



Transmitted via e-mail

December 16, 2015

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

Mr. Mark Stanley, Executive Officer
San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy
100 North Old San Gabriel Canyon Road
Azusa, CA 91702

Dear Mr. Laird and Mr. Stanley:

Final Report—Amigos de los Rios, Proposition 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of Amigos de los Rios' (Amigos) grants U59102-0, U59122-0, and RMC09110 issued by the California Natural Resources Agency and San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy, respectively.

The enclosed report is for your information and use. Amigos' 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 Amigos. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA
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. Claire Robinson, Managing Director, Amigos de los Rios
Ms. Lisa Swan, Finance Director, Amigos de los Rios

Amigos de los Rios
Proposition 84 Bond Program
Grant Agreements U59102-0, U59122-0,
and RMC09110



Emerald Necklace Multi-Benefit Park and Greenway Project

Prepared By:
Office of State Audits and Evaluations
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Final reports are available on our website at <http://www.dof.ca.gov>

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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). The \$5.4 billion of bond proceeds finance a variety of natural resource programs.

Amigos de los Rios (Amigos) is a non-profit organization whose mission is to create sustainable open spaces, strengthen community life, and preserve the environment in underserved areas of Southern California. Their plan is to create a regional Emerald Necklace of sustainable open spaces along urban river corridors that connect the mountains to the sea.¹

Amigos was awarded the following Proposition 84 grants from the California Natural Resources Agency (Resources) and San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy (RMC):

- **Emerald Necklace Forest to Ocean Expanded Vision Plan (U59102-0)** - \$224,300 awarded by Resources to initiate and develop the Emerald Necklace Forest to Ocean Expanded Vision Plan. The plan will create a multi-use, multi-benefit 68-mile greenway linking communities with nature and restoring wildlife habitat. The plan will identify areas for pocket parks, trails, and other urban greening projects.
- **Emerald Necklace Multi-Benefit and Greenway Project (U59122-0)** - \$995,000 awarded by Resources to create and enhance approximately 4.1 acres of community green space with rest areas and drought resistant plantings along the San Gabriel River and adjacent to four schools.
- **Emerald Necklace Feasibility Project (RMC09110)** - \$200,000 awarded by RMC to identify and provide planning for three implementation projects spanning the entirety of the Rio Hondo River starting at the end of Peck Park and the beginning of Whittier Narrows. The projects will create community access points and/or new pocket parks for use by surrounding communities.

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>
U59102-0	May 10, 2011 through March 31, 2014
U59122-0	July 1, 2011 through March 31, 2014 ²
RMC09110	May 24, 2010 through November 30, 2011

¹ www.amigosdelosrios.org

² An interim audit was conducted on grant U59122-0 because audit fieldwork was conducted prior to the grant end date of May 1, 2015.

The audit objectives were to determine whether Amigos' 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.

Amigos' management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. RMC and Resources are responsible for the state-level administration of the bond program.

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:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed Amigos' accounting records, Excel spreadsheets, vendor invoices, bank statements, and payment requests.
- 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 supporting documentation and conducting site visits to verify existence of deliverables.

In conducting our audits, we obtained an understanding of Amigos' 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 requirements. Additionally, for grants RMC09110 and U59102-0, the grant deliverables were completed as specified in the grant agreements. For grant U59122-0, the deliverables available for review during audit fieldwork in March 2015, were completed as specified in the grant agreement. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Resources ¹ Grant Agreement U59102-0		
Task	Claimed	Questioned
Baseline Analysis	\$ 114,462	\$ 1,099
Urban Greening Plan Development	60,987	0
Public Outreach	16,542	0
Materials	18,021	0
Project Administration	14,288	0
Total Grant Funds	224,300	1,099
Match Funds	46,000	0
Total Project Expenditures	\$ 270,300	\$ 1,099

Resources Grant Agreement U59122-0		
Task	Claimed ²	Questioned
Non-Construction	\$ 152,818	\$ 0
Labor	476,915	0
Materials	87,701	0
Signage	15,145	0
Total Grant Funds	732,579	0
Match Funds	349,670	0
Total Project Expenditures	\$ 1,082,249	\$ 0

¹ The California Natural Resources Agency (Resources)

² Resources awarded \$995,000; however, the grantee claimed \$732,579 as of March 2015.

