



Transmitted via e-mail

November 21, 2011

Mr. Jim Branham, Executive Director
Sierra Nevada Conservancy
11521 Blocker Drive, Suite 205
Auburn, CA 95603

Dear Mr. Branham:

Final Report—Nevada County Resource Conservation District, Propositions 50 and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the following Propositions 50 and 84 grants issued to the Nevada County Resource Conservation District (District):

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
G0770003	February 11, 2008 through August 31, 2009	\$ 68,000
G0732003	May 15, 2008 through September 30, 2010	\$ 406,000
3007-221	June 25, 2008 through September 30, 2010	\$ 235,007

The District's response to the report observations are incorporated into this final report. The District agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its operations. This report will be placed on our website.

We appreciate the assistance and cooperation of the District. 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: On following page

cc: Mr. Robert Ingram, Board President, Nevada County Resource Conservation District
Ms. Janet Blake, Administrator, Nevada County Resource Conservation District
Mr. Christopher Dallas, Project Lead, Sierra Nevada Conservancy
Ms. Julie Griffith-Flatter, Project Lead, Sierra Nevada Conservancy
Mr. David Thesell, Deputy Chief, Division of Land Resource Protection, Department of
Conservation
Ms. Jan Holder, Grants Administrator, State Watershed Program, Department of
Conservation
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural
Resources Agency

AUDIT REPORT

Nevada County Resource Conservation District Propositions 50 and 84 Bond Program Grant Agreements G0770003, G0732003, 3007-221



Nevada County, Section of Community Shaded Fuelbreak Project, March 2011

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Lisa Negri
Supervisor

Staff
Michael Barr
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
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coast Protection Bond Act of 2006 (Proposition 84) for \$3.44 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of resource programs and are administered by several state agencies that provide grants to local government and non-profit organizations.

The Nevada County Resource Conservation District (District), founded in 1943, serves all of Nevada County and western Sierra County. Its mission is to promote responsible resource management within its jurisdiction through leadership, education, technical and financial assistance, and facilitation. The District's vision is to assist landowners and land managers to establish a balance between a high quality rural environment, a biologically diverse landscape, and a healthy economy for the community.¹

The District received the following two Proposition 84 grants from the Sierra Nevada Conservancy (Conservancy):

- **Grant G0770003**—Environmental Benefits of Grazing Educational Tour and Video Grant (Grazing Grant). The purpose of this \$68,000 grant was to plan and coordinate ten multi-regional educational workshops on the benefits of grazing. The grant also provided funding for the production of a professional video to educate viewers on the benefits of grazing in protecting natural resources, and on providing fuel reduction to communities.
- **Grant G0732003**—Nevada County Shaded Fuelbreak and Riparian Forest Restoration Project (Fuelbreak Grant). The purpose of this \$406,000 grant is to complete the remaining 30 percent of the Nevada County Community Shaded Fuelbreak Project started in 2004, to reduce the risk of catastrophic wildfire. Specific activities include: coordinate/contract with private and public landowners for implementation of fuels reduction treatment and survey; and map and document treatment work for development of educational materials.

The District also received the following Proposition 50 grant from the Department of Conservation (DOC):

- **Grant 3007-221**—Watershed Coordinator Grant. The purpose of this \$235,007 grant is to provide funding for a Watershed Coordinator position in the District, benefitting the upper and lower Bear Watershed. Grant objectives are to develop long term watershed coordination, increase awareness, and provide educational and outreach opportunities that directly benefit the Bear River Watershed.

