



June 9, 2010

Mr. Samuel Schuchat, Executive Officer
California State Coastal Conservancy
1330 Broadway, 13th Floor
Oakland, CA 94612

Dear Mr. Schuchat:

Final Report—Resource Conservation District of the Santa Monica Mountains, Malibu Lagoon Restoration Proposition 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the following Resource Conservation District of the Santa Monica Mountains (District) and Santa Monica Baykeeper (Baykeeper) grant awards:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
05-030 District	July 5, 2005 through September 30, 2009	\$ 925,259
05-030 Baykeeper	December 1, 2008 through September 30, 2009	\$ 147,835

The enclosed report is for your information and use. The District's response to the report findings is incorporated into this final report. The District 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 District. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Robert Scott, 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: Mr. Clark Stevens, Executive Officer, Resource Conservation District of the Santa Monica Mountains
Mr. John Hendra, Operations Manager, Resource Conservation District of the Santa Monica Mountains
Mr. Mark Abramson, Director of Watershed Programs, Santa Monica Baykeeper
Ms. Regine Serrano, Chief of Administration, California State Coastal Conservancy
Ms. Kara Kemmler, Project Manager, South Coast, California State Coastal Conservancy
Mr. Patrick Kemp, Assistant Secretary, California National Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

A GRANT AUDIT

The Resource Conservation District of the Santa Monica Mountains Malibu Lagoon Restoration Planning Project Grant Agreement 05-030

Before



Source: HealtheBay.org

After



Source: Malibu Lagoon Restoration and Enhancement Project Phase 1 Final Project Report

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

MEMBERS OF THE TEAM

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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

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. The bond proceeds provide funds for grants and loans to assist in meeting safe drinking water standards; acquisition, restoration, protection, and development of river parkways; and coastal watershed and wetland protection.

The California State Coastal Conservancy (Conservancy) is one of many state departments that administer Proposition 50 funds. The Conservancy, established in 1976, uses entrepreneurial techniques to purchase, protect, restore, and enhance coastal resources including wetlands, and provide shore access. The Conservancy works in partnership with local governments, other public agencies, nonprofit organizations, and private landowners.

The Conservancy received Proposition 50 funds through grants from the State Water Resources Control Board (Board) for coastal watershed and wetland restoration and protection. The funds were subsequently made available to nonprofit and government entities to promote the proposition's goals.

The Resource Conservation District of the Santa Monica Mountains (District) was established under the State Public Resources Code to promote and provide conservation education, conduct research, advise and assist public agencies and private individuals in land-use planning, soil and water conservation, wildlife habitat enhancement and restoration, control of exotic plant species, and watershed restoration. Resource Conservation Districts can lease or own land, publish the results of their research, contract to perform restoration projects and educational programs, and operate facilities for the enhancement and conservation of our natural resources.

The District is governed by a board of directors appointed by the Los Angeles County Board of Supervisors. They are assisted by Associate Directors, scientists, educators, and community leaders who volunteer to assist the District in its work, serve on committees, and participate in meetings. The District employs an executive director, operations manager, administrative assistant, and five staff comprised of biologists, and an educator. The District is financed through a minimal property assessment. Other revenues include grants from public agencies or private foundations; contracts for education, research, and restoration services; and donations.

The District received Proposition 50 funds from the Conservancy for the preparation of final project plans, environmental review documents, permits and approvals, and specifications for the initial restoration phase of the Malibu Lagoon Habitat Enhancement Plan and Restoration Project.

In December 2008, the Santa Monica Baykeeper (Baykeeper), one of the contractors on the restoration project, was added as an assignee to the grant agreement with the District.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted an audit of the following Proposition 50 grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
05-030 District	July 5, 2005 through September 30, 2009	\$925,259
05-030 Baykeeper	December 1, 2008 through September 30, 2009	\$147,835

The audit's objective was to determine whether the District's and Baykeeper's grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The District's and Baykeeper'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 along with the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

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

- Interviewed key personnel
- Obtained an understanding of the grant-related internal controls
- Examined the grant files
- Reviewed the District's and Baykeeper's accounting records
- Performed site visits at the Malibu Lagoon State Park project site
- Determined whether a sample of District and Baykeeper expenditures were:
 - Allowable
 - Grant related
 - Incurred within the grant period
 - Supported by accounting records
 - Properly recorded
 - Not double billed to other revenue sources

