



Transmitted via e-mail

January 25, 2016

Mr. David Bunn, Director
California Department of Conservation
801 K Street, MS 24-01
Sacramento, CA 95814

Mr. John Donnelly, Executive Director
California Wildlife Conservation Board
1700 9th Street, 4th Floor
Sacramento, CA 95811

Dear Mr. Bunn and Mr. Donnelly:

Final Report—Save the Bay, Propositions 50 and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of Save the Bay's grants 3010-228 and WC-1155TC issued by the California Department of Conservation and the California Wildlife Conservation Board, respectively.

The enclosed report is for your information and use. The draft report was issued September 14, 2015 and Save the Bay's response to the draft report required further analysis. As a result of our analysis, changes were made to the *Results* section of the report to provide further clarification. This report will be placed on our website.

We appreciate the assistance and cooperation of Save the Bay. 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. John Lowrie, Assistant Director, Division of Land Resource Protection, California Department of Conservation
Mr. David Thesell, Deputy Chief, Division of Land Resource Protection, California Department of Conservation
Mr. Peter Perrine, Assistant Executive Director, California 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
Ms. Robin Erickson, Director of Finance and Administration, Save the Bay

Save the Bay
Propositions 50 and 84 Bond Programs
Grant Agreements 3010-228 and WC-1155TC



Eden Landing Ecological Reserve Pond

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Mindy Patterson, MBA
Supervisor

Staff
Randy Enriquez

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, 6th Floor
Sacramento, CA 95814
(916) 322-2985

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 Coastal Protection Bond Act of 2006 (Proposition 84), for \$3.4 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

Save the Bay is a regional organization working to protect, restore and celebrate San Francisco Bay since 1961.¹ Save the Bay received the following grants:

- **Watershed Coordinator Position** (Grant 3010-228)—\$232,683 awarded by the California Department of Conservation (DOC) under Propositions 50 and 84 to provide funding and support for a watershed coordinator position.
- **Restoration and Enhancement Project** (Grant WC-1155TC)—\$415,000 awarded by the California Wildlife Conservation Board (WCB) under Proposition 50, to restore the transitional zone habitat adjacent to former salt ponds in Eden Landing Ecological Reserve and Don Edwards San Francisco Bay National Wildlife Refuge.

SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>
3010-228	June 8, 2011 through March 31, 2014 ²
WC-1155TC	December 8, 2011 through March 31, 2014 ²

The audit objectives were to determine whether Save the Bay'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.

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

¹ Source: <http://www.savesfbay.org/about>

² An interim audit was conducted on grants 3010-228 and WC-1155TC because audit fieldwork was performed prior to the grant end dates of December 19, 2014, and November 17, 2014, respectively.

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:

- Examined the grant files, grant agreements, and applicable policies and procedures.
- Reviewed Save the Bay's accounting records, timesheets, and bank statements.
- 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 agreements.
- Evaluated whether a sample of grant deliverables were met by reviewing supporting documentation including project completion reports, and conducting site visits to observe completed work.

In conducting our audits, we obtained an understanding of Save the Bay's internal controls, including any information systems controls that 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 audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits 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.

Except as noted below, the grant expenditures claimed complied with the grant agreements. Additionally, the grant deliverables available for inspection at the time of our audits were completed as specified in the grant agreements. The Schedules of Claimed Amounts are presented below.

Schedules of Claimed Amounts

California Department of Conservation (DOC) Grant Agreement 3010-228	
Category	Claimed¹
Watershed Coordinator	\$ 134,868
Benefits	26,439
Office Expenses (supplies, telephone, internet & workshops, office space)	6,556
Administration	18,156
Total Grant Funds	186,019
Match Funds	81,300
Total Project Expenditures	\$267,319

California Wildlife Conservation Board (WCB) Grant Agreement WC-1155TC	
Category	Claimed²
Personnel Costs ³	\$318,007
Travel and Transportation	10,458
Equipment and Supplies	5,193
Project Administration	25,523
Total Grant Funds	359,181
Match Funds	585,572
Total Project Expenditures	\$944,753

Observation 1: Inconsistent Overhead Cost Allocation Methods

Save the Bay used inconsistent methods of allocating indirect (overhead) costs. Specifically, Save the Bay used two different cost bases to allocate their overhead costs to the grants. For the WCB grant, Save the Bay included an overhead rate of up to 27 percent in their salary rates; however, for the DOC grant, Save the Bay claimed an overhead rate of 10.8 percent based on direct costs. Additionally, we note that Save the Bay's federally approved overhead rate of 14.6 percent used direct costs as the base.