¹ Source: <http://www.ncrcd.org/index.php/about/>

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the following grants:

<u>Grant Agreements</u>	<u>Audit Period</u> ²	<u>Awarded</u>
G0770003	February 11, 2008 through August 31, 2009	\$ 68,000
G0732003	May 15, 2008 through September 30, 2010	\$ 406,000
3007-221	June 25, 2008 through September 30, 2010	\$ 235,007

The audit objectives were to determine whether the District's grant expenditures were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The District's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. The Conservancy, DOC, and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

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

- Interviewed key personnel.
- Obtained an understanding of the grant-related internal controls.
- Examined the grant files maintained by the Conservancy and DOC, the grant agreements, and applicable policies and procedures.
- Reviewed the District'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 existence.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering bond funds. The audit was conducted from January 2011 through October 2011.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

² An interim audit was conducted on grants G0732003 and 3007-221, as the grant terms end in March 2012 and July 2011, respectively.

Except as noted below, the Nevada County Resource Conservation District's (District) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedules of Budget, Claimed, and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Budget, Claimed, and Questioned Amounts

Grant Agreement G0770003 Grazing Grant For the Period February 11, 2008 through August 31, 2009			
Category	Budget	Claimed	Questioned
Planning, coordinating and conducting workshops	\$50,700	\$ 50,700	\$ 12,164
Professional Video Development	10,000	10,000	0
Direct Administrative Costs	7,300	7,284	7,284
Total Expenditures	\$68,000	\$ 67,984	\$ 19,448

Grant Agreement G0732003 Fuelbreak Grant For the Period May 15, 2008 through September 30, 2010			
Category	Budget	Claimed	Questioned
Project Management, Contract Coordination, Landowner Outreach and Coordination, Public Outreach	\$ 62,000	\$ 24,669	\$ 1,977
Contracted Registered Professional Forester	60,000	46,001	0
Permitting	7,500	1,200	0
Contracted Fuel Load Reduction Work	220,000	102,331	0
Riparian Brochure Production/Printing	10,000	0	0
Contracted Biologist	3,000	0	0
Administrative Expenses	43,500	20,904	20,904
Total Expenditures	\$ 406,000	\$ 195,105	\$ 22,881

Grant Agreement 3007-221 Watershed Coordinator Grant For the Period June 25, 2008 through September 30, 2010			
Category	Budget	Claimed	Questioned
Salaries and Benefits	\$ 189,447	\$ 94,413	\$ 2,638
Equipment	3,500	2,364	0
Operating Costs	11,407	8,617	
Administration	30,653	15,809	15,809
Total Expenditures	\$235,007	\$121,203	\$ 18,447

Observation 1: Ineligible and Unsupported Costs

The District claimed and received reimbursement for expenditures that were either double billed, ineligible, or unsupported as follows:

Summary of Questioned Costs

	Grazing Grant	Fuelbreak Grant	Watershed Coordinator Grant
Duplicate Billing	\$ 10,548		
Administration	7,284	\$20,904	\$15,809
Salaries and Benefits		1,977	2,638
Travel	883		
Workshop	733		
Total	\$ 19,448	\$22,881	\$18,447

- Duplicate Billing. The District claimed \$10,548 for planning and coordinating workshops in Anderson, Catheys Valley, and Jamestown; however, these same expenditures were reimbursed by the California Association of Resource Conservation Districts (CARCD).
- Unsupported Administrative Costs. Administrative costs are based on a percentage of direct costs claimed instead of actual costs incurred. In addition, the District does not have an allocation methodology to ensure costs are reasonably and equitably distributed to bond projects.
- Ineligible and Unsupported Salaries and Benefits. The District's billed rates exceeded the actual salary and benefit costs. Labor expenses claimed were not supported by timesheets and payroll records.
- Ineligible Travel Costs. The District claimed travel costs based on estimated miles, incorrect mileage rates, and/or unrelated projects. For example, 337 miles were claimed for trips to landowner sites for water quality and irrigation efficiency purposes that were not designated or attributable to the Grazing Grant. In addition, the District was reimbursed five nights of hotel expenses for a speaker to present the one day grazing workshop at the 2008 CARCD Annual Conference.

