



Transmitted via e-mail

May 6, 2013

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

Dear Mr. Howard:

Final Report—County of Riverside Proposition 13 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the County of Riverside's (County's) grant 04-203-558 for the period June 27, 2005 through March 31, 2011.

The enclosed report is for your information and use. The draft report was issued March 5, 2013, and the County's response to the draft report required further analysis. As a result of our analysis, the report was modified and Observation Two was deleted. See the Evaluation of Response for explanation. This report will be placed on our website.

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

Sincerely,

Original signed by:

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

Enclosure

cc: 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
Mr. Christopher Hans, Chief Deputy County Executive Officer, County of Riverside
Mr. Alex Gann, Project Director, County of Riverside

AUDIT REPORT

County of Riverside Proposition 13 Bond Program Grant Agreement 04-203-558



Title: Kabian Park Reserve Wildlife Habitat Area

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Lisa Negri
Supervisor

Staff
Danielle Brandon

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
915 L Street, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13). The \$1.97 billion of bond proceeds provide grants to finance a variety of natural resource programs.

The County of Riverside Executive Office (County) received a \$2,617,602 Proposition 13 grant from the State Water Resources Control Board (Board) under the Watershed Protection Program. The grant's purpose is to improve water quality in the San Jacinto River by developing a comprehensive program to identify sources of pollutants, develop management practices to control pollutants, and control land use in the area to minimize future degradation.

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 04-203-558 for the audit period June 27, 2005 through March 31, 2011.

The audit objectives were to determine whether the County'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. Further, no assessment was performed on the reasonableness of the land acquisition costs or the conservation value of acquired land or projects completed.

County management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Board and the Natural Resources Agency 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 grantee's accounting records, 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 procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Conducted a site visit to verify project existence.
- Evaluated whether a sample of grant deliverables required by the grant agreement 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 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 were in compliance with the requirements of the grant agreement. The County was unable to complete all the deliverables of the grant. Specifically, the grant scope included purchasing 300 acres from willing sellers of prime riparian and wetland habitat and installing fencing and barricades to restrict access. However, according to the County, several of the properties initially identified were purchased by other parties and sellers did not accept the County’s offer on several other properties. The County was ultimately able to acquire 71 acres. Other deliverables of the grant were completed as required. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement 04-203-558		
Task	Claimed¹	Questioned
Personnel Services	\$ 14,227	\$ 0
Land Acquisitions	570,931	37,500
Professional Services	42,224	3,375
Total Grant Funds	627,382	40,875
Match Funds	653,591	0
Total Project Expenditures	\$1,280,973	\$40,875

Observation 1: Questioned Costs

The County double billed the Board \$37,500 for land acquisition appraisal costs. Specifically, the County was billed twice for two land acquisition appraisals from one of its contractors and claimed both billings for state reimbursement.

In addition, the County claimed \$3,375 for a contractor invoice not related to the project scope. The County also allowed the contractor to submit invoices with duplicate invoice numbers making identification of properly incurred expenditures difficult.

The grant agreement requires the County to maintain adequate supporting documentation for expenditures and submit reimbursement requests for actual project costs. Prior to completion of the audit, the County remitted \$40,875 to the Board for the questioned costs.

Recommendation:

The County should develop and implement procedures to ensure proper review of vendor invoices prior to payment and submission of reimbursement requests. The procedures should include requirements that contractors use unique invoice numbers.

¹ The Board awarded \$2,617,602; however, the County only claimed \$627,382.



Jay E. Orr
County Executive Officer

George A. Johnson
Assistant County Executive Officer

Executive Office, County of Riverside

March 19, 2013

David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

RE: County of Riverside Proposition 13 Grant Audit 04-203-558
Project Title: San Jacinto Watershed Improvement and Protection Plan

Dear Mr. Botelho,

Thank you for the opportunity to respond to the draft audit report for the above-mentioned project. On behalf of the County of Riverside, I offer the following comments that address the audit process and results.