¹ DOC awarded \$232,683 and Save the Bay claimed \$186,019 as of March 31, 2014.

² WCB awarded \$415,000 and Save the Bay claimed \$359,181 as of March 31, 2014.

³ Personnel costs for tasks: 1) Restoration Implementation; 2) Restoration Science, Monitoring and Data Analysis; 3) Native Plant Propagation; and 4) Ecotone Management Plan and Tools.

Further, Save the Bay was not transparent in their reimbursement claims submitted to the state. Specifically, Save the Bay's reimbursement claims did not separately account for the overhead costs included in their salary rates. Prior to the audit, there was no indication that overhead costs were included in their salary rates. In response to this audit, Save the Bay subsequently itemized and identified the additional overhead costs claimed under each task and provided additional documentation. Based on our review, the claimed overhead costs for the WCB grant appear reasonable. We did not review or determine whether total overhead costs were equitably allocated across all Save the Bay programs.

The use of multiple cost allocation methods during the same period can result in inaccurate cost allocations. As a non-profit agency administering multiple grants, Save the Bay has the fiduciary responsibility to accurately document its overhead rate methodologies and apply the rates consistently to all grants. Additionally, grant agreement section 8.7 requires the grantee to maintain complete and accurate records of its actual project costs, in accordance with generally accepted accounting principles.

Recommendations:

- A. Develop a formal indirect cost allocation plan that is applied consistently across all programs. Once in place, the cost allocation plan should be routinely monitored.
- B. Develop procedures to ensure all claimed costs are allowable, supported by accounting records, and do not exceed established cost caps (limitations). The grant agreement provisions, including the grant budget, should be used as a guide in developing such procedures.
- C. For all future state bond grant proposals and applications, separately account for all overhead costs under a separate budget line item.

SHUTE MIHALY
& WEINBERGER LLP

396 HAYES STREET, SAN FRANCISCO, CA 94102
T: (415) 552-7272 F: (415) 552-5816
www.smwlaw.com

FRAN M. LAYTON
Attorney
layton@smwlaw.com

October 14, 2015

Via E-Mail

Richard R. Sierra
Chief, Office of State Audits and Evaluations
California Department of Finance
915 L Street
Sacramento, CA 95814-3706

Re: Response to Draft Report - Save The Bay, Propositions 50 and 84
Grant Audits

Dear Mr. Sierra:

We are responding on behalf of our client, Save The Bay, to the Draft Audit Report (“Draft Report”) for grant WC-1155TC (“Grant”) by the California Department of Finance, Office of State Audits and Evaluations (“OSAE”). This letter addresses the Draft Report’s observations and recommendations and demonstrates that Save The Bay’s expenditures fully comply with all laws, regulations, and requirements that apply to the Grant.

Save The Bay is the oldest and largest organization working exclusively to protect and restore the San Francisco Bay. Since 1961, Save The Bay has engaged over 50,000 supporters and volunteers to protect the Bay and make it cleaner and healthier for people and wildlife. In particular, Save The Bay leads a region-wide effort to reestablish 100,000 acres of tidal marshes, which are essential to a healthy Bay.

In pursuit of its restoration of the Bay’s tidal marshes, Save The Bay applied to the Wildlife Conservation Board (“WCB”) for and received a \$415,000 grant under Proposition 50 (Grant Agreement WC-1155TC) to restore transitional zone, or ecotone, habitat adjacent to former salt ponds located in the Eden Landing Ecological Reserve and in the Don Edwards San Francisco Bay National Wildlife Refuge. This grant has allowed Save The Bay to restore and enhance over 50 acres on these sites through controlling invasive species, reintroducing native species, enhancing biodiversity, and supporting adaptations for climate change. This work was identified in

the California State Wildlife Action Plan as priority work to restore the San Francisco Bay's tidal habitats and baylands. During this restoration, Save The Bay also gathered valuable data regarding the plant communities in these areas, contributing to academic knowledge about transition zone restoration.

