



January 27, 2010

Mr. Patrick Wright, Executive Director  
California Tahoe Conservancy  
1061 Third Street  
South Lake Tahoe, CA 96150

Dear Mr. Wright:

**Final Report—Audit of California Tahoe Conservancy's Proposition 12, 40, and 50 Bond Funds**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Tahoe Conservancy's (Conservancy) Proposition 12, 40, and 50 bond funds for the period ending June 30, 2008.

The Conservancy's response to the report findings are incorporated into this final report. The Conservancy 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 the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

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

Sincerely,

Original signed by Diana Antony for:

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

Enclosure

cc: Mr. David Gregorich, Administrative Officer, California Tahoe Conservancy  
Mr. Ray Lacey, Deputy Director, California Tahoe Conservancy  
Mr. Bruce Eisner, Program Manager, California Tahoe Conservancy  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency

# AN AUDIT OF BOND FUNDS

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## California Tahoe Conservancy Propositions 12, 40, and 50 as of June 30, 2008



*Source: Courtesy of the California Tahoe Conservancy*

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
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Final reports are available on our website at <http://www.dof.ca.gov>

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# TABLE OF CONTENTS

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Executive Summary .....	1
Background, Scope, and Methodology.....	2
Results.....	6
Appendix A—California Tahoe Conservancy’s Bond-Funded Programs .....	10
Response.....	11

## EXECUTIVE SUMMARY

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In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we have audited the California Tahoe Conservancy's (Conservancy) funding under Propositions 12, 40, and 50 as of June 30, 2008. The audit objectives were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate monitoring processes in place.

The Conservancy awarded and expended bond funds in compliance with applicable legal requirements. However, the following observations were noted:

The Conservancy's fiscal oversight of bond-funded projects should be improved. Specifically, the Conservancy's practice of using one grant agreement to fund multiple unrelated projects impairs its ability to ensure projects stay within scope and cost. In addition, its existing project tracking system does not adequately track or report bond-funded projects as required by the bond acts. These issues are compounded by a key person dependency and the lack of written policies and procedures for fiscal-related activities. The Conservancy should issue separate grant agreements for each project, and implement appropriate fiscal oversight procedures.

In addition, as of January 2009, the Conservancy had not addressed or implemented prior recommendations from Finance audit reports issued between January 2005 and June 2006. The audits included two grants identifying over \$45,000 in ineligible disbursements and a departmental audit recommending the Conservancy strengthen grant language. The Conservancy should promptly address all audit recommendations and implement corrective action plans.

Lastly, the Conservancy has not implemented a long-term monitoring process for grantee-acquired lands. The Conservancy should develop and implement such a monitoring plan that requires periodic submission and review of grantee status reports.

The Conservancy's fiscal and administrative controls over bond funds would be strengthened, if it develops a plan to address the observations and recommendations noted in this report.

# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

Between March 2000 and November 2002, California voters passed the following four bond measures totaling \$10.1 billion:

- Proposition 12—The Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000
- Proposition 13—The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act
- Proposition 40—The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002
- Proposition 50—The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002

These propositions authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

### California Tahoe Conservancy

The California Tahoe Conservancy (Conservancy) was established in 1984 to develop and implement programs through acquisitions and site improvements. Its jurisdiction extends only to the California side of the Lake Tahoe Basin. The Conservancy's governing body (Board) includes three local members, two public members, and one representative each from the Natural Resources Agency, the Department of Finance, and the United States Forest Service.

The Conservancy's mission is to preserve, protect, restore, enhance, and sustain the unique and significant



*Source: Courtesy of the California Tahoe Conservancy*

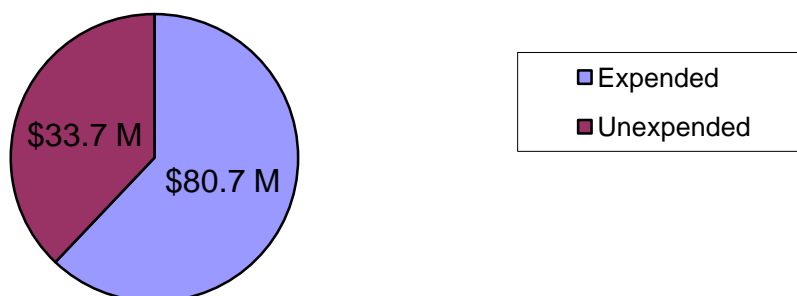
natural resources and recreational opportunities of the Lake Tahoe Basin. It is envisioned that the Conservancy ultimately will acquire up to 6,000 environmentally sensitive parcels under existing criteria. To date, over 4,600 parcels, totaling nearly 6,400 acres, have been acquired.

