professional and consultant services match costs.
- \$14,400 of unallowable operating match expense (rent).

These errors indicate that control weaknesses in CCWQP's fiscal oversight exist which increases the risk that match funds are not grant-related, allowable, supported, and properly recorded. As a result of these errors and the questioned match funds identified in Observation 1, CCWQP did not meet its match requirement by \$42,368 for grant 05-103-553. However, for grant 05-105-553, questioned match funds were offset by excess eligible and allowable match funds resulting in CCWQP exceeding the match requirement by \$22,926.

The grant agreements required the grantee to report eligible match costs only as established on Exhibit B, section 3, line item budget. Rent was not specifically listed as an allowable operating expense in the grant budget. The grant agreements also required that the grantee establish sufficient fiscal control and accounting procedures.

Recommendations:

- A. The Board should determine an appropriate resolution regarding the questioned match funds.
- B. For future grants, CCWQP should design and implement policies and procedures to ensure the accuracy of claimed match.

Central Coast Water Quality Preservation, Inc.

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July 8, 2015

Mr. Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L St.
Sacramento, CA 95814-3706

Re: Draft Report CCWQP Audits
Grant 05-103-553
Grant 05-105-553

Dear Mr. Sierra

Thank you for providing Central Coast Water Quality Preservation, Inc. (CCWQP) with a draft report of the audits of grants 05-105-553 and 05-103-553. In summary the report does not dispute that CCWQP completed all of the work called for in the grants. It primarily questions the method used to track allocation of the time spent by two salaried employees of CCWQP on the grant projects under the budget category of "Personnel Services". There is no question that the personnel services were performed by the two salaried employees, only that, as stated in the audit, that the records maintained did not comport with the level of fiscal controls and accounting procedures of generally accepted government performance auditing standards.

CCWQP was incorporated in December, 2004, for the sole purpose of conducting water quality monitoring, and related educational outreach, for the benefit of farmers within the jurisdiction of the Central Coast Regional Water Quality Control Board (RWQCB). During the relevant period of these grants CCWQP conducted water quality monitoring at 50 sites within the region, divided up into the northern management unit (NMU) and southern management unit (SMU), as well as follow-up monitoring, all consistent with the Irrigated Lands Regulatory Program, then called the Ag Waiver. This work was funded by three State Grants:

1. Proposition 50 Grant – 05-105-556 (subject of this audit) covering the NMU,
2. Proposition 50 Grant – 04-400-553 covering the SMU, and
3. Proposition 40 Grant – 05-103-553 (subject of this audit) covering follow-up monitoring.

100% of the time of CCWQP's salaried staff, consisting of two individuals, Kirk Schmidt, Executive Director, and Sarah Greene, Technical Program Manager, was allocated to work specified in these grants and the relevant requirements of the Ag Waiver Monitoring and Reporting Program. As both employees were at all times salaried they were not required to maintain hourly employment records.

Managing the Cooperative Monitoring Program on Behalf of Agriculture

At the commencement of the invoice reporting period for the subject grants CCWQP had no prior experience with Proposition 40 or Proposition 50 grants. Initial invoices required revision to conform with state reporting requirements. This was a learning experience for us and we relied heavily on the Grant Administrator at the RWQCB, Allison Jones, and their Grants Analyst, Diane Glanville. In March and April, 2008, Alison Jones asked for greater detail on how charges were apportioned between the grants (email dated 3/17/2008, attached.) This was followed by an email from Alison Jones on March 21, 2008, (attached) suggesting a reporting method:

“1. Documentation of the match charges--this can be a simple table that shows work done/material supplied, etc., who provided the match, and the amount.

2. A brief narrative explanation of the rationale for dividing some charges equally between the 05-103 and 04-400 grants, and which charges are treated that way. This doesn't need to be long, but it needs to be clear why you are doing it this way, and that although you submit duplicate documentation, you are not billing twice for the same work.”

