



Transmitted via e-mail

June 17, 2015

Mr. John Donnelly, Executive Director
Wildlife Conservation Board
1700 Ninth Street, 4th Floor
Sacramento, CA 95811

Dear Mr. Donnelly:

Final Report—The Bay Institute, Proposition 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of The Bay Institute's (Institute) grant WC-6069BT issued by the Wildlife Conservation Board.

The enclosed report is for your information and use. The Institute'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 Institute. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. Peter Perrine, Assistant Executive Director, Wildlife Conservation 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. John Frawley, President/CEO, The Bay Institute
Ms. Bobbi Evans, Chief Financial Officer, The Bay Institute

The Bay Institute
Proposition 50 Bond Program
Grant Agreement WC-6069BT



San Pablo Bay

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

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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

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50). The \$3.4 billion in bond proceeds finance a variety of natural resource programs.

The Bay Institute (Institute) received a \$342,000 grant from the Wildlife Conservation Board (WCB) to provide assistance to *The Bay's Students and Teachers Restoring a Watershed* program in the removal of non-native weeds (perennial pepperweed) from public lands located at the San Pablo Bay Wildlife Refuge, and to restore native vegetation on additional adjacent lands owned by various agencies. The Institute's mission is to protect, restore and inspire conservation of San Francisco Bay and its watershed from the Sierra to the sea.¹

SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>
WC-6069BT	August 24, 2007 through September 30, 2011

The audit objectives were to determine whether the Institute's claimed grant expenditures 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 Institute's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. WCB and the California 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, we performed the following procedures:

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the Institute's vendor/subcontractor invoices.

¹ Source: <http://www.thebayinstitute.org/about-us/mission>

- 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 claimed for reimbursement under the grant agreement.
- Evaluated whether a sample of grant deliverables were met by reviewing inspection reports, photographs, and final reports.

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

We conducted the audit in accordance with generally accepted government performance 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 audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Based on the procedures performed, the claimed grant funds did not comply with the grant requirements. The Schedule of Claimed and Questioned Amounts is presented below. The grant deliverables were completed as required.

Schedule of Claimed and Questioned Amounts

Grant Agreement WC-6069BT		
Task	Claimed ¹	Questioned
Bay Institute Staffing, including Benefits	\$ 180,154	\$ 180,154
Other Direct Project Costs	13,513	13,513
Subcontractor Expenses	148,012	0
Total Grant Funds	\$ 341,679	\$ 193,667

Observation 1: Unsupported Expenditures Claimed

The Institute was unable to demonstrate claimed costs were allowable, grant-related, supported by accounting records, and properly recorded. As a result, costs totaling \$193,667 are questioned as follows:

- Staffing costs and benefits: \$180,154 of staffing costs (including benefits) are questioned due to a lack of supporting documentation. Timesheets do not clearly support total staff expenditures claimed for the grant project. Without a clear audit trail, the Institute cannot provide assurance that the \$180,154 in claimed staffing costs is grant-related, allowable, incurred within the grant period, supported by accounting records, and properly recorded.
- Other direct project costs: \$13,513 of other direct project costs are questioned due to a lack of supporting documentation. The Institute could not provide proof of field supplies used, office expenses, and mileage records, or proof of payment for these costs.

Section 7.4 of the grant agreement states the grantee shall maintain financial accounts, documents, and records relating to the grant agreement. The accounting information must accurately reflect fiscal transactions so that the total cost of the project can be readily determined and records made readily available upon demand.

¹ WCB awarded \$342,000 and the Institute claimed \$341,679.

Recommendations:

- A. WCB will make the final determination regarding the disposition of the questioned costs.
- B. Implement timekeeping procedures that track actual time worked on grant activities to support amounts claimed. Additionally, maintain timesheets that account for 100 percent of an employee's time during each payroll period and separately account for hours charged to bond projects.
- C. Ensure a clear audit trail is maintained for all claimed expenditures. The audit trail should facilitate the tracing of expenditures claimed on the WCB reimbursement claims to the accounting records and supporting source documents.

May 27, 2015

Mr. Richard Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
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bay.org

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RE: Response to Revised Draft Report – The Bay Institute, Proposition 50 Grant Audit

Dear Mr. Sierra,

Thank you for your letter dated May 18, 2015, and for the time your staff spent working with us throughout the course of this audit. We appreciate the opportunity to respond to your revised draft report.

We regret the recordkeeping deficiencies that were noted in your report. Most of these deficiencies concerned the allocation of staff time. The staff that performed the field work on this project was responsible for work at multiple sites on multiple projects, sometimes within the same day, and mileage, supplies, and other office expenses were often allocated among these various projects, thereby rendering proper time and expense allocation both vital and challenging. The recordkeeping deficiencies cannot be excused, but to place them in context, we respectfully request that you consider the mitigating factors discussed below.

The period covered by your audit—August 2007 through August 2010—was a time of transition and change for The Bay Institute (TBI). This period overlapped the Great Recession and financial crisis of 2008-2009. In order to stabilize its operations, TBI became affiliated with the Aquarium of the Bay in June 2009. TBI's small staff of financial, accounting, and operations employees was subsequently laid off and its functions were taken over by the Aquarium. TBI no longer exists as an independent entity; it is now a division of bay.org, an organization that serves as an umbrella for a number of programs that are dedicated to the protecting, restoring, and inspiring conservation of San Francisco Bay and its watershed.

In March 2011, the entire program staff of STRAW (an acronym for Students and Teachers Restoring A Watershed) resigned to become a program of PRBO Conservation Science, now known as Point Blue Conservation Science. STRAW was the division of TBI that performed the work pursuant to the grant issued by the Wildlife Conservation Board (WCB).

Notwithstanding the recordkeeping challenges created by the transitions just described, detailed invoices for work performed under the grant were prepared and submitted to WCB, and they were reviewed, found to be acceptable, and paid. Furthermore, we are able to state with confidence that the restoration work promised to WCB was in fact performed well. Some of the activities performed pursuant to the grant

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were described, with accompanying photos, by the U.S. Department of Fish and Wildlife on its website. <http://www.fws.gov/invasives/volunteersTrainingModule/nwrsystem/restoring.html>
In 2010, the U.S. Fish and Wildlife Service staff highlighted its work with the STRAW team on the San Pablo Bay restoration project on page 6 of the list of its proudest accomplishments for the year: http://www.sfbayjv.org/sfbjv_wetland_news_documents/SF%20Bay%20NWRC%202010%20Accomplishments.pdf

Under bay.org's current organizational structure, the recordkeeping deficiencies associated with TBI's former STRAW program will not recur. The management of bay.org maintains detailed timekeeping records through our ADP payroll system, which specifically tracks staff time spent on all grant and contract-related projects and is closely monitored by our finance department. Additionally, all expenses claimed must include supporting documentation and clearly identify which grant they are for. The finance department tracks compliance with these requirements through our accounting system, thereby providing a clear audit trail of expenses. These are standard procedures within bay.org.

We appreciate your time and your consideration.

Sincerely,

Original signed by:

Bobbi Evans,
Chief Financial Officer
bay.org

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EVALUATION OF RESPONSE

The Bay Institute's (Institute) response to the draft report has been reviewed and incorporated into the final report. While the Institute generally agreed with the observation, the Institute requested that we consider the challenges they faced due to the merger between the Institute and the Aquarium of the Bay. We acknowledge the Institute's challenges; however, without additional documentation to support the claimed labor and other project costs, the observation and recommendations remain unchanged.