The objectives of OSAE's audit were to "determine whether Save The Bay'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." Draft Report at 1. OSAE staff spent four days on-site during its audit, and Save The Bay provided OSAE auditors with access to all requested supporting documentation during that time. Only months later did OSAE indicate there might be a problem with the audit.

As explained below, Save The Bay's expenditures under the Grant not only fully complied with the terms of the Grant Agreement and all applicable laws and regulations, but were essential to achieving the Grant's objectives.

I. Consistent With The Grant Agreement and OSAE's Guidance, Save The Bay Accounted Separately For Its Project Administrative Costs and Other Indirect Costs.

In the Draft Report, OSAE incorrectly concludes that Save The Bay requested reimbursement of its costs in excess of the Grant's project administration budget. Draft Report at 4. OSAE reached this conclusion because it erroneously conflated project administrative costs and general indirect, or overhead, costs.¹ Specifically, the Draft Report states that

[The Grant] budget allowed \$27,649 or 7 percent for project administration, *which includes overhead costs*. As of March 31, 2014, Save the Bay claimed \$25,523 under the project administration line item; however, Save the Bay also claimed additional overhead of \$59,541 within the personnel services budget line item. . . . We questioned \$59,541 in claimed overhead costs because it exceeds the grant's project administration budget.

¹ The terms "indirect costs" and "overhead costs" are synonymous and often used interchangeably, including in the documents that are cited in this response. For consistency, we use the term "indirect costs" throughout this letter.

Id. (emphasis added). Save The Bay disagrees with this conclusion because, contrary to the Draft Report, both the terms of Save The Bay’s Grant Agreement and Department of Finance guidance recognize that indirect costs *include* administrative costs, not the reverse.

Indirect costs are costs “that cannot be readily assigned to a specific activity or program and should be distributed between programs and activities which benefit from its incurrence.” Bond Accountability & Audits Guidance at 68. Though indirect costs cannot be attributed fully to a specific project or program within an organization, they are nonetheless essential to successfully completing any project, which necessarily relies on shared resources, such as administrative support, office space, computer equipment, and phones.

The key point is that administrative costs and overhead costs are not synonymous. A project’s administrative costs include only its proportional share of the costs of organizational management staff salaries and other expenses. In addition to these costs, a project requires the use of shared organization resources, such as office space, general liability insurance, office technology, phone service, office supplies, and related support staff. Like administrative costs, the costs of these organization resources must be shared proportionally among all of the organization’s projects.

This distinction—that administrative costs are a subset of a project’s indirect costs but not *coextensive* with its indirect costs—is essential to properly auditing Save The Bay’s use of its grant funds. Unfortunately, OSAE’s audit and the resulting Draft Report did not recognize this critical distinction.

A. The Grant Agreement’s Terms Separate Project Administrative Costs from Other Indirect Costs.

First, the terms of Grant Agreement WC-1155TC identify administrative costs and other indirect costs as separate categories in the Grant’s budget, which is attached as Exhibit 1. The Grant’s budget contains eight line items: four project tasks, travel and transportation, equipment and supplies, project administration, and contingency. The budget describes each of these four project tasks as including “project costs” to achieve or support the task.

These project costs necessarily include indirect costs that do not fall under the “project administration” budget. For example, in the grant agreement budget, the project-task line item for “Restoration Science, Monitoring, and Data Analysis” includes

“Project costs to support selection of restoration subsites and plots; planting design; monitoring; all data analysis; info sharing with restoration partners and scientists.” Project administration is one project cost necessary to accomplish this task, but there are additional indirect costs required to achieve the task of conducting “Restoration Science, Monitoring, and Data Analysis.” These additional indirect costs include a proportional share of such expenses as rent for the office space for the staff performing these tasks and the cost of computers and other technology used by personnel who are carrying out these tasks. These indirect project costs are not administrative costs and they cannot be accounted for under the project administration line item. Consistent with the terms of the Grant Agreement, Save The Bay properly accounted for these indirect costs under each project task’s line item.

