



Transmitted via e-mail

May 23, 2013

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

Dear Mr. Howard:

**Final Report—Southern California Coastal Water Research Project, Propositions 13 and 84 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Southern California Coastal Water Research Project's (SCCWRP) grant agreement 09-347-555 issued by the State Water Resources Control Board (SWRCB).

The enclosed report is for your information and use. SWRCB's and SCCWRP's responses to the audit report and our evaluation of the responses are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of SCCWRP. If you have any questions regarding this report, please contact Diana Antony, Manager, or Jon Chapple, 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: 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  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, Natural Resources  
Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency  
Dr. Stephen Weisberg, Executive Director, Southern California Coastal Water Research  
Project  
Mr. Ken Schiff, Deputy Director, Southern California Coastal Water Research Project  
Mr. Bryan Nece, Administrative Officer, Southern California Coastal Water Research  
Project  
Dr. Steve Steinberg, CEDEN Program Manager, Southern California Coastal Water  
Research Project  
Ms. Marisol Gonzales, Office Manager, Southern California Coastal Water Research  
Project

Southern California Coastal Water Research Project  
Proposition 13 and 84 Bond Programs  
Grant Agreement 09-347-555



Field research conducted by the Southern California Coastal Water Research Project  
Source: Southern California Coastal Water Research Project

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Jon G. Chapple, CPA  
Supervisor

Staff  
Andrew Kortes  
Terrance McDowell Jr.

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, SCOPE AND METHODOLOGY

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## **BACKGROUND**

California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act of 2000 (Proposition 13), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$1.97 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The Southern California Coastal Water Research Project (SCCWRP) is a public agency formed in 1969 to conduct coastal environmental research and suggest management strategies. The organization examines a diverse array of water quality and aquatic habitat issues, spanning coastal watersheds, urban storm water, wetlands, beaches, bays, and the marine shelf. (source: SCCWRP)

The State Water Resources Control Board (SWRCB) awarded SCCWRP a \$4 million grant to provide technical assistance to California's grant recipients that collect water quality monitoring data by assisting them with data management. The grant will enable grant recipients to show the effectiveness of their projects while enabling the Regional Data Centers and California Environmental Data Exchange Network to collect and make their data available in a timely and comparable manner.

## **SCOPE**

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 09-347-555 for the period June 30, 2010 through August 31, 2012.<sup>1</sup>

The audit objectives were to determine whether the SCCWRP'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.

SCCWRP's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. SWRCB and the Natural Resources Agency are responsible for state-level administration of the bond programs.

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<sup>1</sup> An interim audit was performed because the grant's scope of work is to be completed by August 31, 2013.

## **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 SCCWRP'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.
- 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 and grant deliverables were completed as required. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

**Table 1: Schedule of Claimed and Questioned Amounts**

<b>Grant Agreement 09-347-555</b>		
<b>Task</b>	<b>Claimed</b>	<b>Questioned</b>
Personnel Services	\$617,074	\$361,898
Operating Expenses	10,483	0
Professional and Consultant Services	368,063	0
<b>Total Grant Funds</b>	<b>\$995,620</b>	<b>\$361,898</b>

**Observation 1: Unsupported Expenditures Claimed for Reimbursement**

SCCWRP claimed \$361,898 in labor costs that were unsupported by source documentation. Specifically, the salary rates reported for reimbursement included administrative and overhead costs, and therefore, exceeded the actual salary rates. SCCWRP claims they had a verbal agreement with SWRCB allowing them to include overhead costs in their salary rates. However, SCCWRP was unable to provide justification and documentation to support their billing rates.

Exhibit C of the grant agreement states no oral understanding or agreement not incorporated into the grant is binding. Additionally, all claimed costs must be supported with adequate documentation. Exhibit B of the grant agreement requires each invoice contain supporting documentation for all claimed costs, including all grantee staff time shown by number of hours worked and hourly rate. The grant agreement also provides a separate line item budget for operating expenses.

**Recommendations:**

- A. Remit \$361,898 to SWRCB for the unsupported personnel expenditures. SWRCB will determine the final disposition of the questioned costs.
- B. For current and future reimbursement claims, ensure all expenditures are supported and appropriate documentation is maintained.





**SOUTHERN CALIFORNIA COASTAL WATER RESEARCH PROJECT**  
*A Public Agency for Environmental Research*

March 20, 2013

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

RE: Draft Report – Southern California Coastal Water Research Project  
Propositions 13 and 84 Grant Audit of Agreement No. 09-347-555

Dear Mr. Botelho:

This letter is in response to the Southern California Coastal Water Research Project (SCCWRP) grant audit draft report dated March 7, 2013. The audit report contained one observation and one recommendation. On behalf of SCCWRP, I offer the following comments that address the draft report.

