



Transmitted via e-mail

September 1, 2015

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

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

Dear Mr. Bunn and Mr. Branham:

**Final Report—California Association of Resource Conservation Districts, Propositions 50 and 84 Grant Audits**

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the California Association of Resource Conservation Districts' (CARCD) grants 3007-203 and G0840002, issued by the California Department of Conservation and the Sierra Nevada Conservancy, respectively.

The enclosed report is for your information and use. CARCD's response to the report observations and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of CARCD. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: On following page

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. Bob Kingman, Assistant Executive Officer, Sierra Nevada Conservancy  
Ms. Amy Lussier, Chief, Administrative Services Division, Sierra Nevada Conservancy  
Mr. Matthew Daley, Grant Administrator, Sierra Nevada Conservancy  
Ms. Karen Buhr, Executive Director, California Association of Resource Conservation  
Districts  
Ms. Emily Sutherland, Office Manager, California Association of Resource Conservation  
Districts  
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

California Association of Resource Conservation Districts  
Propositions 50 and 84 Bond Programs  
Grant Agreements 3007-203 and G0840002



Elk Grove Community Garden and Learning Center  
Source: California Association of Resource Conservation Districts

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

## **MEMBERS OF THE TEAM**

Jon G. Chapple, CPA  
Manager

Rebecca McAllister, CPA  
Supervisor

Staff  
Randy McClendon, CISA

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

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## 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 \$3.44 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The California Association of Resource Conservation Districts (CARCD) is a non-profit organization that supports and enhances the effectiveness of local resource conservation districts' implementation of strong, locally-led conservation and stewardship of natural resources and agriculture in California.<sup>1</sup> Statewide conservation projects include water conservation, watershed protection, stream restoration, and habitat improvement. CARCD received the following grants from the Department of Conservation (DOC) and Sierra Nevada Conservancy (SNC):

- **Watershed Coordinator Grant Program (DOC grant 3007-203)**—Proposition 50 grant for \$237,939 to fund a Watershed Coordinator position to perform activities that benefit the Upper Cosumnes and Lower Cosumnes-Lower Mokelumne Watersheds. Activities included management of watershed resources and increasing water use efficiency and habitat integrity through education and outreach.
- **Cosumnes Watershed Home Audits (SNC grant G0840002)**—Proposition 84 grant for \$35,900 to provide information, technical assistance, and build community support around water use efficiency to significantly change water use patterns in the Cosumnes Watershed. The primary methods are conducting home and yard audits in El Dorado and Amador counties to advise property owners on best management practices relative to fire safety, water use efficiency, storm water pollution, and habitat values.

## 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>
DOC 3007-203	June 19, 2008 through January 31, 2013
SNC G0840002	June 4, 2009 through December 31, 2013

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<sup>1</sup> Source: California Association of Resource Conservation Districts website: <http://carcd.org/home0.aspx>

The audit objectives were to determine whether CARCD'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.

CARCD's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DOC, SNC, 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 as required, we performed the following procedures:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed CARCD's accounting records, vendor invoices, staff timesheets, and payroll records.
- Selected a sample of claimed expenditures and determined if they were allowable, grant-related, incurred within the grant periods, 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 grant proposals, photos of a demonstration garden, an easement guide on CARCD's website, conservation booklets, and reports required by the grant agreements.

In conducting our audits, we obtained an understanding of CARCD'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.

The results of the audits are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Excepted as noted below, the grant expenditures claimed complied with the grant requirements. The deliverables for grant 3007-203 were completed as specified in the grant agreement. However, for grant G0840002, completion of the grant deliverables could not be confirmed as noted in Observation 2. The Schedules of Claimed and Questioned Amounts are presented below.