RMC³ Grant Agreement RMC09110		
Task	Claimed	Questioned
Alta Survey	\$ 47,000	\$ 3,039
Stakeholder Meetings	30,000	5,601
Schematic and Design Development	51,266	14,539
Interpretive and Wayfinding Design	15,734	6,812
Community Outreach	15,000	6,399
Civil and Structural Engineer Consultant	20,000	0
California Environmental Quality Act (CEQA)	3,000	1,551
Project Management	18,000	8,952
Total Project Expenditures	\$ 200,000	\$ 46,893

Observation 1: Unsupported Overhead Expenditures

Amigos de los Rios (Amigos) claimed \$46,893 of overhead expenditures for RMC grant RMC09110 which applied additional costs to salary and fringe benefits that were not supported. The unsupported costs consisted of the following:

- Direct provisional burden cost allocation: costs to maintain Amigos' office such as accounting support, legal support, office supplies, training, parking, utilities, insurance, bank charges, etc.
- Burden to cover organization operating costs associated with strategic planning costs and management salaries.

Amigos could not provide documentation to substantiate the direct provisional burden cost allocation and burden to cover organization operating costs.

Section C.5 of the RMC grant agreement allows overhead costs not to exceed 10 percent of the grant amount. Although the grant allows for overhead costs, they must be supported and verifiable. Without support for the rates charged, the accuracy and eligibility of the costs could not be substantiated. Further, section K states the grantee agrees to maintain satisfactory financial accounts, documents and records for the project. Satisfactory documents were not maintained related to these overhead expenditures; therefore, the entire \$46,893 is questioned.

Recommendations:

- A. Remit \$46,893 to RMC for the unsupported overhead costs.
- B. Document an acceptable and verifiable cost allocation methodology and ensure costs are reasonably and accurately distributed, and supported by the accounting records.

³ San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy (RMC)

Observation 2: Unsupported Personnel Expenditures Claimed

Amigos claimed personnel costs of \$1,099 (55.75 labor hours) for Resources grant U59102-0; however, the employee's timesheet and payroll records identified the hours were for different projects. Without timesheets or other supporting documentation clearly identifying personnel costs are related to the Resources grant, assurance cannot be provided that the expenditures are valid and grant-related. On January 21, 2015, Amigos management stated this was an error.

Section G of the Resources grant agreement states the grantee shall maintain satisfactory financial accounts, documents and records for the project.

Recommendations:

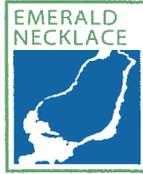
- A. Remit \$1,099 to Resources for the unsupported costs.
- B. Ensure timesheets accurately reflect time charged to the correct projects.

Observation 3: Noncompliance with Contract Requirements

Quarterly Expenditure Projection Reports were not completed as required by RMC grant agreement RMC09110. Discussions with both the grantee and grantor stated that this was due to management oversight. Section E.2 of the RMC grant agreement states Quarterly Expenditure Projection Reports are to be submitted quarterly in accordance with the work plan and schedule. Reporting ensures project timelines are met and project costs do not exceed the budget.

Recommendation:

- A. Timely submit all Quarterly Expenditure Projection Reports as required.



November 16, 2015

Richard Sierra, CPA
Office of State Audits and Evaluations
Department of Finance

Re: Audit Report: Amigos de los Rios, Proposition 84 Bond Program, Grant Agreements U59102-0, U59122-0 and RMC09110

Dear Mr. Sierra,

Amigos de los Rios is grateful to have an opportunity to respond to the preliminary report of audit findings from the State Audits office. We respect the time and care the Audit team took to review our nonprofit organization's controls and systems from both our old grants and our more recent grants. As a small nonprofit, we are always looking for ways to grow and learn, and this audit process is another opportunity to do that.

Observation 1: Unsupported Overhead Expenditures

The RMC grant is one that was awarded in 2010, over five years ago, when our organization was growing. In 2010, in order to cover our actual project costs, we constructed our overhead rate by adding all our indirect costs and employee benefits to create a "Provisional" Burden Rate (see Exhibit B) and billed it to our payroll hours. We included items that were required costs as outlined in per the Prop 84 RMC Guidelines, such insurance and communication costs (see Exhibit A). We did our best to follow the guidelines, but we remain unclear on how to bill "miscellaneous" project costs, hence we built them into our Burden Rate. This allocation method resulted in \$46,893 in overhead costs. Although this was our actual cost incurred, in retrospect we understand the Prop 84 grant contract may have only allowed us to bill 10% of the grant or \$20,000 total in overhead. If this had been more clear in the guidelines or been identified in one of our six billed invoices when the grant was open, we could have billed some of the many unbilled hours to the grant.

Because the audit team disagreed with the billing methodology Amigos staff used for calculating overhead costs for **EN Rio Hondo Project – Prop 84**, they have consequently have disallowed ALL of our overhead costs for the grant, stating we did not provide documentation for our overhead costs. This resulted in their recommending Amigos remit \$46,893.00 of the \$200,000 grant back to RMC. However, as a nonprofit, we clearly had substantiated overhead costs that we incurred during the grant period (May 24, 2010 - November 30, 2011). In addition, per the Prop 84 Grant contract we were allowed to bill up to 10% of the grant or \$20,000 in overhead (See Exhibit A: Exhibit Excerpts from the Prop 84 Guidelines). We actually provided access and allowed copies to be made of all our vendors' files. We have clearly documented costs for our rent, utilities, required insurance, bank charges, parking, training, accounting, legal, IT support, etc. We provided that information to the Audit office during the course of the audit. We also reflected our incurred overhead, indirect, administrative, and management costs in our IRS Form 990, our CPA-audited financial reports, and our internal financial documents.