It is appropriate to include indirect project costs under the project-task line items. Guidance from the United States Office of Management and Budget (“OMB”)² defines “project costs” as “all allowable costs as set forth in the applicable Federal cost principles.” 2 C.F.R. § 215.2(y). Under the applicable federal cost principles for nonprofits, allowable costs include indirect costs that: are reasonable for the performance of the project that is the subject of the grant award; conform to the grant agreement; and are allocated to the grant “in reasonable proportion to the benefits received.” 2 C.F.R. pt. 230, appx. A, subpar. A.2, A.4.b. The indirect costs that Save The Bay claimed under each of the Grant budget’s four project-task line items are consistent with these principles and so are allowable as project costs.

OMB’s guidance also recognizes that the Grant budget’s treatment of indirect costs as direct costs for each of the Grant’s project tasks is acceptable. The guidance observes that some nonprofits categorize all costs as direct costs, except general administration expenses. 2 C.F.R. pt. 203, appx. A, subpar. D.4.a. Non-administrative indirect costs like “rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs” to each project or program using an appropriate base. *Id.* And one appropriate allocation basis is to allocate indirect costs to each project task on the basis of the program staff salaries or wages billed to that task, *see id.* subpar. D.2.c, which is exactly what Save The Bay did, as explained below.

² The Department of Finance’s Bond Audit and Accountability Guidance also relies on guidance issued by OMB. *See* Bond Audit & Accountability Guidance at 28.

Finally, the Grant Agreement nowhere indicates that the “project administration” line item includes all of the project’s indirect costs. Indeed, the language of the Grant Agreement itself assumes that project administrative costs and general indirect costs are different categories, stating that any audits of Save The Bay’s use of the grant “shall be confined to those matters connected with th[e Grant] Agreement, including but not limited to administration and overhead costs.” Grant Agreement WC-1155TC ¶ 8.7.

B. State Guidance Recognizes That Administrative Costs Are a Subset of a Project’s Indirect Costs.

Additionally, the guidance documents for both OSAE and the Department of Finance support Save The Bay’s accounting for the project administration indirect costs separately from other indirect costs. For example, the State Administrative Manual (“SAM”) recognizes that administrative costs are merely a subset of indirect costs, describing indirect costs as including both administrative and management expenses *and* “operating expenses and equipment costs not included as part of department direct costs” SAM § 8752.1(2); *see also* SAM § 9200 (“Examples of indirect costs are costs for administration and legal units, utilities, and rent.”).

Like the SAM, the OMB guidance recognizes that administrative costs are a subset of indirect costs, noting that “typical examples of indirect costs” include “costs of operating and maintaining facilities, and general administration and general expenses.” 2 C.F.R. pt. 203, appx. A, subpar. C.2. OMB’s guidance even requires that indirect costs be allocated into two categories, administration and facilities, further emphasizing that a project’s indirect costs include, but are not limited to, administrative costs. *See id.* subpar. C.3.

II. Save The Bay’s Allocation of Indirect Costs to the Grant is Proper.

Additionally, Save The Bay’s underlying methodology for allocating indirect costs to Grant WC-1155TC was proper. Save The Bay allocated indirect costs to the Grant’s project tasks based on a predetermined indirect cost rate. The predetermined indirect cost rate projected the organization’s indirect costs to be incurred during the Grant’s term, based on past experience, and then allocated an equitable percentage of the indirect costs into each staff person’s “billing rate,” based on their wages. Federal guidance allows use of a predetermined indirect cost rate where “there is reasonable assurance, based on past experience and reliable project of the organization’s costs, that

the rate is not likely to exceed a rate based on the organization's actual costs." 2 C.F.R. pt. 230, appx. A, subpar. E.2.d.³

