



Transmitted via e-mail

May 26, 2016

Mr. John Laird  
California Natural Resources Agency  
1416 Ninth Street, Suite 1311  
Sacramento, CA 95814

Dear Mr. Laird:

**Final Report—Ocean Protection Council, Proposition 84 Bond Funds Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Ocean Protection Council's (Council) Proposition 84 bond funds.

The enclosed report is for your information and use. The Council's response to the report finding is incorporated into this final report. The Council agreed with our finding and we appreciate its willingness to implement corrective action. The finding in our report is intended to assist management in improving its program. This report will be placed on our website.

A detailed Corrective Action Plan (CAP) addressing the finding and recommendation is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies. After the initial CAP is submitted, it should be updated every six months thereafter, until all planned actions have been implemented. The CAP should be sent to [OSAEReports@dof.ca.gov](mailto:OSAEReports@dof.ca.gov).

We appreciate the assistance and cooperation of the Council. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: 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. Deborah Halberstadt, Executive Director, Ocean Protection Council, California Natural Resources Agency  
Ms. Amy Vierra, Deputy Director, Ocean Protection Council, California Natural Resources Agency  
Ms. Joanna Stone, Program Analyst, Ocean Protection Council, California Natural Resources Agency

Ocean Protection Council  
Proposition 84 Bond Funds  
July 1, 2013 through June 30, 2015



Title: Big Sur, California  
Photographer: Scott Toews, Ocean Protection Council website

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

**MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Angie Williams  
Supervisor

Staff  
Steve Backlund  
Cristine Chan

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, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

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# EXECUTIVE SUMMARY

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In accordance with the Department of Finance's (Finance) bond oversight responsibilities, the Office of State Audits and Evaluations audited the Ocean Protection Council's (Council) Proposition 84 funds for the period July 1, 2013 through June 30, 2015.

Our audit objectives were to determine whether:

- Bond funds were awarded and expended in compliance with applicable legal requirements and established criteria.
- Project monitoring is adequate to ensure project activities and costs claimed are consistent with the approved work plan and budget, and achieve the intended outcomes.

## RESULTS

The Council and its staff generally awarded and expended bond funds in compliance with applicable legal requirements and established criteria. Further, the Council's staff adequately monitored grant projects to ensure grant activities and costs claimed were consistent with the approved work plan, did not exceed budgeted costs, and achieved the intended outcomes.

However, the ranking committee did not document project proposal evaluations upon which the Local Coastal Program and Sea-Level Rise Adaptation Program funds were competitively awarded.

The finding and recommendation noted in this report is intended to further improve accountability over Proposition 84 funds. The Council must develop a corrective action plan to address the finding and recommendation included in this report.

# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

California voters approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$5.4 billion. These bond proceeds were to fund safe drinking water, water quality and supply, flood control, waterway and natural resource protection, water pollution and contamination control, state and local park improvements, public access to natural resources, and water conservation efforts.

The bond funds are administered by a number of state departments, agencies, boards, and conservancies (collectively referred to as departments). These departments use the bond proceeds to 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 disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

### Ocean Protection Council

The Ocean Protection Council's<sup>1</sup> (Council) mission is to ensure that California maintains healthy, resilient, and productive ocean and coastal ecosystems for the benefit of current and future generations. Additionally, the California Ocean Protection Act (COPA) requires the Council to carry out the following duties:

- Coordinate activities of ocean-related state agencies to improve the effectiveness of state efforts to protect ocean resources within existing fiscal limitations.
- Establish policies to coordinate the collection and sharing of scientific data related to coast and ocean resources between agencies.
- Identify and recommend changes in law and policy to the Governor and Legislature.

On July 1, 2013, the Ocean Protection Trust Fund balance of \$44.6 million was transferred from the State Coastal Conservancy (SCC) to the Natural Resources Agency (NRA). During the period July 1, 2013 through June 30, 2015, staff to the Council administered 35 projects.

## SCOPE AND METHODOLOGY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the Council's Proposition 84 bond funds for the period July 1, 2013 through June 30, 2015.