This was promptly responded to by Kirk Schmidt on March 24, 2008, with an email and letter (attached) detailing a revised reporting format so that there would be clarity as to allocation of the expenses and personnel services. An example of the breakdown of the allocation of personnel services, which was part of the new invoice supporting documentation format, for the invoice period of May through October of 2007 is also attached.

This method of supporting the allocation of personnel services was used on all subsequent grant invoices. These were not only reviewed by Alison Jones, they were reviewed, and occasionally commented upon, by Diane Glanville and Lynne Cunningham of the Grants and Bonds Unit at the State Water Board. At no time, prior to commencement of the audit of CCWQP books and records, was it brought to our attention that a greater level of recordkeeping was necessary, or appropriate. All of the work shown as personnel services on the grant invoices was performed by CCWQP staff.

The audit draft report, and the actual audit work performed by Joshua Mortimer in our offices, raised issues regarding our methodology not complying with state accounting standards. Prior to that time we were not aware that a greater detail of recording was required, and at all times operated with the understanding that the method used was consistent with the written requirements of the two grants.

Recommendation A. The items shown as “questioned” personnel services were performed and accurately applied. This is not a basis for disallowing this item in each grant. The grant match work performed on both grants significantly exceeds the match required, and on Grant 05-105-553 exceeds the required match even after the unwarranted adjustment for the questioned match. For these reasons it is inappropriate to suggest that the State Water Board seek to recover the questioned amount allocated to personnel services.

Recommendation B. CCWQP agrees that in all future grants it will ensure a clear audit trail for all claimed expenditures, as recommended.

Observation 2: CCWQP is not certain what the \$20,447 professional and consultant service match costs refers to and therefore cannot verify this item. The same may be said for the \$3,750 professional and consultant services match costs. The \$14,400 on account of rent was not allowable as match.

In conclusion, CCWQP expended personnel services in performance of the two grants. It is not correct to flag as questionable the performance of these services. It may be more reasonable to note that the state accounting standards were not followed by CCWQP as to this item, but not question the provision of the work in performance of the grant.

CCWQP appreciates the information provided to us by the Department of Finance to improve our future grant reporting. Please contact me if you have any questions regarding the issues raised in this response to the Draft Report.

Sincerely
Central Coast Water Quality Preservation, Inc.

{original signed by}

Kirk F. Schmidt
Executive Director

Encl. email from Alison Jones of 3/17/2008
email from Alison Jones of 3/21/2008
email with attachment from Kirk Schmidt of 3/24/2008
example of Personnel Services report format – May to October, 2007

RS-DOF 7-8-15.docx

EVALUATION OF RESPONSE

Central Coast Water Quality Preservation, Inc.'s (CCWQP) response to the draft report has been reviewed and incorporated into the final report. We acknowledge CCWQP's willingness to address some of our recommendations.

Along with its response, emails and correspondence between CCWQP and the Central Coast Regional Water Quality Control Board were submitted but omitted herein for brevity. We acknowledge receipt and review of these documents. In evaluating the response, we provide the following comments:

Observation 1: Inadequate Audit Trail for Personnel Services Costs

CCWQP partially disagreed with Observation 1. CCWQP agreed to ensure a clear audit trail for all claimed expenditures for future grants. However, CCWQP disagreed that personnel services costs and related match should be questioned. No new information was made available to us that would require further analysis. Therefore, our observation and recommendations will remain unchanged.

Observation 2: Inadequate Fiscal Controls over Match Funds

CCWQP agreed with Observation 2 in that the \$14,400 of claimed rent was not allowable as match but was uncertain about the other referenced amounts. We communicated the questioned professional and consultant services match at the exit conference. Subsequent to receiving CCWQP's response to the draft report, we provided CCWQP the evidence used to question the match. We would like to emphasize that strengthening fiscal controls over match funds would reduce the errors and misstatements identified in the audit. The response, including enclosures, provided no new information that would change our conclusion. Therefore, no changes were made to Observation 2.