Save The Bay determined its indirect cost rate for Grant WC-1155TC by allocating its projected indirect costs for the grant term using a simplified allocation method, which distributes all of the organization's indirect costs, as a whole, across all of its programs and projects because its various functions benefit from the indirect costs to approximately the same degree. *See* 2 C.F.R. pt. 230, appx. A, subpar. D.2 (allowing such allocation). This method is appropriate where, as is the case with Save The Bay, an organization has one major function that is achieved through various individual projects and programs—for Save the Bay, that function being to protect and restore the San Francisco Bay. *See id.*

Save The Bay's indirect costs other than project administration include office rent; general office supplies; computers, telephones, internet, and other information technology; insurance; and support staff wages. All of these costs are necessary for Save The Bay to function as an organization and to support its various programs and projects in pursuit of protecting and restoring the Bay. Because Save The Bay's staff members each spend time on many different programs and projects during any given period, their use of these shared resources cannot be reliably allocated directly to a program or project.

Here, Save The Bay's inclusion of an indirect cost rate as part of its personnel's billing rates (in addition to wages and benefits) to Grant WC-1155TC effectively allocated costs to the Grant's four project tasks based on total staff wages billed to the Grant. This distribution basis is explicitly allowed by federal guidance, and it is appropriate here because it most accurately reflects the use of Save The Bay's common resources to carry out the project tasks. *See* 2 C.F.R. pt. 230, appx. A, subpar. D.2.c.

To demonstrate the accuracy of this allocation methodology and show that it did not overbill for the share of Save the Bay's indirect costs attributable to the Grant,

³ This predetermined indirect cost rate that Save the Bay used to allocate its shared costs to the Grant's various project tasks is not the same as the federal indirect cost rate ("ICR") that Save The Bay uses for its federal grants. Save The Bay's federal ICR does not encompass the kind of shared organizational costs, including rent and communications technology, that were allocated to the Grant's project tasks by the predetermined indirect cost rate used for the Grant.

Save The Bay is providing a spreadsheet comparing the actual indirect costs incurred during the Grant's period with the indirect costs billed to the Grant based on the predetermined indirect cost rate, attached as Exhibit 2.

For each invoice period, the spreadsheet identifies Save The Bay's total wages for the period (line 6) and the total wages for project staff billed to the Grant (line 7), and determines what percentage of the period's total wages were billed to the Grant (line 8). This percentage indicates the actual portion of the organization's indirect costs for the invoice period that was incurred by Save the Bay in implementing the Grant's project tasks. Across the nine invoice periods, the average indirect cost rate for the Grant was 4.57% (column L, line 8).

Lines 17 through 29 break down by category the shared organizational expenses billed as indirect costs, and line 30 totals all organizational indirect costs for the period. Line 32 indicates the total amount of indirect costs that were *actually incurred* by the Grant's project tasks, based on the percentage of total staff wages spent on the Grant's projects during the invoice period (see line 8). Line 14 shows how much was *actually billed* to the Grant as indirect costs for that invoice period. Line 33 shows the differences between the amounts billed to the Grant and the actual indirect costs incurred in carrying out the Grant's project tasks.

As the overhead expenses spreadsheet shows, the predetermined indirect cost rate employed by Save The Bay, which was included in personnel's billing rates, resulted in \$7,258 *less* than the actual indirect costs incurred in carrying out the Grant's project tasks being billed to the Grant (column L, line 33). This is exactly what predetermined indirect cost rate is supposed to do—be a reliable projection of the applicable indirect costs without exceeding actual costs. *See* 2 C.F.R. pt. 230, appx. A, subpar. E.2.d.⁴

⁴ OSAE questions Save The Bay's method for allocating indirect costs under the WCB Grant by comparing it to a different grant, noting "that Save The Bay *did not* include an overhead rate in the labor rates under the DOC grant 3010-228." Draft Report at 4 (emphasis original). However, the two grants' budgeting is fundamentally different. The DOC grant funded a single staff position (a Watershed Coordinator), and its budget (attached as Exhibit 3) identified the costs for wages, benefits, operating costs, and administration separately. The DOC grant budget's operating costs included specific resources directly allocable to the position: a single telephone, office supplies for one person, a single person's share of the organization's internet service, and approximately

III. Save The Bay Is Providing Additional Information in Support of Its Claimed Costs.

The only remaining issue is the sufficiency of Save The Bay's reporting and substantiation of its indirect costs. It appears that OSAE takes issue with Save The Bay's accounting for the Grant's indirect costs by including some indirect costs in its personnel's billing rates rather than identifying these indirect costs as a separate line item. In response, Save The Bay is providing a revised breakdown (attached as Exhibit 2) that separates the indirect costs from the personnel's billing rates.