We request that you consider revising the final report to allow us the \$20,000 in allowable overhead per the grant guidelines.

This Emerald Necklace grant was a special project for Amigos. It allowed our collaborative partners to expand our vision for the Emerald Necklace multi objective park and trail network along the Rio Hondo River in greater detail. In order to complete our ever-expanding multiyear project vision to our standards, our staff worked hundreds of hours beyond what we originally scoped and were able to bill the grant project to ensure that the required grant mission and product was delivered. Amigos staff worked 1927 hours, of which only 1486.5 hours were billed to the RMC due to budget constraints. We had recorded as unbilled 440.5 *EN Rio Hondo Project – Prop 84* hours that we did not submit for reimbursement to the project for my time. The cost of these unbilled hours more than cover the overhead deficit the State Auditor team has indicated we owe the RMC. As nonprofit leaders, we work diligently on our grants to deliver visionary, meaningful and complete projects, often resulting in us working many more hours than we bill.

In 2012, we started using a direct charge method for all fringe benefits on employees. We have put better controls in place to clarify and insure allowed overhead and indirect costs are properly billed to each project. We use a Full Cost Accounting Method for billing overhead to our payroll time, that captures our real costs, but often grants do not allow this cost to be billed. It is important to note that as a nonprofit, without a source of basic operational support apart from grant projects, we must then reduce our rate to fit within the acceptable indirect rate. Calculating this indirect rate as allowed by different grants is complicated and often requires different basis of cost for staff and different method for calculating overhead and benefits. Moreover, the grant rate almost never covers our true costs of operating and delivering valuable projects to community and working with partner agencies.

We have preliminarily reached out to RMC current leadership and are in touch to review the indirect overhead costs questioned by the auditors. We are very disappointed that we face this challenge related to overhead allocation on a project we care deeply five years after its successful completion after all our passionate and hard work for the Emerald Necklace. We learned a great deal from the audit process and look forward to continuous improvements. It is a hardship to our nonprofit to be asked for a payment so many years after grant is closed out. We do not have a source of operational support separate from our program and project grants to reimburse RMC five years later. If this cost burden had been clearer in the grant guidelines or been identified in one of our six billed reimbursement requests that were reviewed and accepted for payment when the grant was open, we could have corrected the allocation and this would have allowed us to bill some of the many unbilled hours to the grant.

Observation 2: Unsupported Personnel Expenditures Claimed

We agree that in September of 2011 we misidentified one student fellow's (employee) timesheet resulting in incorrect calculation of \$1,099 in payroll costs billed to the California Natural Resources Agency Grant U59102-0 Emerald Necklace Expanded Plan Grant – from total grant of \$224,300. This expense dates back to several years ago and the grant in question is already closed. We are a training organization for recent college graduates who serve as sustainable design and planning fellows. Further adding confusion, many of our grants have similar titles and project names. Subsequent to 2011, we improved and added steps to our finance operations including clarifying nomenclature and instituting 2-person review of timesheets for potential errors. Additionally, we switched to a web-based, auditable timekeeping system in 2015. We have reached out to the California Natural Resources Agency to resolve the unsupported staff costs of \$1,099.



Observation 3: Noncompliance with Contract Requirements

The Audit Team noted that we did not submit all required reports related to the grant guidelines. We would like to respectfully disagree that we did provide all requested grant reports and documentation. We consistently submitted our Quarterly Reports to the RMC. We received confirmation that our reports were correct and had been reviewed and accepted. We were never asked to submit the additional Quarterly Expenditure Projection Report form for this grant, *EN Rio Hondo Project – Prop 84*. Although in a retrospective review of grant contract we do see note of a Quarterly Expenditure Projection Report, we know from experience that sometimes grant guidelines have forms that are not relevant to each and every project based on grant scale. Although we were in regular contact with our grant administrator, we were not provided with a request or instruction on need to submit this particular “Quarterly Expenditure Projection Reports” form.

With this said, this was a grant from 2010 and subsequently we have established a clearer grant project launch process. We now request a meeting with our grant analysts to review all forms required by grant contract. We have improved our administrative controls and introduced a clearer protocol for record keeping, including an electronic calendar and database of items due for each grant. We do not expect this to be a problem with future grants. We take the responsibility of reporting very seriously and look forward to ever better results.

