



Transmitted via e-mail

January 25, 2012

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

Dear Mr. Branham:

Final Report—Sierra Business Council, Proposition 84 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the following Sierra Business Council (Council) Proposition 84 grants:

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
G0770020	April 18, 2008 through October 31, 2008	\$45,000
G0770002	March 18, 2008 through April 1, 2010	\$46,440

The Council's response to the report observations are incorporated into this final report. The Council agreed with our observations and we appreciate its willingness to implement corrective actions. This report will be placed on our website.

We appreciate the assistance and cooperation of the Council. 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: Ms. Joan Keegan, Assistant Executive Officer, Sierra Nevada Conservancy
Ms. Kerri Timmer, Program Manager, Sierra Nevada Conservancy
Ms. Angela Avery, Grants Administrator, Sierra Nevada Conservancy
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. Steve Frisch, President, Sierra Business Council
Mr. Greg Jones, Vice President and Chief Operating Officer, Sierra Business Council
Ms. Suzie Cordero, Finance Director, Sierra Business Council

AUDIT REPORT

Sierra Business Council Propositions 84 Bond Program Grant Agreements G0770020 and G0770002



Sierra Business Council Office in Truckee, CA
Source: SBC website

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:

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Office of State Audits and Evaluations
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Sacramento, CA 95814
(916) 322-2985

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2006, California voters approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84). The \$5.4 billion in bond proceeds provide for grants to finance a variety of resource programs.

The Sierra Nevada Conservancy (Conservancy) is one of many state departments that administer Proposition 84 programs and award these funds in the form of grants. The Conservancy was created in 2004 to improve the environmental, economic, and social well-being of the Sierra Nevada and its communities. The Conservancy's region is made up of all or part of 22 counties covering over 25 million acres.¹

The Sierra Business Council (Council) is a member-based organization of over 700 individuals and businesses established in 1994. The Council's mission is to pioneer innovative projects and approaches that foster community vitality, environmental quality, economic prosperity, and social fairness in the Sierra Nevada.²

The Council received the Northern Sierra Carbon Cooperative Grant, G0770020 (Carbon Grant), to inventory carbon and other ecosystem services utilizing the California Climate Action Registry Forest Protocols. In addition, the grant funds were to be used to provide a series of workshops to build capacity among the professional forestry community, natural resource and land managers, and students in the Sierra Nevada region.

The Sierra Best Value Stewardship Contracting Workshops Grant, G0770002 (Stewardship Grant), provided funds to coordinate educational and training workshops on how to assemble and implement successful long-term stewardship contracts to improve water quality, forest health, recreational access, and economic development.

SCOPE

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

<u>Grant Agreements</u>	<u>Audit Period</u>	<u>Awarded</u>
G0770020	April 18, 2008 through October 31, 2008	\$45,000
G0770002	March 18, 2008 through April 1, 2010	\$46,440

The audit objectives were to determine whether the Council's grant expenditures were in compliance with applicable laws, regulations, and grant requirements; and to determine whether grant deliverables were completed as required. In order to design adequate procedures to

¹ Conservancy website: <http://www.sierranevada.ca.gov/about-us>

² Council website: <http://www.sbcouncil.org/About>

evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The Council'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 and California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

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

- Interviewed key personnel.
- Obtained an understanding of grant-related internal controls.
- Examined the grant files maintained by the Conservancy and the Council, including the grant agreements and applicable policies and procedures.
- Reviewed the Council'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.
- Verified grant revenues were properly recorded and the propriety of interest earnings.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.

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 February 2011 through November 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.

Except as noted below, the Sierra Business Council's (Council) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedules of Claimed and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed and Questioned Amounts

Carbon Grant G0770020		
For the Period April 18, 2008 through October 31, 2008		
Category	Claimed	Questioned
Develop Inventory Methodology and Actively Engage in CCAR and Forest Working Groups	\$9,487	\$2,374
Educational Workshops	6,075	455
Complete Inventories	29,438	0
Total Expenditures	\$45,000	\$2,829

Stewardship Grant G0770002		
For the Period March 18, 2008 through April 1, 2010		
Category	Claimed	Questioned
Project Manager and Assistants	\$29,425	\$14,999
Travel and Per Diem	9,561	6,500
Meeting Facilities	1,500	0
Workshop Material	2,900	0
Project Overhead (15%)	1,700	0
Total Expenditures	\$45,086	\$21,499

Observation 1: Unsupported Expenditures Claimed for Reimbursement

For both grants, the Council claimed labor costs and travel expenditures that were unsupported by source documentation or outside the scope of the grant agreement as follows:

- The Council claimed \$15,668 reimbursement for budgeted labor rates instead of actual labor rates. For example, the Council claimed reimbursement for an hourly rate of \$110.00 for the program manager. Based on the Council's accounting records, the actual rate during the grant period ranged from \$49.84 to \$60.25.
- The Council claimed \$6,500 in travel expenditures for the Stewardship Grant but could not provide supporting documentation. Also, the expenditures could not be traced to the accounting records.
- For the Stewardship grant, the Council included \$2,160 in ineligible labor expenditures for scheduling, preparation, and meetings for outreach in Washington, DC. This trip was not included in the grant agreement's project scope.

Both grant agreements require the grantee to maintain complete accounting records for receipt, deposit, and payment of all project funds, and adequate supporting documentation to permit tracing transactions from support documentation to the accounting records. In addition, the grantee is required to include supporting documentation with reimbursement requests submitted to the Conservancy.

Recommendations:

- A. Remit \$24,328 to the Conservancy for overbilled salaries and wages and unsupported travel expenditures. The Conservancy will determine the final disposition of the questioned costs for each grant.
- B. For future grants, claim reimbursement only for actual costs and ensure all expenditures are fully supported, accurately recorded in the accounting records, and directly related to the grant project scope. If a change to the grant scope is necessary, obtain a formal executed amendment from the grantor.

January 10, 2012

David Botelho, CPA
Chief, Office of State Audits and Evaluations
915 L St.
Sacramento, CA 95814-3706

Dear Mr. Botelho:

We appreciate the opportunity to have participated in the Sierra Nevada Conservancy's (SNC) Proposition 84 grant program. Specifically, the Sierra Nevada Carbon Cooperative-Ecosystem Services Inventory project provided groundwork for significant progress made in the region. Over the life of the project, Sierra Business Council (SBC) met all of the objectives as outlined by the grant, including completing the first carbon inventory of its kind, increasing support and capacity for carbon capture and storage in the Sierra Nevada, and providing educational opportunities for student and professional service providers. These gains and others listed in the project report will provide an important foundation for future work of this kind in the field.

In addition to placing a high priority on meeting all of the grant objectives, Sierra Business Council places high importance on performing within the grant reporting requirements and meeting all audit recommendations. As our first experience with an audit of this nature, we were particularly interested in receiving feedback to help us to enhance our performance on future projects. Reviewing the audit report prepared by the Department of Finance, dated November 2011, we recognize a number of important recommendations with unique considerations we wish to address.

Recommendations and Remediation:

The first recommendation suggests remitting funds that were used to implement the grant but were not reported during the specific grant time frame, and refers to travel expenditures incurred specifically for the grant. While SBC met all of the deliverables within the allocated budget, some hours and travel essential to the project that were conducted before or after the reporting dates and were not recognized. Expenditures were consistently in line with the directives of the grant and were approved mostly in writing, and on some occasions verbally, by the grantor, during the implementation. SBC invested significant staff time and resources to insure the success of the project and did not receive excessive funds for this purpose. We are confident that while the intent of staff working on the project was in line with the goals of the grant, our inability to verify verbal direction was not backed up in writing through an addendum, which is duly noted as one of the report's recommendations, was an oversight. Moving forward SBC will adhere strictly to these guidelines and has put in place administrative systems to provide the support necessary for program staff to avoid grant-reporting errors of this nature in the future.

SIERRA BUSINESS COUNCIL

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The second recommendation suggests ensuring that all expenditures be fully supported and accurately recorded in our accounting records and suggests all changes be obtained through a formal executed amended statement from the grantor. SBC has since hired a Finance Director that has successfully managed SBC's records and received excellent organization-wide audit reports under her direction. Overseeing all programs, both the Vice President and Director of Program Management are engaged to further insure accuracy in program implementation and reporting. We are confident that with our current staff, current successes in audit compliance and resolve to comply with all audit recommendations that we will be successful in our compliance.

Thank you for your recommendations regarding improvements we can make to our systems. We take them very seriously and intend to address, or have already addressed, all of the concerns outlined in the report. We welcome any further suggestions or discussion.

If additional information is needed, please do not hesitate to contact me or our Director of Finance, Suzie Cordero for further assistance.

Sincerely,

Original signed by:

Steven Frisch
President

cc: Mr. Jim Branham, Executive Officer, Sierra Nevada Conservancy
Ms. Joan Keegan, Assistant Executive Officer, Sierra Nevada Conservancy
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