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<sup>1</sup> The Council consists of the Secretary of the Natural Resources Agency, Secretary for Environmental Protection, Lieutenant Governor, a State Senator, a State Assembly Member, and two members of the public appointed by the Governor.

Our audit objectives were to determine whether:

- Bond funds were awarded and expended in compliance with applicable legal requirements and established criteria.
- Project monitoring is adequate to ensure project activities and costs claimed are consistent with the approved work plan and budget, and achieve the intended outcomes.

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.

The Council and its staff are responsible for the state-level administration of projects funded by the Ocean Protection Trust Fund. See Appendix A for the audit procedures performed.

Proposition 1 funds were not included in this audit; however, the Council will receive Proposition 1 funds in the future. Because we evaluated the awarding, monitoring, and close-out processes, the finding and recommendation may be applicable to Proposition 1 programs.

Except as discussed in the following paragraph, 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 findings and conclusions based on our audit objectives.

Finance and the Council are both part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. Under generally accepted government auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented sufficient safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

The Ocean Protection Council (Council) and the Council's staff generally awarded and expended bond funds in compliance with applicable legal requirements and established criteria. Further, the Council staff adequately monitored projects to ensure project activities and costs claimed were consistent with the approved work plan, did not exceed budgeted costs, and achieved intended outcomes.

However, as described in Finding 1, the ranking committee did not document project proposal evaluations upon which the Local Coastal Program and Sea-Level Rise Adaptation Program funds were competitively awarded.

The audit results are presented in accordance with the Project Life Cycle stages<sup>1</sup> as follows:

- Pre-award/Award
- Interim Monitoring
- Close-Out

Appendix B summarizes the audit results for each grant project reviewed.

## PRE-AWARD/AWARD

The Council awarded \$9 million to fund 11 projects during the period July 1, 2013 through June 30, 2015. Of this amount, \$6.5 million was awarded on a noncompetitive basis and \$2.5 million was competitively awarded.

Based on a review of 4 of the 11 grants awarded during the audit period, the Council and Council's staff met the following grant award requirements:

- Alignment with the Bond Act objectives and the Council's Strategic Plan.<sup>2</sup>
- Supported with Staff Recommendations and approved at a Council meeting.
- Grant agreements and work plans included detailed project descriptions, tasks, and deliverables.

### Project Life Cycle

- **Pre-award/Award**  
Program and award procedure development, opportunity announcement, proposal reviews, funding decisions, and grants awarded.
- **Interim Monitoring**  
Expenditure approval and disbursement, and project status reviews.
- **Close-Out**  
Verification of project completion in accordance with grant agreement, and final payment and retention release.

<sup>1</sup> Source: *Bond Accountability and Audits Guide* at [http://www.dof.ca.gov/osae/prior\\_bond\\_audits/](http://www.dof.ca.gov/osae/prior_bond_audits/).

<sup>2</sup> Source: Ocean Protection Council Strategic Plan at <http://www.opc.ca.gov/strategic-plan/>.

## **Grant Award Processes**

To award the grants, the Council and its staff followed either the noncompetitive or competitive award processes described below:

### *Noncompetitive Award Process*

For non-competitively awarded grants, Council staff work with public agencies, universities, and non-governmental organizations to identify potential projects and encourage organizations to develop project proposals. Additionally, Council staff may receive unsolicited project proposals. The Council staff (and external staff if necessary) review each proposal for the attributes described in Council's Interim Standards and Protocols. For project proposals accepted, Council staff prepare the Staff Recommendation for presentation at a Council meeting. The Council makes the final project award determinations.

### *Competitive Award Process*

The Local Coastal Program and Sea-Level Rise Adaptation Program funds were awarded in accordance with a consensus based recommendation process. Specifically, the Coastal Commission, Coastal Conservancy, and Council jointly issued the Local Coastal Program, Sea Level Risk Adaption Grant Program Announcement to solicit project applications and announce the program priorities and selection criteria.