As a small nonprofit, we are proud to serve disadvantaged Southern California communities disproportionately burdened with grey infrastructure. We are delighted to have successfully completed these meaningful urban green infrastructures and urban greening grants, and take our services to the community very seriously. Thank you for the time you spent reviewing our process. If possible, based on our experience as a small nonprofit with big aspirations, we would like to provide input to future bond and grant programs that would help simplify the grant compliance process and ensure that more nonprofit capacity is developed to serve areas that are currently not served. We believe nonprofits play a meaningful interstitial role between government and communities. We would like to make sure the true costs of critically necessary projects to the most disadvantaged communities are covered by upcoming grant projects including overhead, outreach and financing costs for reimbursement-based projects. We would like to be ever more effective project delivery partners to the agencies serving the State of California.

Please let us know if we can be of service.

Sincerely,

Original signed by:

Claire Robinson
Managing Director



Exhibit A

Excerpts from the Prop 84 RMC Grant Guidelines

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C. Project Costs

4. for planning and development projects: The State may reimburse the Grantee the Grant Amount less 10% withholding, upon submission of quarterly payment requests consistent with the Work Plan of this Agreement.
5. Indirect and overhead costs shall not exceed 10% of the Grant Amount. (AMIGOS note: Described as "Administrative overhead" on Exhibit I)
7. All budget changes must be approved by the State.

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J. Insurance

Throughout the term of this agreement, the grantee shall procure and maintain insurance, as specified in this section, against claims for injuries to persons or damage to property that may arise from or in connection with any activities by the grantee or its agents, representatives, employees, volunteers, or contractors associated with the project undertaken pursuant to this agreement.

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Exhibit I

Allowable Costs:

Personnel: Wages and benefits, Work performed by another section/department in agency (AMIGOS note: you can interpret this to include audits, accounting, etc., items in our provisional burden rate)

Indirect/Overhead: Administrative overhead

Miscellaneous: Communications expenses, Construction insurance, Transportation costs (AMIGOS note: We are required to have organizational insurance (see above "J."), and where to bill it is not listed – we had it in our direct salary rate plus our provisional burden rate, but it could have possibly be listed here. Not clear from the guidelines. We also had our communication costs also built into our provisional burden rate, not separately listed under Miscellaneous.)



Exhibit B

Amigos Overhead Summary

Definitions of our Costs

When we created our billing rate, we developed a “provisional” billing rate that covers the direct and indirect costs of our employees. We are a small staffed nonprofit with a training mission a big regional vision – in order to break even on the community benefit projects, we must not only receive reimbursement for our direct salary costs, but also must receive basic reimbursement to cover our provisional burden costs of having employees. For this RMC grant, we billed a burden of 1.45 on top of the direct salary to cover the actual cost of projects - this provisional burden rate was submitted on all six invoices to RMC and was never questioned, and in retrospect, we had no indication it was incorrectly formulated.

Our **direct salary** costs include salary or hourly rate

Our **fringe benefits costs** include employment taxes, PTO, retirement, and health care and payroll fees

Our **direct provisional burden** rates include the following: facilities rent, work and meeting spaces, utilities, furniture, office supplies, postage, various required insurance: E&O, D&O, Workers Compensation, Auto & General Liability (required by grant), legal & contracts counsel, accounting audit, professional association dues and key references, marketing and outreach, attendance at critical professional network events and required agency meetings, transportation mileage, staff costs for finance, operations, HR, basic communications and marketing materials, professional management of the organization – board of directors support, cost of grant writing for DAC communities, IT Support, basic telecom – internet provision, web and email services, computer terminals, hardware, software, basic staff training, reference materials, provision for support of offsite data storage as required by grant, allowance for staff to support State audit, long term record storage, bank fees on interest paid while waiting for reimbursement.

EVALUATION OF RESPONSE

Amigos de los Rios' (Amigos) response to the draft report has been reviewed and incorporated into the final report. We acknowledge Amigos' willingness to implement our recommendations specific to Observation 2 and their steps taken to improve administrative controls related to Observations 1 and 3. In evaluating Amigos' response, we provide the following comments:

Observation 1: Unsupported Overhead Expenditures

Amigos did not provide additional documentation to substantiate the direct provisional burden cost allocation and burden to cover organization operating costs. Although the grant agreement allows for \$20,000 in allowable overhead costs, the underlying rates charged were not supported. Because Amigos did not provide adequate supporting documentation, the observation and recommendation will remain unchanged. For clarity, verbiage for Observation 1 was modified.

Observation 3: Noncompliance with Contract Requirements

Amigos stated they were never asked to submit Quarterly Expenditure Projection reports; however, this was a requirement of the grant agreement. Therefore, our observation and recommendation remain unchanged.