### Schedules of Claimed and Questioned Amounts

<b>Department of Conservation (DOC) Grant Agreement 3007-203</b>		
<b>Category</b>	<b>Claimed</b>	<b>Questioned</b>
Salaries and Wages	\$ 151,449	\$ 0
Benefits	45,681	0
Equipment	1,918	0
Operating Costs	13,398	0
Administration	25,493	25,493
<b>Total Grant Funds</b>	<b>237,939</b>	<b>25,493</b>
Total Match Funds <sup>1</sup>	139,613	6,373
<b>Total Project Expenditures</b>	<b>\$ 377,552</b>	<b>\$ 31,866</b>

<b>Sierra Nevada Conservancy (SNC) Grant Agreement G0840002</b>		
<b>Category</b>	<b>Claimed<sup>2</sup></b>	<b>Questioned</b>
Staff	\$ 24,854	\$ 0
Advertising	3,500	0
Training	370	0
Events	164	0
Travel	1,700	0
Supplies	562	0
Administration	4,680	4,680
<b>Total Grant Funds</b>	<b>\$ 35,830</b>	<b>\$ 4,680</b>

<sup>1</sup> Total match required by the grant agreement was \$83,277 and the California Association of Resource Conservation Districts (CARCD) claimed \$139,613.

<sup>2</sup> SNC awarded \$35,900 and CARCD claimed \$35,830 as of December 31, 2013.

## **Observation 1: Unsupported Administrative Expenditures**

CARCD claimed administrative expenditures for reimbursement and project match without providing supporting documentation or an allocation methodology to determine how costs were distributed to the grant projects. Specifically, \$25,493 in administrative costs and \$6,373 in administrative match for DOC grant 3007-203, and \$4,680 in administrative costs for SNC grant G0840002 were questioned.<sup>3</sup> Although the grant agreements allowed for 15 percent administrative expenditures, the costs claimed should be based on actual documented expenditures incurred and distributed to projects proportional to the relative benefits received. For DOC grant 3007-203, administrative cost rates were inconsistently applied during the life of the project without support for the change in the applied rate (ranging from 10 percent to 12 percent). CARCD was unable to substantiate the reasonableness and equitable distribution of administrative costs charged to the projects. The grant agreements require CARCD to maintain records that permit tracing transactions from supporting documentation to accounting records, financial reports, and billings.

### **Recommendations:**

- A. Remit \$25,493 to DOC and \$4,680 to SNC for the unsupported administrative costs. DOC and SNC will make the final determination on the appropriate method to recover the questioned costs. Because CARCD significantly exceeded its match requirement for the DOC grant, no recovery is recommended for the \$6,373 unsupported match.
- B. For current and future projects, ensure administrative expenditures are based on actual costs incurred and documented by a cost allocation methodology.

## **Observation 2: Deliverables Were Not Fully Met**

For SNC grant G0840002, CARCD did not fully complete the deliverables as required by the grant agreement, and could not provide support for completion of partial deliverables. Specifically, the grant agreement required completion of 40 water conservation yard audits. However, CARCD submitted a final project report to SNC stating 33 yard audits were completed. In addition, CARCD was unable to provide documentation supporting any of the completed audits.<sup>4</sup>

SNC grant agreement section D "Deliverables" and Exhibit A "Project Scope" require pre- and post-survey documentation for the home yard audits.

### **Recommendations:**

- A. Effectively plan and monitor grant activities to ensure grant deliverables are completed as specified in the grant agreement. SNC will make the final determination on the actions needed regarding the unmet and unsupported deliverables.
- B. Ensure supporting documentation is retained to demonstrate completion of grant deliverables.

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<sup>3</sup> CARCD provided a document from a Certified Public Accountant (CPA) relating to an administrative rate from year 2010; however, neither the CPA nor CARCD could explain how the rate was calculated, and no accounting records or supporting documentation were provided to support the rate.

<sup>4</sup> CARCD noted difficulty in obtaining yard audit information from property owners due to privacy concerns.





Department of Finance  
Office of State Audits & Evaluations  
915 L Street, 6th Floor  
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August 17, 2015

Response to Department of Finance Audit of Prop 50 Department of Conservation grant 3007-203 and Prop 84 Sierra Nevada Conservancy grant G0840002

Dear Mr. Sierra,

We first want to thank the SNC and DOC for their long standing partnership and support of RCDs. Both agencies are strong partners and we are grateful for their support both in general and through these specific grants.

