



Transmitted via e-mail

March 24, 2014

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

Dear Mr. Howard:

Final Report—City of Culver City, Proposition 50 Interim Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its interim audit of the City of Culver City's (City) Proposition 50 grant 04-417-554-6 for the period April 2005 through March 2013.

The enclosed report is for your information and use. The City'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 the City. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Alexis Calleance, 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, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board
Ms. Kim Gossen, Fiscal Unit Manager, State Water Resources Control Board
Ms. Wendy Westerman, Staff Services Manager I, State Water Resources Control Board
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. John Nachbar, City Manager, City of Culver City
Mr. Jeff Muir, Chief Financial Officer, City of Culver City
Mr. Charles D. Herbertson, Director of Public Works, City of Culver City
Mr. Damian Skinner, Environmental Programs and Operations Manager, City of Culver City

INTERIM AUDIT REPORT

City of Culver City Proposition 50 Bond Program Grant Agreement 04-417-554-6



Ballona Creek Bike Path Rain Garden
Source: www.culvercitytimes.com

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Alexis Calleance
Supervisor

Staff
Carlos Carrazco

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 November 2002, 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 City of Culver City (City) was awarded a \$1.19 million grant from the State Water Resources Control Board (SWRCB) to design and construct rain gardens to collect irrigation and storm water runoff, install catch basins, and strategically place trash and recycling receptacles throughout the City to minimize pollutant loads in Ballona Creek.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant agreement 04-417-554-6 for the period April 14, 2005 through March 31, 2013.¹ The audit objectives were to determine whether the City'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 City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The California Natural Resources Agency and SWRCB are responsible for the state-level administration of the bond program.

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 agreement, and applicable policies and procedures.
- Reviewed the City's accounting records, vendor invoices, and bank statements.
- Selected a sample of claimed expenditures to determine if costs 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.

¹ An interim audit was conducted on grant 04-417-554-6 as the grant period is April 14, 2005 through March 31, 2014.

- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation and conducting a site visit to verify project existence.

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 interim audit 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 available for inspection at the time of our audit were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 04-417-554-6		
Task	Claimed	Questioned
Operating Expenses	\$ 133,449	\$ 0
Professional and Consultant Services	1,060,651	0
Total Grant Funds	1,194,100	0
Match Funds		
Personnel	400,075	400,075
Professional and Consulting Services	126,578	26,275
Total Project Expenditures	\$ 1,720,753	\$ 426,350

Observation 1: Inadequate Audit Trail for Claimed Match Funds

The City claimed \$426,350 in match funds without maintaining adequate supporting documentation. Included in the unsupported match was \$400,075 of personnel costs, and \$26,275 of personnel costs misclassified as professional and consulting services.

The City’s accounting system does not track personnel hours by project. In addition, employees that charged time to the grant were not required to maintain detailed calendars, activity logs, or any other form of documentation to demonstrate time spent on the grant. The evidence provided to us during fieldwork was insufficient. Because the City did not maintain a sufficient audit trail, we were unable to obtain reasonable assurance that claimed match funds of \$426,350 were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.

Grant 04-417-554-6, Exhibit C, section 5, states supporting documentation pertaining to the performance of the grant agreement should be retained for 35 years after the final payment. In addition, Exhibit C, section 1(1.1), states the Grantee agrees, that at a minimum, its fiscal control and accounting procedures will be sufficient to permit tracing of grant funds.

Recommendations:

Before the grant period's end date, the City should ensure a clear audit trail exists for all claimed match funds. 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.

SWRCB will make the final determination regarding the questioned match costs.



CITY MANAGER'S OFFICE

CITY OF CULVER CITY

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JOHN M. NACHBAR
CITY MANAGER

March 12, 2014

Mr. Richard R. Sierra, CPA
State of California Department of Finance
915 L Street
Sacramento, CA 95814

Subject: City of Culver City Proposition 50 Interim Grant Audit

Dear Mr. Sierra:

Thank you for the opportunity to respond to the draft audit findings contained in your letter dated February 5, 2014 for the City of Culver City (City) Proposition 50 grant project 04-417-554-6.

In Observation 1 of your letter, you state that the City did not maintain adequate supporting documentation for \$400,075 in personnel cost matching funds. I respectfully disagree with this observation for several reasons. The Proposition 50 grant agreement 04-417-554-6 does not provide specific documentation instructions for tracking soft match. It simply states that it must be tracked. Similarly, the State Water Resources Control Board's Project Directors Resource guide (Guide) states, "To properly document personnel hours, a grantee shall use the Grantee Labor Certification form to list employee names, classifications, total project hours for the billing period, hourly billing rate, and total amount billed." The Guide does not provide specific documentation instructions for tracking soft match. The Guide's sole requirement is to use the Grantee Labor Certification form to guarantee the personnel hours spent working on grant scope. Both of these documents are attached to this letter for your reference.

Despite the lack of direction in the documents mentioned above, I believe the City adequately tracked soft match through employee timesheets and spreadsheets. All hours were certified and submitted to the State using the required Grantee Labor Certification form. The City would have operated differently if the Department of Finance's requirement to track soft match through the City's payroll system was known.

Even though we believe our soft match tracking methods complied with the grant agreement, we wish to mitigate the State's concerns in this area. Therefore, the City is following your recommendation to develop a bridging document to link the City's payroll system ledger to the submitted labor certifications. Personnel hours from timesheets and spreadsheets have been summarized and specific costs for all work performed will be based on payroll system ledger data before the March 31, 2014 deadline.

Thank you for the opportunity to remedy the findings of the interim audit.

Sincerely,

ORIGINAL SIGNED BY

John M. Nachbar
City Manager

cc: Charles D. Herbertson, P.E., LS, Director of Public Works and City Engineer

EVALUATION OF RESPONSE

The City's response to the draft audit report has been reviewed and included in the final report. We acknowledge the City's willingness to implement our recommendations. Attachments referenced in the response were omitted for brevity.

The City disagrees that an inadequate audit trail for claimed match funds exists. The City stated in its response that the grant agreement does not provide specific instructions for tracking personnel match expenditures. The City also stated it followed the guidelines for documenting personnel hours as found in the *Project Directors Resource Guide* (Guide). Although the City followed the Guide in respect to documenting personnel hours, the Guide's Introduction section, page 3, states "this manual does not supersede or take the place of any provisions of your grant agreement." As noted in our observation, grant 04-417-554-6 requires more specific documentation regarding the accounting of project funds.

As such, the observation and recommendation will remain unchanged, and SWRCB will make the final determination regarding the disposition of the questioned match.