Council staff indicated that funding recommendations were based on evaluations of proposals, subsequent verbal discussions of which proposals best fit the adopted criteria, and consideration of proposals that could be funded by other agency grant programs. The ranking committee comprised of the Coastal Commission, Coastal Conservancy, and Council staff provided the Staff Recommendations at Council meetings for final determination of grants awarded.

However, the ranking committee did not document the competitive award project proposal evaluations as discussed in Finding 1.

## **Finding 1: Competitive Award Evaluations Not Documented**

The ranking committee did not document verbal discussions and determinations, or final consensus rankings for the competitively awarded grants. As a result, neither the Council nor its staff can demonstrate the basis upon which the Local Coastal Program and Sea-Level Rise Adaptation Program grants were awarded. The lack of project proposal evaluation documentation reduces the transparency of the competitive award determinations and could expose the Council or its staff to negative publicity or unnecessary costs to defend and support the award determinations.

The Local Coastal Program, Sea Level Risk Adaption Grant Program Announcement required the Coastal Commission, Coastal Conservancy, and Council's staff to work together to review all applications and develop consensus based recommendations for grant awards. Additionally, the Announcement described the program priorities and selection criteria.

### **Recommendation:**

Document and retain project evidence of proposal evaluations, record of discussions, final rankings, and any other relevant information related to the grant award recommendations.

## **INTERIM MONITORING**

Council staff perform monitoring procedures to ensure the following:

- Expenditures claimed are supported and allowable.
- The project is progressing in accordance with established tasks and milestones.

### **Expenditures**

Expenditures disbursed to grantees were allowable and adequately supported by Requests for Disbursement and supporting documentation such as detailed ledgers, invoices, and receipts. Additionally, the Council established grant guidelines that define eligible costs and documentation requirements and procedures for reviewing and processing invoices for payment.

For \$2.4 million of the total \$11.8 million<sup>3</sup> (20 percent) expenditures reviewed, the project files included evidence of Council staff's review and approval of the Request for Disbursement and supporting documentation. Further, the files included communication with the grantee to resolve payment request issues when applicable.

### **Project Progress**

Council staff consistently monitored projects by reviewing progress reports and direct communication with the grantees. For 6 of the 27<sup>4</sup> active project files reviewed, the project files generally included progress reports which described the project's progress and challenges, and numerous e-mails demonstrating Council staff's communication with the grantees. Due to the nature of the projects, Council staff do not usually perform site visits. Therefore, progress reports and communication with the grantee are critical in determining whether project activities are consistent with the approved work plan and budgeted costs, and whether the grantees are achieving intended outcomes or are encountering challenges.

### **CLOSE-OUT**

The project deliverables were completed in accordance with the work plan, within the budgeted costs, and accurately reported on the Bond Accountability website. Based on 4 out of 11 closed-out projects reviewed, Council staff provided the Final Progress Reports, Letters of Completion, or access to the deliverable to verify completion of the project deliverables.

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<sup>3</sup> The \$11.8 million represents grant expenditures claimed during the period July 1, 2013 through June 30, 2015 for all grants with continuing activities, including those awarded prior to the grant period.

<sup>4</sup> The 27 projects include grants with continuing activities, including those awarded prior to the audit period.

**METHODOLOGY**

To plan the audit, we identified the Proposition 84 program requirements by reviewing the Bond Act, legal provisions, regulations, Strategic Growth Plan Bond Accountability website, Ocean Protection Council’s (Council) Strategic Plan, organization charts, and the Council’s website. Additionally, we interviewed key personnel to gain an understanding of the Council and Council staff’s procedures performed during pre-award/award, interim monitoring, and close-out stages of the projects.

We evaluated key controls relevant to our audit objectives such as grant award processes, expenditure reviews and approvals, project progress reviews, and project file maintenance.