We also wish to thank the Department of Finance for doing such a thorough job in their audit of Prop 50 grants and for their willingness to work with our organization in a respectful and helpful manner.

We disagree with the findings of their report.

Overall, CARCD provided exceptional value to the State of California for the money they invested. We were effective, transparent and accountable providing value added to the investment in a responsible way.

Specifically, we disagree with the 2 main findings of the report.

**Observation #1**

1. CARCD did have an accurate calculation of our overhead rate determined by our accountant at the time of the grant. A Certified Public Accountant (CPA) thoroughly reviewed our 2010 financial records and calculated an overhead rate of 21.1% for 2010. We are confident that this rate was calculated with financially

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responsible and accurate methodologies. Both the calculations for the rate and access to the CPA were provided to the DOF auditors.

2. We disagree with DOF's finding that neither CARCD nor the accountant could explain how we calculated the overhead rate. Both CARCD and the accountant explained in detail how the rate was determined. We are happy to provide our accountant to answer any questions that may still exist.
3. Neither grant contract specified a specific method or timeframe for which to calculate overhead rates. In the absence of direct guidance, CARCD attempted to achieve a high standard of accountability by working through our accountant. It was deemed not necessary and a waste of resources to recalculate the rate annually as our budget does not change significantly from year to year. Given the recommendation of the audit, we now have a method in place to have our staff recalculate the overhead rate annually.
4. We did not charge an excessive or exorbitant rate; in fact, we did not even charge our full overhead rate. While our accountant determined our rate to be 21.1%, we charged only 12 and 15% to the grants- a rate in line with industry standards.
5. We maintain our accounting in a Quickbooks file that was created by our accountant and is organized for each grant. We are happy to run the reports of every expenditure for each of the grant to support our fiscal accountability as required by the grant contract.
6. Our organization clearly had overhead expenses. We have charged overhead in line with both industry standards and the two contracts. It would place an undue burden on a small non-profit to remit over \$30,000 of legitimately accrued expenses because of an expectation that was not clearly laid out to us prior to accepting and executing the contract. We strongly disagree with the DOF recommendation to remit our overhead expenses to the State.

While CARCD acted responsibly and accountably in administering both grants, the DOF did not deem our accounting methods to be in line with their standards. Primarily they cited a need to renew our overhead rate on an annual basis. Given that we are a small non-profit that has a budget that doesn't fluctuate greatly and given that we can rarely charge our full overhead rate, we saw no need to waste resources on additional calculations. Now that we have received guidance that the State wants us to do that, we have put measures in place to recalculate our overhead rate annually.

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None of the expectations that the DOF cites were expectations that were clearly laid out to us in the grant contract. We would have happily used their accounting systems and methods had they been provided to us. It is unfair for the State to remit funds we legitimately used for the benefit of the State to enact the grant deliverables due to an unclear expectation. We clearly went above and beyond compliance with the grant deliverables, contract and expectations.

*Please see the attached letter to the auditor and the overhead accounting rate spreadsheet.*

## **Observation #2**

The Sierra Nevada Conservancy received an excellent return on the funding. CARCD values the partnership with SNC and made sure to complete the deliverables in a way that respects both organizations' core values and the partnership. We see grant opportunities like this as an opportunity to strengthen the relationship. CARCD completed all the requirements of the grant contract and both provided additional services and inspired change in practices far beyond the grant agreement.

- 1) We completed 41 home audits for the grant in question- 1 more than was required. The SNC made a wise investment in this grant. As a result of the funding, a comprehensive guide to healthy rural landscapes was created and distributed, over 200 landowners were directly educated about their watershed and their landscape, 41 checklists were completed to create personal action plans for homeowners, at least 4 homes removed invasive species, an aquatic weed was removed from a pond before it could infest the Cosumnes River, 3 sites have had extensive clean-ups that removed toxic chemicals before they could spill into the river, several homeowners have seriously looked into installing greywater systems, the Grizzley Flats CSD is installing a demonstration waterwise plant garden, and at least 2 rainwater harvesting systems have been installed. In addition to the community attention to the important issues of the watershed, in-kind match in the form of landowner participation, grants, parts and materials for projects, and partner cooperation has been extensive. The SNC made a wise investment in this watershed.