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 October 2009 through December 2009.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the District's expenditures were in compliance with applicable laws, regulations, and the grant requirements. While the audit did not result in questioned costs, two observations were identified as reported below. The Schedules of Claimed, Audited, and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed, Audited, and Questioned Amounts

Grant Agreement 05-030 District For the Period July 5, 2005 through September 30, 2009			
Category	Claimed	Audited	Questioned
Project Management	\$248,837	\$248,837	\$ 0
Environmental Review	177,775	177,775	0
Project Design	300,196	300,196	0
Administrative Overhead	23,122	23,122	0
Total Expenditures	\$749,930	\$749,930	\$ 0

Grant Agreement 05-030 Baykeeper For the Period December 1, 2008 through September 30, 2009			
Category	Claimed	Audited	Questioned
Project Management	\$ 19,518	\$ 19,518	\$ 0
Project Design	16,709	16,709	0
Administrative Overhead	3,623	3,623	0
Total Expenditures	\$ 39,850	\$ 39,850	\$ 0

Observation 1: Fiscal Controls Require Improvement

The District does not have written policies and procedures for administrative and project management processes. Written policies and procedures should describe management and employee responsibilities regarding grant accounting, invoice processing and approval, subcontract awards, record retention, and project monitoring.

State Administrative Manual section 20050 indicates state entity heads are responsible for establishment and maintenance of internal accounting and administrative controls in order to protect resources. These controls should be documented through flowcharts, narratives, desk procedures, and organizational charts. The grant agreement requires proper accounting records be maintained along with supporting documentation for all costs charged under the agreement.

Written policies and procedures may have prevented the following:

- The District did not have executed (signed) project manager and landscape architect contracts available. Also, the contract with the chief project consultant could not be located. Unsigned contracts may not be valid and legally enforceable. Without an executed contract there is no assurance work is performed within cost and in accordance with the understanding between the contracting parties.
- A consultant paid for communication charges not included in the consultant contract.

Recommendation

The District should develop written policies and procedures describing internal and administrative controls for managing grant projects, especially procedures regarding filing contract documents and eligible contract charges.

Observation 2: Administrative Overhead Costs Are Not Documented

The District could not provide the basis for the 10 percent administrative overhead charged under the grant agreement. Although the Conservancy customarily allowed the 10 percent figure as part of the grant agreement Task Budget, the grant agreement requires proper accounting records be maintained along with supporting documentation for all costs charged under the agreement.

In addition, the grantee should be able to substantiate the rate as reasonable. Without a documented overhead allocation rate, the District may be over-charging or under-charging administrative overhead.

Recommendation

Develop and document the basis for administrative overhead charged under grant agreements.



RESOURCE CONSERVATION DISTRICT
OF THE
SANTA MONICA MOUNTAINS

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of the State of California

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May 6, 2010

David Botelho, CPA
Chief, Office of State Audits and Evaluation
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho,

Thank you for the time your department took to review the Malibu Lagoon Restoration Proposition 50 Grant. Your auditors were pleasant to work with and very helpful in guiding us through the process while working with us to understand what improvements need to be made.

The RCDSMM is proud of its 50 year history of spending public funds efficiently and wisely, and we are working now to address the recommendations from the audit. We have changed our accounting system somewhat to more clearly track overhead, and have discussed with an accountant the proper methods for calculating these costs on a per grant basis. This is an important step to help us ensure we are charging the correct overhead rate to cover our costs.

We are also developing written policies and procedures for administrative and project management processes. As a very small office (administrative staff of 1.5 FTE), we had followed precedent in performing various administrative and project management processes, which has worked very well for us in almost all cases. We are now documenting our processes and reviewing procedure manuals from other organizations to adapt to our use.

We found the audit to be a very valuable and educational experience in how it helped us to improve our procedures. Most importantly, we are pleased you were able to track all funds and ensure they were spent properly in accomplishing this important project for the water quality and wildlife of Malibu Lagoon and the Santa Monica Bay.

Thank you again for the time and assistance of your staff in guiding us through this audit.

Regards,

Original signed by:

Clark Stevens
Executive Officer