Based on the results of our planning and evaluation of internal controls, we developed the following methods to address the specific audit objectives:

**Audit Objectives and Methods**

Audit Objectives	Methods
<b><i>Pre-award/Award</i></b>	
<p>Determine whether bond funds were awarded in compliance with applicable legal requirements and established criteria.</p>	<ol style="list-style-type: none"> <li>1. Identified the projects awarded during the audit period.</li> <li>2. Selected a sample of 4 of 11 projects awarded. The sample included competitive and noncompetitive awards and projects assigned to various project managers.</li> <li>3. Evaluated whether the 4 projects sampled were awarded in accordance with the following requirements:               <ul style="list-style-type: none"> <li>• Aligned with the Bond Act objectives and the Council’s Strategic Plan.</li> <li>• Supported with a Staff Recommendation that was approved at a Council meeting.</li> <li>• Grant agreements and work plan included detailed project descriptions, tasks, and deliverables.</li> </ul> </li> <li>4. For competitively awarded grants, 7 project files were reviewed to verify whether the grants were awarded in accordance with the established competitive award process.</li> </ol>

Audit Objectives	Methods
<b>Interim Monitoring</b>	
<p>Determine whether bond funds were expended in compliance with applicable legal requirements and established criteria.</p>	<p><i>Expenditures:</i></p> <ol style="list-style-type: none"> <li>1. Identified projects with expenditures during the audit period.</li> <li>2. Selected a sample of 6 of the 27 projects. The projects selected included various project types monitored by various project managers.</li> <li>3. Determined whether the expenditures claimed were allowable and properly supported.</li> </ol>
<p>Determine whether project monitoring is adequate to ensure project activities are consistent with the approved work plan and budget, and achieve intended outcomes.</p>	<p><i>Progress Monitoring:</i></p> <ol style="list-style-type: none"> <li>1. Selected the same 6 of 27 projects indicated above.</li> <li>2. Verified progress reports were submitted with the Requests for Disbursement, included a summary of work completed that was consistent with the approved work plan, and contained evidence of Council staff communications with the grantee.</li> <li>3. Verified budget revisions and amendments were properly documented.</li> </ol>
<b>Close-Out</b>	
<p>Determine whether projects achieved intended outcomes within the established budget.</p>	<p><i>Project Completion:</i></p> <ol style="list-style-type: none"> <li>1. Identified projects closed during the audit period.</li> <li>2. Selected 4 of 11 closed projects. The projects selected included various project types, were closed out by various project managers, and incurred expenditures over \$50,000.</li> <li>3. Determined whether deliverables were completed in accordance with the work plan and by the established due date.</li> <li>4. Verified total project costs claimed did not exceed the grant agreement budget.</li> </ol> <p><i>Strategic Growth Plan Bond Accountability:</i></p> <ol style="list-style-type: none"> <li>1. Verified the accuracy of the financial and project information reported on the Strategic Growth Plan Bond Accountability website.</li> </ol>

**Summary of Audit Results by Project Stage and Title in Caps**

The information below summarizes the audit results by grantee name and number. Overall, the Ocean Protection Council (Council) and the Council’s staff met the requirements except documenting the project proposal evaluations as disclosed in Finding 1 in the PreAward/Award section of the report.

**PreAward/Award Results**

Requirement	Grantee Name and Number								
	University of California Los Angeles	Marin County Community Development Agency	California Ocean Science Trust	City of Eureka	City of Half Moon Bay	City of Morro Bay	Sonoma County	City of Santa Monica	Monterey County
	C0100400	C0300100	C0100300	C0300200	C0300300	C0300400	C0300500	C0300600	C0300700
Project aligns with Bond Act objectives and the Council’s Strategic Plan.	✓	✓	✓	✓	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
Project is supported with a Staff Recommendation and approved by the Council.	✓	✓	✓	✓	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
Grant agreement and work plan included detailed project descriptions, tasks, and deliverables.	✓	✓	✓	✓	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed	Not Reviewed
For competitive grants, project proposal award evaluations were documented.	Non-competitive Grant	x	Non-competitive Grant	x	x	x	x	x	x

**Legend:**

✓ The requirement was met.

x The requirement was not met.