The grant description on page three of your letter states, "The County was unable to complete all the deliverables of the grant." Specifically, "the County was unable to purchase 300 acres as described in the grant scope." As a point of clarification, our scope was written in 2003 and could not have anticipated the rapid escalation in land values that occurred between 2003 and 2008 within Riverside County. As one of the fastest growing regions of the country, land asking prices surpassed what was reasonable for many properties we considered. In addition, the number of willing sellers available was reduced as some property owners decided to develop their property instead of seeking conservation of the land.

County staff met regularly with the Santa Ana Regional Water Quality Control Board to keep them apprised of the land acquisition process. The Regional Board staff offered guidance and technical assistance with potential acquisition areas and the project area was expanded in order to search for available properties. This was well documented and understood at the time that reaching 300 acres might not be achievable due to higher than anticipated asking prices. While County was able to acquire the 71 acres of suitable acreage, what we were able to acquire was proportional with the actual expenditures for the project (23% of the overall grant).

Observation 1: Questioned Costs

County acknowledges that we received duplicate billings from the Resource Conservation Agency. This was partly due to a long-term illness of their accountant and our insistence, nonetheless, that they provide timely reports/reimbursement requests. Upon additional research, it became apparent that the same invoice was inadvertently submitted during two separate reporting periods. Staff acknowledged that better tracking of the land acquisition activity could have been performed and this would have made the transactional process more

accurate. Staff has confirmed that the issues discovered have been corrected. In addition, once the field auditor noted the dual billing, County immediately corrected the issue by following through with repayment to the State (see attached letter).

County acknowledges that an invoice for a different grant was inadvertently applied to this grant. The contractor previously worked on multiple grant projects for County and there was a tracking error with respect to logging this expense into our system. In addition, the contractor's invoice numbers were not consistent during the term of the grant. County has added internal procedures to avoid these types of issues in the future. This item was also corrected immediately and County repaid the State.

Observation 2: Unlicensed Contractor Used for Grant Related Work

The draft letter indicates that County did not verify the contractor's license prior to commencement of work. Grant agreement section 23 states, "Professionals: The grantee agrees that only licensed professionals will be used to perform services under this agreement where such services are called for."

The audit points out County did not ensure that the Grant Coordinator, who was working as an independent contractor, had a business license during the first year of contract with County. County disputes this interpretation, as there is no apparent nexus between the term "licensed professionals" and a "business license." We find no language within the grant terms that suggest a business license is required. County interprets this section to include professions that require licensing through a state agency and include professionals such as nurses, engineers, architects, and attorneys. The position of grant coordinator does not fall into one of these licensed professional categories and therefore no licensed professional was required to perform the duties of grant coordinator. County did utilize the services of fully licensed appraisers.

Our Purchasing Department and County Counsel review the development of Requests for Proposal (RFP) and ensure that vendors meet minimum qualifications, have the appropriate credentials or licenses as specified within the RFP.

Our County Counsel reviewed Grant Term No. 23 and has determined the scope of work did not rise to the level of requiring a licensed professional. In keeping with the grant term, County did not need a licensed contractor because "such services were not called for."

Business licenses are not typically required as part of our RFP process. County Counsel indicates that it does not believe a business license has any reflection on the capability of a vendor. Often, the business license program is more associated with revenue generation than actual validation that a vendor is qualified to perform a specific business activity.

Thank you again for the opportunity to provide comments to the Draft Audit Report. The County of Riverside respects the State's efforts to ensure financial responsibility in the granting process. If you have any questions regarding this letter, please feel free to contact me at (951) 955-1110.

Sincerely,

Original signed by:

Christopher Hans, Chief Deputy County Executive Officer

Enclosure

EVALUATION OF RESPONSE

We reviewed the County of Riverside's (County) response dated March 19, 2013. The attachments referenced in the County's response were omitted for brevity. We acknowledge receipt and review of these attachments. Comments are not provided for Observation 1 where the County agrees with the Observation. The following comments relate to Observation 2.

Observation 2

The County states the grant agreement only refers to licensed professionals which the County interprets as referring to professionals that require licensing through a state agency such as nurses, engineers, etc. The County disagrees that the grant agreement or their Request for Proposal required contractors to hold business licenses. Grant agreement section 24 states only licensed professionals will be used to perform services where such services are called for. Because the term "licensed professional" is not defined in the grant agreement, we determined the County's interpretation is reasonable.

We have modified the report and deleted Observation 2.