The Conservancy's primary objectives are:

- To protect the natural environment of the basin, with priority placed on preserving the exceptional clarity and quality of the waters of Lake Tahoe.
- To increase public access and recreation opportunities for visitors to the lake.
- To preserve and enhance the broad diversity of wildlife habitat in the Tahoe Basin.

The Conservancy has over 40 positions consisting of executive management, staff counsel, program managers, land managers, and administrative staff. The Conservancy was allocated a total of \$130 million in bond funds from Propositions 12, 40, and 50. As of June 30, 2008, the Conservancy had awarded over \$114.4 million, or 88 percent, and expended \$80.7 million of the total allocation, as noted in Figure 1 below.

**Figure 1: Proposition 12, 40, and 50 Awarded and Expended as of June 30, 2008**



Source: California Tahoe Conservancy's financial statements for fiscal years 2000-01 to 2007-08

Although not included in Figure 1, in 2006 the Conservancy was also allocated \$36 million from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act (Proposition 84). This audit does not include a review of Proposition 84 funds. These funds will be audited at a later date.

Bond funds represent a significant funding resource for the Conservancy. Between fiscal years 2003-04 to 2007-08, the Conservancy's annual expenditures ranged from \$15.2 million to \$36.2 million. During the same five-year period, bond funds accounted for 75 percent to 82 percent of the Conservancy's total annual expenditures.

### Conservancy Programs

The Lake Tahoe region has experienced environmental degradation for the past 100 years, most notably in the lake's water clarity and the health of the basin's forest lands. The lake's water clarity, which reflects water quality, has become the primary measure of the basin's

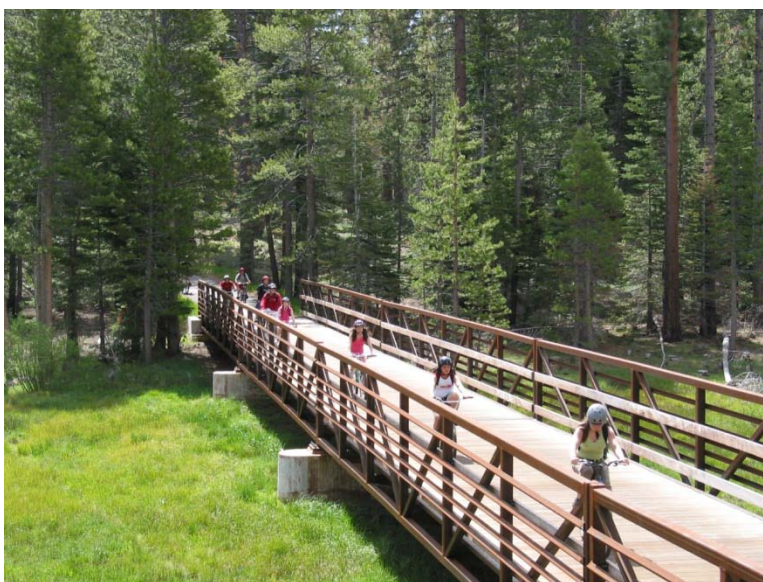
environmental health. To counter this degradation, the Tahoe Environmental Improvement Program (EIP) was established in 1997. The EIP is a 20-year capital improvement program involving multiple state, federal, local, academic, and private entities. In 1997, the state signed a memorandum of agreement with the federal government, Nevada, the Washoe Tribe, and the Tahoe Regional Planning Agency, to implement and fund the EIP. Over 50 entities are involved in implementing the program.

The EIP identified projects totaling \$908 million to be undertaken by federal, state, and local government agencies and the private sector during its initial ten-year period. The State of California's share was approximately \$275 million, of which \$207 million fell within the responsibilities of the Conservancy. Most recently, the EIP partners are working to finalize an updated EIP covering the next 10-year period. It identifies \$507 million as California's share, of which \$400 million falls within the Conservancy's program responsibilities. Most of the Conservancy's project-oriented programs follow the EIP plan for project selection.