Items marked Not Reviewed represent additional files selected only for review of the project proposal award evaluation documentation.

### Monitoring

Requirement	Grantee Name and Number					
	California Ocean Science Trust	City of Eureka	Regents of the University of California	California Wildlife Foundation	Strategic Earth Consulting	University of California Los Angeles
	C0100300	C0300200	0-10-049	0-11-011	0-11-085	C0100400
Expenditure documentation supports costs claimed.	✓	✓	✓	✓	✓	✓
Council staff monitor project progress by reviewing grantee progress reports and resolving issues with the grantee, as applicable.	✓	✓	✓	✓	✓	✓

### Close-Out

Requirement	Grantee Name and Number			
	University Corporation at Monterey Bay	Pacific States Marine Fisheries Commission	Regents of the University of California	State Lands Commission
	0-07-084	0-08-087	0-09-015	0-11-032
Deliverables were completed in accordance with the project work plan.	✓	✓	✓	✓
Total project costs did not exceed budgeted costs.	✓	✓	✓	✓
Project was accurately reported on the Bond Accountability website.	✓	✓	✓	✓

**Legend:**

- ✓ The requirement was met.
- ✗ The requirement was not met.





## CALIFORNIA OCEAN PROTECTION COUNCIL

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John Laird, Secretary for Natural Resources, Council Chair  
Matt Rodriguez, Secretary for Environmental Protection  
Betty Yee, State Controller, State Lands Commission Chair  
Fran Pavley, State Senator  
Bill Quirk, State Assemblymember  
Geraldine Knatz, Public Member  
Michael Brown, Public Member

May 17, 2016

Mr. David Botelho, CPA  
Program Budget Manager  
Administration, Audits and Information Services  
Department of Finance  
915 L St.  
Sacramento, CA 85814-3706

Sent via email to [OSAEReports@dof.ca.gov](mailto:OSAEReports@dof.ca.gov)

Thank you for your letter to the Ocean Protection Council (OPC) dated May 3, 2016 and the attached draft of the audit report. The purpose of this letter is to formally respond to the draft audit report.

In response to the single finding in the report, I would like to reiterate that the OPC staff, in executing the Local Coastal Program Sea-level Rise competitive grant program, used criteria that was adopted by the Council on March 27, 2013<sup>1</sup>. OPC staff, in partnership with the State Coastal Conservancy and California Coastal Commission, held phone meetings to evaluate proposals against the approved criteria. Furthermore, staff returned to the Council for approval of the selected projects. Approval of round 1 occurred in November 2013<sup>2</sup> and approval of round 2 occurred in December 2014<sup>3</sup>.

I have instituted a corrective action plan and any future competitive grant program will document evaluations of proposals more thoroughly. The OPC has received an allocation from Proposition 1 and structures are already in place to document the evaluation of these proposals.

Thank you for the opportunity to comment on the audit report.

Sincerely,

Original signed by

Deborah Halberstadt  
Executive Director

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<sup>1</sup>[http://www.opc.ca.gov/webmaster/ftp/pdf/agenda\\_items/20130327/Item7 OPC Staff Rec LCP%20Grant%20Round.pdf](http://www.opc.ca.gov/webmaster/ftp/pdf/agenda_items/20130327/Item7 OPC Staff Rec LCP%20Grant%20Round.pdf)

<sup>2</sup>[http://www.opc.ca.gov/webmaster/ftp/pdf/agenda\\_items/20131121/Item6-OPC-Nov2013-Staff-Rec-LCP-grant.pdf](http://www.opc.ca.gov/webmaster/ftp/pdf/agenda_items/20131121/Item6-OPC-Nov2013-Staff-Rec-LCP-grant.pdf)

<sup>3</sup>[http://www.opc.ca.gov/webmaster/ftp/pdf/agenda\\_items/20141202/Item6 OPC Dec2014 LCPGrants StaffRec.pdf](http://www.opc.ca.gov/webmaster/ftp/pdf/agenda_items/20141202/Item6 OPC Dec2014 LCPGrants StaffRec.pdf)