We acknowledge that there was an issue with the reporting of this grant. In a transition among 3 coordinators, files were inadvertently not seamlessly passed from one coordinator to the next. 5 audits were completed prior to the new coordinator taking over and were not reported in the original final report. In addition, 3 of the projects were referred to farm and ranch cleanup grants that received funding to clean up large scale debris from the properties. These properties were moved into a different file, but were originally home audit properties. These audits were inadvertently excluded from the final report. We

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have worked on our reporting and retention systems and are confident this will not happen in the future.

The work was completed and completed well.

- 2) The privacy concerns of private landowners require us to keep their information confidential. To be able to work on private lands we have to ensure anonymity. The files were kept anonymous and records of their precise issues were not kept. However, we did keep records of the time and location of each of the projects and follow up was done with each landowner to provide further advice and assistance. The DOF cited this as not being able to substantiate our work. We were protecting property owners in order to be able to do the work required in the grant contract.

The procedure employed is as follows: at each site visit the coordinator completed applicable questions on the Cosumnes Watershed Assessment (the checklist) to reveal issues on the property. The landowner retained the checklist including site specific notes/information. After the site visit, the coordinator sent any additional resources required by the landowner. In some cases additional research or calculations were conducted for landowners, this information was usually relayed in phone calls or emails.

A value added aspect of this project is that many of the site visits were done as part of a tour for the community. Workshops were held as stand-alone events or part of fire safe council meetings or other community meetings; the workshops included site visits to complete assessments on one or several nearby properties. This type of group educational event adds value by engaging the community and giving first hand examples of common local resource issues; each of these tour site visits has an impact on more than the individual landowner and provides a deeper impact. The project also helped to strengthen and build capacity for local community groups, in the form of Fire Safe Councils. The visits spawned additional projects were funded through other sources that would not have occurred had this project not been funded.

The SNC received much more than the value of the money they invested in this project, CARCD completed all of the objectives outlined in the contract plus additional added value. We had a blip in reporting that caused us to inadvertently report 33 instead of 41 yard audits. Work that was received and accepted by the SNC as the grant was closed.

*Please see the attached Watershed Coordinator Report, checklist publication, and photos for additional documentation*

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Again, we thank the DOF for their thoroughness in auditing prop 50 grants and for the manner in which they interacted with us during this process. However, we disagree with their findings for the above reasons.

We also thank the SNC and DOC for their partnership and support. We look forward to a continued strong relationship.

Please, feel free to contact me if you have any questions or if I can be of assistance in clarifying this issue.

Thank you for your time and attention,

Thank you,

Original signed by:

Karen Buhr  
Executive Director

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## EVALUATION OF RESPONSE

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The California Association of Resource Conservation Districts' (CARCD) response to the draft report has been reviewed and incorporated into the final report. In the interest of brevity, the attachments referenced in CARCD's response were omitted. CARCD disagrees with both observations. In evaluating CARCD's response, we provide the following comments:

### **Observation 1: Unsupported Administrative Expenditures**

CARCD believes the administrative cost calculation adequately supported the various rates claimed throughout the grant periods. However, CARCD, nor its Certified Public Accountant, were able to adequately explain how the administrative rate was calculated. While we support CARCD's efforts in developing a method to calculate an annual administrative rate, in the absence of a clear explanation and supporting documentation for the administrative rate calculation, our observation and recommendations remain unchanged.

### **Observation 2: Deliverables Were Not Fully Met**

CARCD states in its response that 41 water conservation yard audits were completed for Sierra Nevada Conservancy grant G0840002. However, as CARCD indicated to us during our audit and as we documented in our report, property owners were reluctant to provide their information due to privacy concerns. Therefore, no records were maintained to support the water conservation yard audits including pre- and post-audit evaluations as required per the grant agreement. In the absence of specific documentation demonstrating completion of the conservation yards audits, our observation and recommendations remain unchanged.