The Draft Report also states that "Save The Bay could not provide documentation to support the additional overhead rates claimed" as part of its personnel's billing rates. Draft Report at 4. Save The Bay provided all of the information that OSAE requested during its four-day audit. Save The Bay had no notice until months after the audit concluded that its method of accounting for its indirect project costs was not acceptable or, more importantly, that OSAE had concluded that Save The Bay had received reimbursement that it could not support and that exceeded its Grant budget. Nonetheless, Save The Bay is attaching supplemental information to this letter, as discussed above, and it will also provide documentation, upon request, for such indirect costs as its office lease and telephone bills, which are too voluminous to attach here.

IV. Conclusion

The Draft Report incorrectly assumes that administrative costs are synonymous with indirect costs, instead of being a *subset* of indirect costs. Once that mistaken assumption is corrected, it is clear that Save The Bay has not claimed costs in excess of its Grant budget.

200 square feet of office space. Because these operating costs are specifically assigned to the position funded by the grant, they are *direct costs*—not indirect costs, which are not readily assignable to any specific program or grant—and they did not need to be accounted for as indirect costs under the DOC grant. In contrast, the operating costs for the WCB Grant budget are not directly allocable to the Grant and are thus indirect costs that necessarily fall under the line items for project tasks.

Richard R. Sierra
October 14, 2015
Page 9

Save The Bay appreciates OSAE's diligence in ensuring that the State's bond funds are properly administered and believes that this letter and its exhibits should resolve any question OSAE has about the costs that Save The Bay claimed under the Grant. Accordingly, Save The Bay respectfully requests that OSAE revise its audit report to remove the recommendation that Save The Bay remit \$59,541 to the Wildlife Conservation Board. To avoid any future misunderstanding going forward, Save The Bay will account for indirect costs as a separate line item rather than as part of personnel billing rates.

Thank you for your attention to this matter, and please do not hesitate to contact me if you have any questions.

Very truly yours,

SHUTE, MIHALY & WEINBERGER LLP

Original Signed By

Fran M. Layton
Laura D. Beaton

Attachments

Exhibit 1 – WCB Grant #WC-1155TC Exhibit B – Budget
Exhibit 2 – Overhead Expenses Billed to Wildlife Conservation Board (WCB)
Grant #WC-1155TC
Exhibit 3 – DOC Grant #3010-228 Exhibit B – Budget

cc: Mr. David Thesell, Deputy Chief, Division of Land Resource Protection,
California Department of Conservation
Mr. John Lowrie, Assistant Director, Division of Land Resource Protection,
California Department of Conservation
Mr. John Donnelly, Executive Director, California Wildlife Conservation Board
Mr. Peter Perrine, Assistant Executive Director, California Wildlife Conservation
Board
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources
Agency

EVALUATION OF RESPONSE

Save the Bay's response to the draft audit report has been reviewed and incorporated into the final report. In the interest of brevity, the attachments referenced in Save the Bay's response were omitted. After review of the additional documentation provided, the report was modified as follows:

Observation 1: Inconsistent Cost Allocation Methods

Our draft audit report dated September 14, 2015 questioned \$59,541 in unallowable overhead costs in excess of the grant's project administration budget for the California Wildlife Conservation Board grant. Save the Bay's response to the draft report included additional information that supported the claimed costs. Based on our review of the documentation, the questioned costs were found to be adequately supported and therefore were removed from the audit observation. However, in accordance with generally accepted government auditing standards, we consider the use of inconsistent overhead cost allocation methods a significant internal control deficiency and therefore the deficiency will remain in the audit report.