To achieve its objectives, the Conservancy administers eight major programs:

- Environmentally Sensitive Land
- Public Access and Recreation
- Erosion Control
- Wildlife Enhancement
- Stream Environment Zone
- Management
- Land Coverage and Other Marketable Rights
- Forest Ecology

Appendix A provides a general description of these programs and the type of projects undertaken.



Source: Courtesy of the California Tahoe Conservancy

## SCOPE

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place as of June 30, 2008.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further, no assessment of the reasonableness of land acquisition costs or the conservation value of acquired land or projects completed was performed.

## METHODOLOGY

To gain an understanding of key legal provisions and established criteria, we reviewed the applicable bond acts, related legal provisions and regulations, and the Conservancy's program guidelines and grant management policies and procedures. We also interviewed executive



management and key staff directly responsible for administering bond funds to determine how the established policies and procedures were implemented.

To assess whether the Conservancy awarded bond funds in accordance with the identified legal requirements and established criteria, we tested a sample of projects to ensure the laws and criteria were followed when the awards and expenditures were made.

In order to select a sample, we reviewed the project status tracking process to assess the reliability of the information. Based on our review of the Conservancy's project status database, we determined the fiscal data to be unreliable. This is noted in Observation 1 under the *Results* section of this report. As a result, for audit sample selection purposes we used some of the database information along with accounting data and manual project file information. We judgmentally selected 10 projects totaling \$15.5 million (or 19 percent) out of \$80.7 million in expenditures as of June 30, 2008. The projects selected represent the Conservancy's various programs (see Appendix A) and include a variety of recipients such as local governments, public utility districts, and nonprofit organizations.

We also reviewed the aforementioned sample to verify expenditures were recorded and reported accurately in the Conservancy's accounting system and financial statements. Additionally, we reviewed the reasonableness of the Conservancy's administrative expenses charged to bond funds.

To determine whether the Conservancy had adequate project monitoring processes, we gained an understanding of its policies and procedures for project management, including monitoring, reimbursement of expenditures, and project close-out. Using the sample noted above, we tested the projects to determine if they were adequately monitored to ensure the projects stayed within scope and cost. Additionally, we followed-up with the Conservancy on the results of three prior bond audits.

Recommendations were developed based on our review of documentation made available to us and interviews with the Conservancy's management and key staff directly responsible for administering bond funds. This audit was conducted from October 2008 through January 2009.

Except as noted, this audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance is not independent of the Conservancy, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

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The California Tahoe Conservancy (Conservancy) awarded and expended bond funds consistent with the applicable legal requirements and established criteria. However, the following observations were identified:

**Observation 1: Fiscal Oversight Needs Improvement**

The Conservancy's fiscal oversight of bond funded projects should be improved. Specifically, the Conservancy's practice of using one grant agreement to fund multiple unrelated projects impairs its ability to ensure projects stay within scope and cost. In addition, its existing project tracking system does not adequately track or report bond-funded projects. These issues are compounded by a key person dependency and the lack of written policies and procedures for fiscal-related activities.

*Blanket grant agreements minimize project cost accountability:* According to the Conservancy, it includes funding for multiple unrelated projects within one grant agreement in order to shift funds between projects as needed. This is done primarily to use older funds first. The Conservancy also stated the Board is usually notified of the "funding shifts" via an activities report. However, the following was noted during two separate grant audits:

- In the County of Placer grant audit<sup>1</sup> (also mentioned in Observation 2), one blanket agreement was issued to the County for three separate and unrelated projects. Although two projects in the agreement went over budget, additional funds were received from another project within the agreement without Board notification.
- In the City of South Lake Tahoe grant audit<sup>2</sup>, neither the Conservancy nor the City tracked the expenses related to the same equipment used on two separate projects. As a result, the Conservancy was overcharged \$8,573 in equipment costs.

*Project status tracking system is unreliable:* The Conservancy's project status database does not provide accurate award amounts and expenditures. In some cases, expenditure adjustments were made to the database without identifying the related projects. The Conservancy does not reconcile the information between the project database and accounting records to ensure accuracy. As a result, project information used by Conservancy staff for internal and external purposes is inaccurate and unreliable.

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<sup>1</sup> County of Placer grant audit report issued June 2, 2006.

<sup>2</sup> City of Lake Tahoe grant audit report issued January 31, 2005.