- Unsupported Workshop Costs. The District claimed \$1,300 for a workshop in Nevada County under the Grazing Grant; however the District was unable to provide supporting documents for \$733. Additionally, the District did not maintain valid written agreements for workshop speakers, consultants, or the videographer.

See Observation 3 for additional comments.

Recommendations:

- A. Remit \$19,448 and \$22,881 to the Conservancy and \$18,447 to DOC for ineligible and unsupported costs claimed. The Conservancy and DOC will make the final determination regarding collection of the questioned costs.
- B. Develop and implement internal controls to prevent duplicate billing.
- C. Review supporting documentation to ensure claimed expenditures are based on actual costs and are eligible for reimbursement.
- D. Develop a cost allocation plan for administrative costs and maintain supporting documentation for the plan and related allocations.
- E. Obtain valid written agreements with all subcontractors and consultants performing state funded services.

Observation 2: Unsupported Cash Match

The District claimed \$3,615 in unsupported salaries for cash match under the Watershed Coordinator Grant. Grant agreement section 32(e) requires the grantee to maintain documentation in support of cash match contributions clearly demonstrating that cash contributions were from a non-CALFED source and expended in support of the grant agreement.

Recommendation:

Ensure cash match expenditures are adequately supported and appropriate documentation is maintained as required by the grant agreement. DOC will determine the effect, if any, of the unsupported match.

Observation 3: Grant Fiscal Controls Need Improvement

Fiscal control deficiencies resulted in the above mentioned double billing, unsupported and ineligible costs claimed, and inaccurate accounting records. Examples of deficiencies include:

- For all three grants, expenditures listed in the general ledger did not reconcile to actual expenditures or reimbursement claim requests.
- Grant expenditures were recorded in an incorrect grant fund account, incorrect general ledger expenditure category, or not recorded in the general ledger at all.

- Employee timesheets and invoices for grant expenditures such as labor, workshops, conferences, and travel were not adequately reviewed.
- Travel logs were not adequately reviewed, did not include an authorizing signature, and lacked specific information such as starting point and destination to verify actual mileage.

The grant agreements require the grantee to keep separate and complete accounting records for receipt, deposit, and payment of all project funds, including interest. All funds received by the grantee shall be deposited in separate fund accounts that identify the funds and clearly show the manner of their disposition.

Recommendations:

- A. Establish and maintain separate fund accounts for each grant project and record all grant related revenues and expenditures accordingly.
- B. Review and reconcile expenditures incurred to reimbursement claims for all grants.
- C. Establish grant management policies consistent with the grant agreements to ensure expenditures incurred are allowable and eligible.
- D. Update and strengthen written policies and procedures for reviewing and authorizing timesheets, invoices, and travel costs.



***Nevada County
Resource Conservation District***

113 Presley Way, Suite One, Grass Valley, CA 95945 530.272.3417 fax 530.477.8055 www.ncrcd.org

November 10, 2011

David Botelho, CPA
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95945

Dear Mr. Botelho:

RE: Draft Report – Nevada County Resource Conservation District, Propositions 50 and 84 Grant Audits

The Nevada County Resource Conservation District has received your draft audit report. We greatly appreciate the courteous treatment afforded our staff by Lisa Negri and Danielle Dannible as they methodically and professionally conducted their work. The review of our Proposition 50 and Proposition 84 grants brings to our attention many issues and anomalies related to grant management, administration, budgeting and billing. We will take these findings under serious consideration for any future projects.

Regarding the questioned costs, the NCRCD followed the grant guidelines under each grant agreement and utilized the invoice forms provided by the grantors, specifically with regard to the administrative costs.

We have already implemented some of the recommendations from the draft audit and will have our board members take a more active role in the administration and operation of grant projects.

We appreciate any opportunity to strengthen the NCRCD and our accountability with regard to grant funding, and to correct any past over sites regarding the administration of these grants.

Sincerely,

“original signed by”

Robert G. Ingram
Board President, Nevada County Resource Conservation District