Project Overview

The State is required to capture data generated through grants made under several Bond Acts administered through the State Water Resources Control Board. The State also has requirements under section 305b of the Clean Water Act to use these and other data to assess the quality of the State's waters. Developing such a data management system requires specialized knowledge of both information technology, as well as of the sampling procedures used by numerous entities throughout the State for data collection. After having difficulty building this system with internal staff, the State Water Resource Control Board (SWRCB), in 2009 asked SCCWRP to design and construct the California Environmental Data Exchange Network (CEDEN), in order to meet their obligations. As correctly noted in the audit report, SCCWRP has successfully delivered this data system and met the requirements in its agreement with the State. CEDEN now contains millions of records summarizing water quality in the State's streams, lakes, rivers, and ocean, which are publicly available over the Internet and are being used to power the State's My Water Quality web portal created pursuant to SB1070 (Kehoe). SCCWRP's successful implementation of this project is also saving the SWRCB thousands of person-hours each year in developing its Integrated Report on quality of the State's waterbodies.

Audit Observation 1: Unsupported Expenditures Claimed for Reimbursement

The audit report identifies only one shortcoming in SCCWRP's accounting for this project, claiming that SCCWRP requested \$361,898 in personnel services that were unsupported by source documentation; specifically, that the hourly billing rates included administrative costs. The report states that SCCWRP claims it had a verbal agreement with the SWRCB allowing it to bundle administrative costs in its billing rates. The report recommends that SCCWRP remit \$361,898 to the SWRCB for the unsupported personnel services expenditures and for the SWRCB to determine the final disposition of the questioned costs.

SCCWRP's Response to Observation 1

SCCWRP disagrees with Audit Observation 1. All invoices associated with the project reflect actual project-related expenditures. The audit report does not classify the questioned amount as an ineligible expenditures, only as unsupported. The concern appears to be that administrative and operating expenses have been included in bundled billing rates, rather than broken out separately. The report indicates that SCCWRP felt there was a verbal agreement to do so, but in fact this billing procedure is exactly that called for in the grant agreement. SCCWRP invoices and supporting information delivered to the SWRCB are entirely consistent with the billing formats required in our written agreement with the State.

However, to address the audit concerns, SCCWRP has agreed to work with the SWRCB to identify a revised invoice format that provides the supporting information requested by the Department of Finance. SCCWRP will work with the SWRCB to modify the terms of this agreement to accommodate the altered billing format and supporting information, and then resubmit the invoice. In addition, SCCWRP will provide all future invoicing in the revised format for this project.

Sincerely,

Original signed by

Stephen B. Weisberg, Ph.D.  
Executive Director



**State Water Resources Control Board**

**MAR 21 2013**

Transmitted via email

Mr. David Botelho  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street  
Sacramento, CA 95814

**Re: Draft Report – Southern California Coastal Water Research Project (SCCWRP), Propositions 13 and 84 Grant Audit, March 7, 2013**

Dear Mr. Botelho:

State Water Resources Control Board, Division of Financial Assistance (Division) staff has reviewed the Draft Report. As stated in the Draft Report, Division staff executed the Grant Agreement for the Project with the understanding that the Personnel Services rates included certain administrative and other direct project costs associated with facility operations. The Draft Report questioned \$361,898 of the Personnel Services costs because the costs exceeded the actual salary rates.

Costs directly related to the Project for administration and operation of the SCCWRP facility are essential functions for Project implementation and are eligible grant expenditures. Division staff has discussed these activities and associated costs with SCCWRP staff and is amending the Grant Agreement so that these supported Project costs will be reimbursed under the Operating Expenses line item. We will review documentation from SCCWRP to support these costs including but not limited to, audited financial statements, timesheets, ledgers and receipts. Any of the questioned costs that cannot be supported by SCCWRP's documentation will be deducted from future invoices. Current and future expenditures will be supported by proper documentation and billed under the appropriate line item.

If you have any questions about the Division's actions on the grant, please contact me at (916) 341-5499 or [llaudon@waterboards.ca.gov](mailto:llaudon@waterboards.ca.gov). You may also contact Wendy Westerman, Chief of the Grant Administration Unit at (916) 341-5794 or [wwesterman@waterboards.ca.gov](mailto:wwesterman@waterboards.ca.gov).

Sincerely,

original signed by

Leslie S. Laudon  
Bond Section Manager

cc: see next page

## EVALUATION OF RESPONSE

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We reviewed Southern California Coastal Water Research Project's (SCCWRP) response to our draft report and provide the following comments:

SCCWRP states administrative and operating costs are included in its bundled billing rates and claims the audit's concern is that the administrative costs are not broken out separately. However, regardless of whether the costs are bundled in billing rates or broken out separately, all claimed costs must be supported. As noted in our report, SCCWRP was unable to provide documentation to support its full billing rates. For example, SCCWRP claimed reimbursement for the Executive Director at an hourly rate of \$225, while accounting records supported a rate of \$138. SCCWRP was unable to provide documentation supporting administrative and operating expenses included in the claimed rates.

Because SCCWRP provided no additional information to support its billing rates, our observation and recommendation remain unchanged.

The State Water Resources Control Board also provided a response indicating it will be working with SCCWRP to address the audit observation.