Further, the Conservancy does not report bond-funded project status as required by the Proposition 40 and 50 bond acts. The California Natural Resources Agency (Resources Agency) requires departments to report project-related information on the bond website hosted by the Resources Agency. Although departments are able to access and update the website and the Resources Agency sends periodic reminders, the Conservancy did not take the necessary action.

In general, bond project reporting requirements were designed to provide public accountability and transparency. Moreover, in 2006, the Conservancy was allocated \$36 million in Proposition 84 bond funds, which requires additional transparency and continued project status reporting on the state's bond accountability website, <http://www.bondaccountability.ca.gov>. The Conservancy needs to be more diligent in its public reporting responsibilities.

*Key person dependency and lack of written policies and procedures should be addressed:* The Conservancy does not have written policies and procedures for fiscal-related activities. Currently, there are no procedures for tracking expenditures. Additionally, the Conservancy has a key-person dependency where one program analyst is solely responsible for manually tracking all project fiscal activities (e.g. encumbrances, expenditures, adjustments, etc.) using an Excel spreadsheet. Although the Conservancy provides only minimal cross-training to other staff, Conservancy staff acknowledge that without clear and detailed written procedures, they would have difficulty in accurately performing these functions.

In addition, the required program guidelines were either not developed or not updated. Program guidelines are essential for informing applicants, grantees, and stakeholders of the Conservancy's policies and procedures, including minimum requirements for projects funding. Specifically, Section 79505.6 of the Water Code requires the Conservancy to develop project solicitation and evaluation guidelines and hold public meetings for public comment prior to finalizing its guidelines. However, according to the Conservancy, it held public meetings for only one of its programs.

In the Conservancy's Financial Integrity and State Manager's Accountability report<sup>3</sup> dated July 31, 2008, it noted the need to update, clarify, and improve program guidelines. At the time of the audit, the Conservancy was drafting updated guidelines for one of its programs for Board approval. We encourage the Conservancy to continue its efforts to address this issue.

Without adequate oversight of bond-funded activities, the potential for material undetected errors and irregularities increases. Section 13403 of the California Government Code states the elements of a satisfactory system of internal controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and an effective system of internal review. In addition, Section 13402 of the California Government Code states that agency heads are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring the system is functioning as prescribed.

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<sup>3</sup> According to the Financial Integrity and State Manager's Accountability Act (Section 13405 of the Government Code), the head of each state agency is required to conduct an internal review and prepare a report, on a biennial basis, on the adequacy of their entity's systems of internal accounting and administrative control.

**Recommendations:**

- Issue separate grant agreements for each unrelated project.
- Periodically and at year-end, reconcile project database information to the accounting records to ensure fiscal integrity and accuracy.
- Promptly report project status on the bonds accountability website.
- To minimize key person dependency, continue to cross-train staff and prepare program guidelines and procedures for critical fiscal and oversight activities.

**Observation 2: Lack of Corrective Action on Prior Audit Recommendations**

As of January 2009, the Conservancy had not addressed or implemented prior audit recommendations for three Department of Finance (Finance) bond audits issued between January 2005 and June 2006. The three audits included two grant audits identifying over \$45,000 in ineligible disbursements and a departmental audit recommending the Conservancy strengthen grant fiscal requirements.

In the City of South Lake Tahoe grant audit, we determined the City was over-reimbursed by \$8,573 for equipment charges. In the second grant audit, the County of Placer charged \$36,779 in ineligible overhead costs. In both cases, we recommended the Conservancy make the final determination on whether to recover the questioned costs. In addition, in the Conservancy's departmental audit<sup>4</sup>, we identified insufficient grant fiscal requirements. The audit recommended the Conservancy revise grant language to include (1) detailed expenditure budgets, (2) guidance on unallowable costs, (3) indirect cost allocation guidelines, (4) conditions for advancing funds, and (5) disposition of interest earned on advanced funds.

Section 13401(b) (2) of the California Government Code states the systems of internal accounting and administrative control of each state agency shall be evaluated on an ongoing basis and, when detected, weaknesses must be promptly corrected.

**Recommendation:**

- Promptly address all audit recommendations. Corrective action plans and final audit finding resolutions should be periodically reported to executive management.

