



Transmitted via e-mail

January 4, 2017

Mr. Charlton H. Bonham, Director
California Department of Fish and Wildlife
1416 Ninth Street, 12th Floor
Sacramento, CA 95814

Mr. William A. Croyle, Acting Director
California Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236

Dear Mr. Bonham and Mr. Croyle:

Final Report—City of Fortuna, Propositions 84 and 1E Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of Fortuna's (City) grants P1210306 and 4600009596, issued by the California Department of Fish and Wildlife and the California Department of Water Resources, respectively.

The enclosed report is for your information and use. The City's response to the report observations are incorporated into this final report. The City agreed with our finding 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 City. 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:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Gabe Tiffany, Deputy Director, California Department of Fish and Wildlife
Ms. Lisa Gallegos, Assistant Deputy Director for Administration, California Department of Fish and Wildlife
Ms. Cindy Messer, Assistant Chief Deputy Director, California Department of Water Resources
Ms. Katherine Kishaba, Deputy Director of Business Operations, California Department of Water Resources
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California Department of Water Resources
Mr. Jeff Ingles, Chief Auditor, Department of Water Resources
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. Randy Mendosa, Interim City Manager, City of Fortuna

AUDIT REPORT

City of Fortuna
Propositions 84 and 1E Bond Programs
Grant Agreements P1210306 and 4600009596

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Mindy Patterson, MBA
Supervisor

Staff
Kathleen Wong

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 Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84), and the Disaster Preparedness and Flood Protection Bond Act of 2006 (Proposition 1E) for \$5.4 billion and \$4.1 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The City of Fortuna (City) received the following grants:

- **Rohner Creek Flood Control and Riparian Habitat Improvement Project (4600009596)** – The California Department of Water Resources (DWR) awarded \$3,394,652 to determine the most feasible option to construct instream channel improvements and/or a bypass channel that would decrease flooding of Rohner Creek during a 100-year flow recurrence; then proceed with design, California Environmental Quality Act, permitting, and construction of the selected alternative.
- **Fortuna Boulevard’s Strongs Creek Culvert Replacement (P1210306)** – The California Department of Fish and Wildlife (DFW) awarded \$66,340 to develop a design for culvert replacement to improve fish passage within the lower reach of Strongs Creek, benefiting access to upstream habitat.

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>
4600009596	April 16, 2009 through September 30, 2015 ¹
P1210306	June 1, 2013 through February 28, 2015

The audit objectives were to determine whether the City’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. Because grant 460009596 was not complete at the time of our audit, we did not determine whether the grant deliverables were completed as required. Additionally, we did not assess the efficiency or effectiveness of program operations. Further, no assessment was performed on the reasonableness of the land acquisition costs or the conservation value of acquired land or projects completed.

¹ An interim audit was conducted on grant 4600009596 as the grant period ends June 30, 2017.

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

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 agreements, and applicable policies and procedures.
- Reviewed the City's accounting records, timesheets, vendor contracts and invoices, canceled checks, bank statements, appraisals, title closing statements, and deeds.
- 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 grantor-approved documents such as monitoring plans, preliminary and final flood models, and designs stamped by a Registered Professional Engineer.

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

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 observations and conclusions based on our audit objectives.

Except as noted below, the grant expenditures claimed complied with the requirements of the grant agreements. Additionally, the grant deliverables were completed as specified for grant P1210306. The Schedules of Claimed and Questioned Amounts are presented below.

Schedule of Claimed and Questioned Amounts

Grant Agreement 460009596		
Category	Claimed	Questioned
Direct Project Administration Costs	\$ 33,721	\$ 0
Land Purchase/Easement	61,874	0
Planning/Design/Engineering/Environmental Documentation	594,976	0
Total Grant Funds	\$ 690,571	\$ 0
Match Funds	\$ 553,680	\$5,579
Total Project Expenditures	\$1,244,251	\$5,579

Grant Agreement P1210306		
Category	Claimed	Questioned
Design Plan Subcontractor Costs	\$ 44,868	\$ 0
Hydraulic Analysis Subcontractor Costs	17,797	0
Surveying Subcontractor Costs	3,675	0
Total Grant Funds	\$ 66,340	\$ 0
Match Funds	\$ 22,199	\$9,439
Total Project Expenditures	\$ 88,539	\$9,439

Finding 1: Ineligible Expenditures Claimed as Match

The City of Fortuna (City) claimed \$15,018 in ineligible match expenditures. Specifically, under grant 460009596, the City claimed \$5,579 in grant application costs for another solicitation. The City stated the grant application costs claimed were an error. Additionally, under grant P1210306, the City claimed \$9,439 in personnel costs, including administrative overhead, that were not supported with timesheets. The City stated the hours claimed were estimated since staff did not track their match time on timesheets. Without the timesheets to support the hours claimed, the City is unable to provide assurance that the claimed match is grant-related, allowable, and incurred within the grant period.

Per the Proposition 1E Stormwater Flood Management guidelines, costs for preparing and filing a grant application belonging to another solicitation are not reimbursable. Additionally, the grant agreements require accurate records of services to be retained.

Recommendation:

- A. Ensure match claimed for the project is allowable per grant guidelines and DFW documentation, such as timesheets, are maintained to accurately reflect time spent on projects.

California Department of Finance
Office of State Audits and Evaluations
Attn: Jennifer Whitaker
915 L Street
Sacramento, CA 95814-3706

December 21, 2016

RE: Draft Report- City of Fortuna, Propositions 84 and 1E Grant Audit

Dear Mrs. Whitaker;

We have reviewed the audit report prepared by the Department of Finance for the City of Fortuna Proposition 84 Strongs Creek Culvert Replacement Project (P1210306) and the Rohner Creek Flood Control and Riparian Habitat Improvement Project (4600009596). The City takes no exceptions to the findings presented in the audit report and plans to implement the single recommendation provided in the report.

Please feel free to contact us if you require any additional information from the City.

Sincerely,

Original Signed by:
Randy Mendosa
Interim City Manager