**Observation 3: Lack of Post-Monitoring Procedures over Grantee-Acquired Lands**

The Conservancy lacks monitoring policies and procedures to protect the state's long-term interest in grantee-acquired lands. The Conservancy requires the local or non-profit agency (grantee) to maintain the properties for the intended purposes of the project via its grant agreements. In addition, the Conservancy includes a clause in the grant agreements requiring active monitoring of the grantee and the Conservancy's right to recourse if the grantee fails to properly maintain the acquired land. However, the Conservancy does not have a monitoring plan that identifies monitoring and management needs for each property, nor does it require grantees to provide monitoring-type deliverables to ensure acquired lands are maintained as intended. Examples used by other state departments include a one page annual report on the

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<sup>4</sup> Department of Finance Management Letter to the Conservancy issued March 16, 2006.

condition of the land, and corrective actions taken if a violation occurred. A monitoring plan should include a risk-based approach to identify and prioritize at-risk grantees and to determine the necessity or frequency of site visits.

Without proper ongoing monitoring, prompt corrective actions cannot be taken and costly expenses, such as enforcement and legal costs, may be incurred.

**Recommendation:**

- Develop and implement timely monitoring policies and procedures for grantee-acquired land, to ensure bond-funded properties are in compliance with the grant agreements and bond acts. The monitoring plan should require grantees to provide specific deliverables and the Conservancy to make periodic site visits.

# APPENDIX A

## California Tahoe Conservancy's Bond-Funded Programs

Program Name	Program Purpose	Core Area			
		Planning	Acquisition	Site Improvement	Land Management
<b>Environmentally Sensitive Lands</b>	To preserve environmentally sensitive lands through acquisition.		<b>X</b>		
<b>Land Coverage and Marketable Rights</b>	To mitigate land-coverage impacts on water quality and permit the transfer of development rights from more environmentally sensitive areas to ones that are less sensitive.				<b>X</b>
<b>Resource and Urban Land Management</b>	To manage the lands it acquires so they can most effectively serve the purposes for which they were acquired.				<b>X</b>
<b>Soil Erosion Control</b>	To repair already disturbed areas through soil erosion control grants.	<b>X</b>	<b>X</b>	<b>X</b>	
<b>Steam Environment Zone and Watershed Restoration</b>	To restore degraded wetlands and watershed areas.	<b>X</b>	<b>X</b>	<b>X</b>	
<b>Wildlife Enhancement</b>	To protect, preserve, and enhance wildlife populations and the diversity of habitats that sustain them.	<b>X</b>	<b>X</b>	<b>X</b>	
<b>Forest Habitat Enhancement</b>	To protect, preserve, and enhance forest habitats and restore the processes that maintain them.	<b>X</b>	<b>X</b>	<b>X</b>	
<b>Public Access and Recreation</b>	To enhance public access and recreation opportunities.	<b>X</b>	<b>X</b>	<b>X</b>	

Source: California Tahoe Conservancy website



## CALIFORNIA TAHOE CONSERVANCY

1061 Third Street  
SOUTH LAKE TAHOE, CA 96150  
(530) 542-5560



January 14, 2010

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

Dear Mr. Botelho:

Thank you for the opportunity to review and comment on your draft audit report on the California Tahoe Conservancy's Proposition 12, 40 and 50 bond fund programs.

The audit team determined that the Conservancy has awarded and expended the bond funds in compliance with applicable legal requirements. However, the audit team made several recommendations that will strengthen fiscal oversight of the bond programs. These include: discontinuation of the use of multi-project blanket agreements; improvements to the project tracking system; and alleviation of key person dependencies. In addition, the audit staff recommends development of a long-term monitoring process for grantee acquired lands.

The Conservancy agrees with the audit results and acknowledges that there are areas where implementation of the bond programs can be improved. We are taking the necessary steps to implement the recommendations described above.

Regarding outstanding issues remaining from prior audits in 2005 and 2006, in correspondence to the audit team dated December 31, 2008, the Conservancy relayed its determination that \$36,799 in costs paid to Placer County were eligible bond expenses; and that the City of South Lake Tahoe had been over-reimbursed bond funds in the amount of \$8,573. The Conservancy is in the process of recovering this amount from the City of South Lake Tahoe. We expect this matter to be resolved by June 30, 2010. The Conservancy has also implemented the recommended grant language changes from the prior audit reports.



We appreciate the feedback on our bond programs and the opportunity to strengthen our policies, procedures and overall fiscal oversight of our bond programs.

Sincerely,

Original signed by:

Patrick Wright  
Executive Director

cc: Diana Antony, Office of State Audits and Evaluations  
Bryan Cash, Natural Resources Agency  
Julie Alvis, Natural Resources Agency